

**TRANSPORTATION,
SMUGGLING, AND
ORGANIZED CRIME**

CENTER FOR THE STUDY OF DEMOCRACY

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EXECUTIVE SUMMARY

The report *Transportation, Smuggling, and Organized Crime* analyses the participation of transportation companies in smuggling practices.

- The report examines and describes a range of companies and individuals involved in organized crime groups whose main business is the trafficking of consumer goods.
- It also gives an overview of the criminal and semi-legal networks involved in smuggling Chinese and Turkish goods.
- It presents new data on oil and oil products smuggling.
- It examines the role of duty-free shops and their involvement in illicit cigarettes imports.

International transport in Bulgaria was gradually liberalized and changed in structure in the 1990s, after Bulgaria's borders were opened and its foreign trade was directed to new partners. The regulation mechanisms and the border control system, however, changed at a much slower rate. As a result of this, between 1990 and 2004 a number of transport companies integrated into criminal and semi-legal structures and joined the trafficking in goods and people. Another factor that contributed to this was the sluggish infrastructural development of the border crossings.

TRANSPORT COMPANIES AND SMUGGLING

Between 1990 and 2004 the number of commercial vehicles, as well as transportation and forwarding companies, increased immensely. As the borders opened, and after the end of the wars in the Western Balkans, trans-border and transit traffic rose several times. Bulgaria's foreign trade reorientation meant that if in 1990 85% of trade was with states from the former Soviet bloc, in 2004 60% of trade was with European Union member countries.

With regard to **railway and river transport**, the virtual monopoly of the two state companies Bulgarian State Railways and Bulgarian River Shipping Co. still exists, yet no proper regulation exists to counter illicit trafficking in goods. With the increase of private transport companies, smuggling practices are likely to become more widespread. **Air transport** poses similar problems since some of the newly sprung air carriers are known to take part in cigarette trafficking and transporting of arms and other cargo to destinations of concern.

Private carriers have also entered **maritime transport**. The number of large freight ships is only 181 (compared to 236 in 1996), but those of lower tonnage are much more numerous compared to the past. Their number only for the northern Black Sea coast is 2,800. Part of this growing fleet is trafficking in various goods, cigarettes in particular. The border police, in possession of three patrol boats, are the only

authority that controls trans-border maritime transport. Outside the ports, ship owners are still harder to monitor since many of their ships are sailing under flags of convenience and are registered as offshore companies.

However, it is **road transport** that is most challenging, since most smuggling activities are done through heavy trucks. The single pre-1990 state carrier SOMAT was supplanted by a host of smaller transport companies, whose number in 2004 has reached 4,290 owning 15,563 trucks. The number of companies owning one or two trucks is 2,372 and most of them are uncompetitive, poorly informed on customs regulations and non-compliant with EU's environmental and safety standards. Thus, many of them end up with contracts with neighboring Balkan states and engage in risky or outright smuggling operations. Certain smuggling channels make extensive use of passenger transport. Many companies operating **international bus routes** are run by crime groups and often transfer small quantities of drugs, firearms, prostitutes and cash money.

The role of **forwarding companies** is no less significant for certain smuggling patterns. Up to 1990, the market was a monopoly of the state-owned company Despred. By 2004, over 2,000 forwarders were registered. Besides the well-established international companies, however, a number of petty forwarding players (often one-man enterprises) have entered the market. They are much less competitive and often ready to assist illicit transfers. **Customs agents/consultants** (a service frequently offered by forwarders) are yet another important segment on the transportation market. Some of them are run by former or even current customs officers who often facilitate the illicit transfer of goods.

TRANSPORT INFRASTRUCTURE

Despite the radical change of the transport sector in the 1990s, improvement of the infrastructure, including that of border crossings, only started at the end of that period. Even in 2004, underdeveloped infrastructure continues to impede efficient control of the transport and trans-border trade companies. Control of the transport sector will be made even more demanding by the pending concessions of sea and airports to private operators. This is especially true for **sea ports** with their lack of electronic surveillance means, solid walls and a well-designed system for control of the inflow and outflow of people and vehicles.

ILLEGAL IMPORT OF TURKISH GOODS

For over 15 years now, there has been illegal import of goods from Turkey and this has caused immense losses to the state budget. Bulgarian manufacturers find it increasingly hard to compete with Turkish-made illicitly imported goods. The dominant mode of trade in the early 1990s was small-scale shuttle trade conducted by individuals, called "suitcase trade." By the mid-1990s, smuggling had become **extremely well-organized and was run on a grand scale by various crime groups** backed by certain political circles. Other structures supporting the illicit imports were also created at this time: these were wholesale markets, such as Illiantzi, run by crime groups and serving as the main wholesale distribution point of the smuggled goods.

By the end of 1998, new patterns to import Turkish goods had emerged. Smuggling was gradually substituted by smaller customs frauds such as declaring lower than actual price for the imported goods and declaring smaller quantities or wrong type of goods. As racketeer insurance groups ceased to exist in 1998, certain dramatic changes in the importation of Turkish goods occurred. The old hierarchies of organized crime structures collapsed and the relations between the remaining fragmented groups changed. Former rivals started to operate the same channels, dividing the responsibilities for securing different sections of the system. Others, which were formerly partners, entered into a rivalry or even crime wars over the redistribution of clients.

In the 2001-2003 period, the Bulgarian Customs Agency (BCA) increased significantly the amount it collected from duties imposed on Turkish goods. Between 2000 and 2002, duties rose from €132 million to €257 million. The customs value per kilogram of cargo increased from €0.5 to €0.82. Data from the year 2003 indicate that growth had slowed down, rising up to only €0.83. This is partly due to Turkey's policy of export promotion and the Turkish government's unwillingness to cooperate with the BCA. Most importantly, though, it is because the channels and infrastructure of Turkish goods smuggling have not yet ceased to exist.

ILLEGAL IMPORT OF CHINESE GOODS

The most well-developed large-scale smuggling channels are those importing Chinese goods. Between 1998 and 2003, **Chinese cargo smuggling became a primary source of funding for the gray economy and organized crime.** Between 2000 and 2003, the declared value of imported Chinese cargo rose from €62 million up to €217 million. The declared quantity of Chinese-made goods, however, barely changed during the same period. The most plausible explanation is that organized crime groups lost millions of dollars as BCA's efforts to reduce smuggling started slowly to work.

The smuggling channels that were crushed by the BCA and the Ministry of Interior (MoI) brought to light how important it was for organized criminal groups to have a working infrastructure for importing and distributing Chinese goods throughout the country. Such infrastructure has to comprise transport companies, forwarders and traders, as well as corrupt customs and police officers.

This illicit trade revolves around a cluster of Chinese-born merchants with family ties to China. They can easily buy goods at prices much lower than those offered to other importers. These merchants pare up with several tiers of intermediaries of varying grasp and degree of connectedness. The latter assist with both "duty-free" customs clearance and the distribution of the imports throughout the country. The route most widely used for Chinese goods smuggling is Thessaloniki (Greece)–Kulata–Sofia. Illicit cargo is also imported through Kalotina, Rousse, or through Kapitan Andreevo (where it is declared to be of Turkish origin).

Organized crime groups are in control of both wholesale markets (e.g. Illiantzi) and a large network of semi-legal retail traders. Smuggling structures also enjoy the support of corrupt security and judiciary officials whose expertise helps diminish or stepside the penalties after the BCA has reported a customs fraud.

OIL AND CIGARETTES SMUGGLING CHANNELS

Goods subject to excise taxes are of great interest to crime groups. Of these, the illicit import of oil products and cigarettes is the most profitable in Bulgaria. The chief illicit transfer points for cigarettes are the **duty-free shops**. The report reveals several schemes in which these shops and their storehouses throughout the country are used to import huge quantities of cigarettes. The oil product market is also analyzed as it attracts crime groups due to its very size (between €0.8 and €0.9 billion in 2003) and the relatively low risk involved in making a profit from it. The basic smuggling patterns are described: imported oil products are declared to be low-duty products, smaller quantities are registered, or ship fuel is smuggled in.

RECOMMENDATIONS

Inter-institutional and international collaboration

1. **Real-time information exchange with the customs authorities of neighboring states.** An exchange of this kind would help prevent many of the smuggling practices and would facilitate risk profiling of individual border crossing points and speed up document processing time at border crossings.
2. **Improvement of the mechanisms for exchange of operational and specialized information** between the Customs Intelligence and Investigation Directorate and the various Mol agencies (the National Service for Combating Organized Crime), the National Border Police Service, and the Coordination, Information, and Analysis Service) as well as the General Tax Directorate at the Ministry of Finance. **A limited number of high-level officials** of these agencies should be **allowed mutual access** to their information systems. This will contribute to a more effective fight against domestic organized crime and trans-border crime groups.
3. **Improvement of cooperation and greater efficiency of joint operations for uncovering smuggling channels** carried out by the Ministry of Finance and the Ministry of Interior.
4. **Utilizing the available resources of the Bulgarian Navy to facilitate smuggling prevention.** It is necessary for the National Border Police Service, the BCA and the Ministry of Defence to work out mechanisms to use the Navy's surveillance system and fleet in the border control and customs activities.
5. **Inclusion of customs officers and fishing experts from the Ministry of Transport and Communications in the patrol boat crews of NBPS.**

Border security

6. **Improving border control at sea ports and airports.** Private security companies and NBPS officers work simultaneously at ports, while airports are also guarded by Security Police units. Preserving the current pattern of control would necessitate the setting of stricter requirements to private companies working in proximity to border crossings at sea and airports and the strict legal provision for the distribution

of responsibilities between them and the border police. Another option is to transfer all seaport security responsibilities to the NBPS.

7. **Enhancing port security.** The Port Administration Agency at the Ministry of Transport and Communications should take measures to enhance port security by investing into electronic surveillance and security systems.

Risk analysis

8. **Thorough investigation of the airport and seaport concession applicants.** The Ministry of Transport and Communications should request the cooperation and opinion of the National Service for Combating Organized Crime, the BCA and the National Intelligence Service who should investigate whether concession applicants are related to any smuggling channels before the concession agreements are actually signed.
9. **The Ministry of Transport and Communications should provide information to the BCA and the Mol on the licensed international carriers.** This information will not only help the ministry to apply stricter control on carriers, but will also serve the NBPS and the BCA to accomplish risk profiling of transport companies.
10. **One-stop service.** State fee payment at the border (mostly road tolls, and when needed, phytosanitary and veterinary fees) should be run single-handedly by the BCA. Such a reform will be in harmony with EU practice and will shorten the waiting time and diminish bribing, as most bribes are given to officers from the Roads Administration.
11. **Provision of preliminary information on arriving cargo.** Amendments to the *Law on Customs* should be made, setting forth requirements that all carriers should send a customs manifest before the goods enter the country. This will give the BCA enough time for a risk analysis of incoming cargo and transportation companies.
12. **Implementing electronic control measures at duty-free shops.** The sale of any single item at duty-free outlets could be immediately registered by the BCA. Thus, one of the most frequent frauds at duty-free shops—numerous fictitious sales within a short time—could be prevented.

Human resource management

13. **Introduction of high-risk work environment payments to BCA officers.** Many customs officers work in risky conditions. Unlike police officers, however, their remuneration does not reflect that fact. Customs officers should be remunerated in accordance with the risks they take at work.
14. **Improvement of the incentives system of the BCA.** In view of the current legislative framework and the BCA's financial resources, smuggling can be most effectively and quickly curbed, if the system of incentives for uncovering customs frauds is changed. A mechanism that prevents groundless reports against offenders and motivates officers should be drawn up.

15. **Changing the remuneration structure and a gradual growth of salary levels at the BCA.** Such a step will substantiate the prospects of loyal customs officers for stable career development and will diminish corruption pressure.

METHODOLOGY

The present study is a product of the efforts of a research team at the Center for the Study of Democracy. The team worked closely with a working group that included officials from the Bulgarian Customs Agency, the National Service for Combating Organized Crime, and the National Border Police Service. Over 700 interviews with former and current officials from the BCA, the NBPS, the NSCOC, and the Navy, as well as with transportation company owners, truck drivers and traders were conducted. Field studies were carried out at four separate border crossing points: Kulata, Kapitan Andreevo, the Port of Varna and Sofia Airport.

1. INTRODUCTION

With the disintegration of the Soviet bloc and the liberalization of foreign trade, Bulgaria radically changed its trade partners. In 1989, 85 % of trade was Soviet-bound, while in 2004, over 60 % of foreign trade is with European Union member states. Meanwhile, the reforms and modernization of the Bulgarian Customs Agency, the General Tax Directorate (GTD) and the security services were slow-paced and partial. The border became a mechanism for redistribution of national wealth on a scale that is comparable only to the process of privatization of state assets.

The wars in the Western Balkans, the chaos in the states of the former Soviet Union and the underdeveloped Balkan transport infrastructure created favorable conditions for organized crime groups to establish themselves at Bulgarian borders and their corresponding transport corridors.

The report *Transportation, Smuggling, and Organized Crime* focuses on the smuggling practices of transportation companies.

- The report describes and analyses **the structure of organized crime** groups smuggling consumer goods. It examines the various levels of semi-legal and criminal traders and their intermediaries, and the complex interplay between them. Corruption patterns and the involvement of public servants (customs and border police officers, and members of the judiciary) in smuggling practices are also considered. Through a historical overview of smuggling channels the report gives a comprehensive explanation of their enduring presence in Bulgaria. The key role of transportation companies in the structure of crime groups' smuggling activities is stressed.
- The report provides a thorough description of **the criminal networks for smuggling Chinese and Turkish goods**. The relations between criminals (acting individually or using fictitious companies), intermediaries, small brokers and other players are depicted. The report, for the first time, sheds light on the crucial role played by merchants of Chinese origin. The importance of warehouse markets, like Illiantzi, to crime groups is discussed, together with that of their security providers, the networks of semi-legal trade companies, the transport and forwarding firms and customs consultants.
- New data on **oil smuggling** shows the shrinking of the gray market for oil products. On the one hand, the altered structure of the oil market as a result of the considerable decrease of illegal import is presented. On the other hand, the report offers a description of the oil smuggling schemes still in operation.

- The report examines a number of schemes and channels for **illicit cigarette exports**. Particular attention is paid to the cigarettes importing scheme involving duty-free shops. Four different patterns used by duty-free-shop owners for distributing cigarettes at the domestic market are presented.
- The report provides an overview of the **customs and border control systems and their transformations in the period 1990–2004**. The transport industry and its development throughout the 1990s are assessed, including its participation in smuggling networks. It also reviews the state of transport infrastructure at the border crossing zones and the risks for smuggling increase it creates.

Three basic sources of information were used in the preparation to this report. First, these were **documents and statistics** of the Ministry of Interior, the BCA, the Ministry of Transport and Communications and the World Bank. In addition, information was gathered through **field research**—interviews with officials from the BCA and the Ministry of Interior. Finally a variety of transport practitioners were **interviewed**: truck drivers, seamen, pilots, air traffic controllers, transport, and forwarding company owners as well as individuals who have participated in customs fraud schemes.

The report proposes **a set of measures** to be taken by the relevant government agencies and the international community with the purpose of curbing cross-border smuggling. These recommendations accentuate on the need for inter-agency collaboration, international cooperation, enhanced security measures, and better equipped and better managed human resources.

Bulgaria's upcoming European Union membership will turn the country into a strategic external border of the Union, which will confer a common European perspective on the threat posed by crime groups' involvement in trans-border smuggling. Bulgarian economy will continue to suffer massive losses from smuggling since nearly 70% of its GDP passes through the national borders.

2. BORDER CONTROL DURING THE TRANSITION PERIOD

Until the beginning of the 1990s, border infrastructure and control mechanisms were generally adapted to the position occupied by Bulgaria within the Soviet bloc. Barbed wire fences were built alongside the “green borders” with Yugoslavia, Greece, and Turkey. The border crossings infrastructure with these states was minimal because 85 % of trade until 1990¹ was carried out with the socialist countries. The few border crossings along these borders were (and, in most cases, continue to be) narrow two-lane roads completely under the control of the Border Troops and the secret services. The limited number of commodities and people crossing the borders were subject to thorough inspections.

The opening of the borders in 1990 initiated a process of slow reform in the work of the BCA and other border services. This process will continue with full speed until Bulgaria’s accession into the European Union (EU) in 2007. The trade exchange with Greece and Turkey has increased ten times over the period 1990-2003. Almost 60 % of the trade exchange was redirected to countries from the EU. All these changes quickly made the detailed inspections that custom departments used to carry out before 1989 impossible.

2.1. TRADE FLOW TRENDS

In the period 1950–1989, priority was given to the maritime trade, the ferryboat line Varna–Ilichevsk, and the railway and road infrastructure through Romania and the Soviet Union. Intensive economic relations were also established with various countries from the Middle East.²

The infrastructure of the external trade of the country, as well as the degree of utilization of its transport system, became subject to sharp changes during the 1990s. The trade exchange with Russia and with some former socialist states decreased while, at the same time, there was a growth of commerce with EU and the Balkan countries, especially with Turkey and Greece. Bulgarian imports were predominantly from Germany (29%), Italy and Greece (16%), while exports went to Italy (25%), Germany (22%), and Greece (16%).

A number of factors transformed Bulgaria from an exporter of high value-added products (electronics) into an exporter of low value-added products and raw materials—metals, chemical and mineral products, textiles, etc. Among the reasons for this change is the collapse of the economic relations within the former Soviet Union, the restrictions on the trade with “high-risk states,” the slow process of

¹ National Statistical Institute, *Statistical Yearbook of the Republic of Bulgaria*, Sofia 1991, p. 308.

² This is illustrated by the fact that economic relations in the 1980s with countries such as Iran, Iraq, Syria, Libya, and Algeria accounted for about 70% of the state revenue in hard currency.

technological innovation, the instability of the managerial staff, and the deliberate devaluation of state enterprises with the aim of privatizing undervalued state assets.

At the same time, imports, in particular those from neighboring countries, expanded in range and diversity, including fruits, vegetables, and other processed food (See Table 1).

Table 1. Bulgaria: Imports

Import (USD million)	1990 1998 1999 2000 2001 2002 2003						
	1990	1998	1999	2000	2001	2002	2003
Germany	535.9	689.2	821.2	902.6	1 109.4	1 128.3	1 533.6
Russia (USSR)	2 648.2	1 016.4	1 109.7	1 582.4	1 452.7	1 146.6	1 348.8
Italy	89.7	380.3	463.4	549.6	695.9	893.9	1 099.6
Greece	15.2	289.5	311.7	317.9	411.6	475.7	712.6
Turkey	23.8	122.1	167.0	214.4	273.3	390.3	657.6
France	34.2	223.4	287.7	316.4	437.9	445.0	606.1

Source: National Statistical Institute, *Statistical Yearbook of the Republic of Bulgaria*, Sofia 1991, page 308

The most significant growth was in the trade with other Balkan states. For example, trade with Turkey has increased from USD 35 million in 1990 up to USD 1.33 billion in 2003.³ A similar situation is observed with reference to the trade with Greece, which has also increased from approximately USD 55 million in 1990 to USD 1.49 billion in 2003.⁴ The trade balance in both cases is slightly to the benefit of Bulgaria.

2.2 MIRROR STATISTICS

The data of the National Statistical Institute (NSI) about foreign trade are provided by the customs authorities, which means, in essence, that this data represents the official information, and does not report any smuggled goods, or goods imported at lowered prices with the objective of dodging customs duties and taxes. Neither do these data reflect the fictitious export aimed at evading the VAT.

Using the method of mirror statistics⁵ (which compares the foreign trade data of the NSI with that of the EU states), it became clear that for 1998, USD 483 million worth

³ Data for 1990 are from the National Statistical Institute and data for 2003, from the Bulgarian National Bank.

⁴ Ibid.

⁵ For more detailed information, see "Corruption and Trafficking: Monitoring and Prevention," Center for the Study of Democracy, 2000, p. 39; and Iliev, Petkan, "The Mirror Statistics as a Method for Assessment of Trafficking" in *The Hidden Economy*, Center for the Study of Democracy, 2004.

of imports from the European Union had not been reported in Bulgaria. In addition, no data was found in Bulgaria about EU-bound exports amounting to USD 375 million. In total, all figures indicate a discrepancy of 18% for imports and of 15% for exports for 1998. During the period 1994-1998 the discrepancies were preserved at a level of 15% to 20% according to European accounts.

The most significant differences in exports are observed with respect to trade with Austria (-30%) and Ireland (+234%), while imports were understated by -34% for Greece, -31% for Austria, and -27% for the Netherlands. The total value of unreported imports from Greece is USD 150 million, from Germany USD 106 million, and from Italy and Austria about USD 60 million (See Tables 2 and 3).

Table 2. Mirror Differences in Value (in Million USD)* and in % (Bulgarian Export)**

	1993		1994		1995		1996		1997		1998	
	USD million	%	USD million	%	USD million	%	USD million	%	USD million	%	USD million	%
France	-32	-25	-50	-34	-35	-18	-26	-17	-30	-18	-35	-19
Benelux	6	14	-11	-12	-37	-31	-16	-18	-31	-28	-43	-22
The Netherlands	-10	-15	-4	-4	-18	-15	-20	-20	-32	-30	-26	-25
Germany	-82	-25	-124	-28	-75	-14	-65	-13	-38	-8	-113	-20
Italy	35	18	-52	-16	-67	-13	-25	-5	-30	-5	-72	-12
United Kingdom	10	9	-9	-8	-16	-9	-20	-13	-23	-15	-19	-15
Ireland	0	-29	0	126	-2	-55	0	-21	3	135	6	234
Denmark	-3	-18	-10	-46	-10	-39	-6	-23	-7	-26	-6	-21
Greece	15	8	-27	-9	-98	-21	-25	-7	-14	-3	-13	-3
Portugal	-3	-22	-3	-43	-13	-45	-9	-68	1	6	-4	-17
Spain	-1	-7	-20	-37	-9	-7	-32	-23	-16	-11	-20	-14
Sweden	4	39	-1	-5	0	1	-2	-12	7	32	3	14
Finland	-2	-19	-4	-30	-3	-18	-1	-11	0	5	-2	-18
Austria	-6	-13	-12	-19	-6	-12	-13	-21	-26	-32	-31	-30
EU total	-70	-6	-326	-19	-389	-16	-262	-12	-235	-10	-375	-15

* Bulgarian export/EU import in million USD

** Bulgarian export/EU import / EU import in %

Source: National Statistical Institute under Comext-Phare domain-BG; Eurostat-Comext-EEC Special Trade.

Table 3. Mirror Differences in Value (Million USD)* and in % (Bulgarian Import)**

	1993		1994		1995		1996		1997		1998	
	USD million	%	USD million	%	USD million	%	USD million	%	USD million	%	USD million	%
France	-14	-11	-33	-22	-27	-14	-9	-5	-7	-4	-10	-4
Benelux	-8	-14	-13	-21	-19	-21	-14	-18	-18	-22	-30	-25
The Netherlands	-13	-13	-26	-25	-11	-9	-7	-7	-9	-9	-38	-27
Germany	8	2	-126	-19	-231	-25	-119	-17	-56	-9	-108	-14
Italy	-18	-7	-89	-29	-94	-22	-55	-15	-20	-5	-61	-14
United Kingdom	157	125	9	7	-9	-6	-24	-19	4	3	-8	-6
Ireland	1	30	0	-9	-5	-41	-4	-41	0	4	-1	-7
Denmark	-5	-17	-7	-24	-12	-28	-2	-8	7	22	-7	-14
Greece	-130	-43	-216	-52	-192	-44	-119	-38	-114	-36	-150	-34
Portugal	-2	-36	-4	-47	-3	-35	-1	-9	1	6	3	26
Spain	-29	-67	-6	-21	-5	-15	-6	-20	1	2	-2	-3
Sweden	14	62	6	24	10	26	-7	-16	1	2	-9	-16
Finland	1	6	4	9	7	14	6	17	4	14	1	3
Austria	12	10	4	4	4	2	-12	-9	-27	-18	-64	-31
EU total	-25	-1	-497	-24	-588	-22	-373	-17	-234	-11	-483	-18

* Bulgarian export/EU import in million USD

** (Bulgarian import–EU export) / EU exports in %

Source: National Statistical Institute under Comext–Phare domain–BG; Eurostat–Comext–EEC Special Trade.

These data should also be taken into account when the traffic load of the transport infrastructure is examined. Furthermore, if one compares the official statistics with these of neighboring countries about incoming vehicles that have entered Bulgaria through one and the same border crossing point, it turns out (at least for the period until 1997–1998 with complete certainty) that there are differences.

In addition to the reorientation of Bulgaria's commercial relations toward the EU and Balkan countries, during the period 1997–2003, economic growth brought about a change in the very structure of trade exchange. An important factor to be noted with respect to smuggling patterns is the increase in the official imports of consumer goods (See Table 4).

Table 4. Structure of Bulgarian Import and Export

Structure of Imports into Bulgaria (%)							
	1997	1998	1999	2000	2001	2002	2003
Consumer goods	9.8	14.3	17.1	15.3	17.7	19.0	19.5
Raw materials	40.0	40.5	33.4	33.0	34.9	34.7	35.9
Investment goods	16.9	21.4	27.1	24.5	25.0	25.1	25.6
Energy resources	33.3	23.8	22.4	27.4	22.4	20.0	17.7
Other imports	0.0	0.0	0.0	0.0	0.0	1.3	1.3
Structure of Exports from Bulgaria (%)							
	1997	1998	1999	2000	2001	2002	2003
Consumer goods	28.2	31.1	33.5	29.8	33.5	35.2	36.7
Raw materials	49.0	46.1	42.0	44.2	4.8	41.8	41.3
Investment goods	14.7	16.0	15.3	11.4	12.2	13.2	13.7
Energy resources	8.1	6.7	9.2	14.5	13.5	9.8	8.4

Source: National Statistical Institute

This process coincides with the liberalization and encouragement by Turkey of the retail export of Turkish-made clothes and footwear carried out by the so-called “suitcase traders” (or shuttle traders). The various estimates indicate that the revenue of such type of illegal (but tolerated by Ankara) exports averages between USD 5 billion and USD 15 billion during the period 1995-2003. The greatest share of the suitcase exports goes to the former Soviet republics, as well as to Romania and Bulgaria.⁶ The trade of Turkish goods is analyzed in more detail in Chapter Five of the present report.

⁶ As concerns the **liberalization of imports**, a certain administrative alleviation is also noticeable. A number of “sensitive goods” should be restricted within 24 hours after having been imported. They include goods such as: medicaments, insecticides, printing products that can be used as securities, and casino slot machines. When there are import quotas in place, a regime for non-automatic licensing on bargains within the limits of the quota is implemented. Exempt from import duties are certain investment goods and spare parts for them, as well as appliances for control of environment pollution, medical substances, and others. Since the beginning of 1999, there has been no duty levied on energy imports, ores, and pharmaceutical substances. The permit regime on the import of natural gas has been substituted with a registration regime. Revoked was the registration regime on the import of foreign agricultural products, which was in force during 1998. A permit regime on import is enforced only in compliance with specific international commitments in the framework of the European Association Agreements, the Central European Free Trade Agreement, and the various bilateral agreements. Also revoked was the registration regime on the import of food products, as well as the temporary tariff quotas and the temporary exemption from customs duties.

The differences in the mirror statistics indicate that, with reference to Greece, the serious divergences are mostly in relation to three groups of commodities: a USD 20 million difference in the data on machines and appliances (predominantly white appliances), a USD 13 million difference in the data on clothes, and a USD 10 million difference in the data on cars. Most likely the basis of these discrepancies are the activities of the illegal Bulgarian guest-workers in Greece. According to data provided by the Greek Ministry of Labor, the number of such workers is between 50,000 and 80,000. The Bulgarian migrant workers living in Greece send various commodities to their relatives in Bulgaria through informal networks and channels. An additional explanation for the existing discrepancies in available data could be found in the practice of smuggling Chinese goods through Greece described in Chapter Five. As for the difference in the statistics on imports from Germany and Austria, it is attributed to the import of second-hand cars from these two countries.

If one lists in order all goods and the statistics that demonstrate differences in their absolute values, utilizing, once again, the mirror statistical approach for 1998, it becomes obvious that the first places are occupied by the commodity groups that reflect the profile of Bulgarian trade with the European Union. The goods that create the highest discrepancies in exports are:

- Clothes and accessories for garments other than knitwear;
- Cast iron, iron, and steel;
- Knitwear and accessories for knitwear;
- Copper and copperware;
- Fertilizers.

The discrepancies concerning ready-made clothes, which together amount to a total of almost 50% of all discrepancies in exports, may be due to differences in the accounting methods. The next “item”—the one of ferrous and non-ferrous metallurgy—accounts for a total of 17% of all discrepancies in 1998.

Thus, at least two facts can be pinpointed:

- First, there is a tendency towards a “negative” specialization of exports oriented for the EU markets, i.e. clothes and metallurgy, which are also the reason for a significant part of the *discrepancies* between Bulgaria’s accounts and those of the EU countries;
- Second, the negative foreign trade specialization is typical for imports, too: the most frequently imported goods provide the most substantial differences. Consumer goods, often second-hand, are most largely imported and this fact significantly hampers modernization.

The available data about Bulgarian exports to Macedonia for 1998 and 1999 reveals the most significant discrepancy in absolute values exactly with reference to the “risk” commodities. For example, the highest difference identified in 1998 was with relation to sugar (USD 2,121,598 million). At the same time, there were commodity groups

which are registered as exported from Bulgaria but not registered as imported in Macedonia. This “evaporation” of goods between the two borders in 1998 concerns: mineral and chemical fertilizers, gutters, hooks and other construction materials. The tendency for whole commodity groups to disappear between the two borders increased in 1999 when, apart from the mineral and chemical fertilizers, five more commodity groups and subgroups were added, namely: manganese ores, kerosene, metallurgical coke, flour, and others. In some cases, the missing information is about values higher than USD 6.5 million, as with the kerosene. It is highly probable that in these instances not only the import was illegal, but also the very commodity was a replacement and not the one actually declared, e.g. the import of gasoline instead of kerosene.

A recent phenomenon is also the massive import of cheap Chinese goods, which enter Bulgaria in containers through the Kulata border crossing point. According to an estimate of the Center for the Study of Democracy, an average of 200 containers with such goods enter the country monthly.⁷ Another 200 heavy trucks transporting consumer goods come from Dubai, enter Bulgaria through the Duty Free Zone of Syria–Svilengrad and arrive unobstructed at the inland customs bureaus in Sofia and Plovdiv.⁸

The changes in the structure of the external trade of Bulgaria are accompanied by a substantial liberalization related to Bulgaria’s membership in the World Trade Organization and CEFTA, the accession of Bulgaria to the European Union and a number of other bilateral agreements.

All of these processes are also accompanied by an increase in the international highway traffic and, in particular, the road transport of cargo. At the same time, the transport and border infrastructures are being developed only partially. The border infrastructure overload, due to increase in the number of transport vehicles, creates obstacles for the proper exertion of border control and increases the risk of smuggling.

The lack of financial resources and the absence of political will, in combination with the pressure exercised by organized crime, delayed the introduction of an efficient border control system for years. These processes are the principle cause for the loss of billions of dollars of customs duties in Bulgaria. Thus, smuggling, together with the privatization of state assets, became one of the principal mechanisms for the redistribution of the national income.

In addition, the armed conflicts in the former Yugoslavia during the 1990s reduced, to a significant extent, the overall transport traffic through the western borders of Bulgaria. Conversely, trafficking channels alongside these same borders were quickly established, and were used for smuggling embargoed goods.⁹

⁷ See “Corruption, Trafficking and Institutional Reform,” Center for the Study of Democracy, 2002, p. 19.

⁸ Ibid.

⁹ “Trafficking Channels in South Eastern Europe,” Center for the Study of Democracy, Sofia, 2002.

2.3. BORDER CONTROL

Changes in the dynamics and structure of trade flows in Bulgaria have been accompanied by gradual transformations in the system for border control, a process which has been generally influenced by the integration of Bulgaria into the European Union. When reviewing the system of border control, it should be stated that the most radical change has been the replacement of the militarized Border Troops by the forces of the National Border Police Service. These processes will not be examined in detail because their impact on trafficking flows is limited. Of higher importance to the topic of the present report are the changes implemented in the work of the Bulgarian Customs Agency. In order to better understand the role of the customs in the system of border control, a summarized analysis of that system will be presented. The smuggling of goods outside the border crossings, if any at all, is insignificant and generally concerns weapons and drugs.

2.3.1. The Border Control System

In the period 1999–2002, the legislative framework regulating border control was updated in order to come into compliance with European legislation.¹⁰ In addition, the state borders and the rules regulating their crossing are defined in bilateral border agreements and treaties with the countries bordering Bulgaria. These documents and procedures represent the mode of implementation of Bulgaria's international legal obligations.

A major legal document in the sphere of border control for Bulgaria is the *Ordinance on Border Crossing Points*. In this document border crossing points are defined as “exclusive territories with a special regime of admission and security, which are established at international roads, as well as on the territory of international railway stations, airports and seaports for public transport, and are the only points of crossing of the state border.”¹¹

In addition, the Ordinance defines the major forms of border control: border passport and visa control; customs control; veterinary medical control; phytosanitary control; border sanitary control and control over vehicles. Accordingly, when a vehicle or an individual crosses the Bulgarian border, it is subjected to various inspections:

- Passport control is exerted by an officer from the National Border Police Service at the MoI, who checks whether the issued visas are in compliance with the Law on Foreigners in the Republic of Bulgaria. The NBPS is also involved in combating crime and illegal migration, trafficking in human beings, and the illegal transport of arms. NBPS is responsible for the public order and security of the border control zone;
- After the completion of passport control comes the customs inspection by an employee of the BCA who calculates, collects, and requests the payment of customs levies and other public state fees; applies the tariff measures and the measures of the state trade policy; prevents and uncovers the possible customs

¹⁰ Among the new laws were the Law on Asylum and Refugees, the Law on Foreigners in the Republic of Bulgaria, the Law on the Control of Foreign Trade Activity in Arms and Dual-use Goods and Technologies, etc.

¹¹ Ordinance on Border Crossing Points, SG 54 /31.5.2002, Art. 2.

and currency violations and crimes, as well as the illegal trafficking in narcotics and precursors; enforces the necessary measures for protection of property rights; etc.

- Next comes the payment of the transport fee at the office of the Road Taxes and Permits Directorate by an official of the Ministry of Regional Development and Public Works;
- Sanitary control is carried out by an official of the Ministry of Healthcare, who checks the availability and correctness of necessary documents as required by the special set of regulations and implements other activities if required, such as: disinfection, quarantine and transportation of ill people, etc. (such an inspection is mandatory at airports and seaports, while at the land border crossings it is carried out only in case of epidemics);
- When animals, raw meat and meat products are imported,¹² they are inspected by an official of the Ministry of Agriculture and Forestry;
- Phytosanitary control is applied to all imported plant and animal products by officials of the Ministry of Agriculture and Forestry;
- The transportation vehicle is disinfected, for which a fee is charged;
- In the cases of maritime, railway, or air transport, the transportation vehicles undergo an additional inspection by specialized units of the Ministry of Transport and Communications, which are, respectively: the Civil Aeronautical Administration General Directorate at the international airports, the Port and Maritime Administrations at the ports, and the Railway Administration at the railway stations.

All these levels of control are independent and their relations are regulated by specific sets of instructions for collaboration. In reality, however, most of their collaboration is based on informal relations, especially at the smaller border crossings. An Inter-Agency Council on Border Crossing Points also operates on the national level. It is involved with negotiation of agreements between the relevant institutions¹³ and resolving macro-structural and general issues. The work of the Council is little known to the officers at the border crossings. Problems at the border crossing level are usually solved on the spot.

At each border crossing the NBPS chief is the one in charge and the one that coordinates the interaction between the various border authorities.¹⁴ In reality, however, and especially at the bigger border crossings, the NBPS directors rarely exert due control over the work of the customs units or the activities of the representatives of the other ministries.

¹² As well as: forage, biological substances, mixtures enriched with microelements and vitamins (premixes), animal semen, embryos, cell cultures, and other items that may be carriers of infectious and parasitic diseases (Ibid., Section III, Art. 18).

¹³ Ibid. Art. 22.

¹⁴ Ibid. Art. 22 and 23.

2.3.2. Problems in the Border and Customs Control Systems

The analyses presented in this report delineate a set of problems that the different border services are faced with. Below is a summary of these problems, whereas a detailed description of them is given in the Risk Profiles of border crossings, the Appendix and the Recommendations in Chapter Seven of the report:

Inter-institutional cooperation

- Insufficient cooperation and information exchange between the Bulgarian Customs Agency, the National Border Police Service/National Service for Combating Organized Crime and the Ministry of Transport and Communications;
- Insufficient information exchange between the BCA and the customs authorities of neighboring countries;
- Need for one-stop service and payment.

Border security

- Lack of clear demarcation and security rules at the border crossings at sea ports;
- Lack of collaboration and clear distribution of tasks between the NBPS and the private security companies guarding the sea ports;
- Lack of proper fencing, surveillance and security equipment at the border crossings, especially at sea and airports located on huge areas;
- Lack of proper customs control equipment, especially x-ray units.

3. TRANSPORT COMPANIES AND SMUGGLING

During the period 1990–2004, many changes in the transport industry took place. On the one hand, there was a significant increase in the number of vehicles and of transport and shipping companies. The opening of borders, especially after the end of conflicts in the former Yugoslavia, provided for a huge increase of trans-border and transit traffic. Nevertheless, the adoption of adequate legislation regulating the highly increased number of participants in the various modes of transport was postponed until 1999–2002. In the meantime, transport structures and practices that facilitated not only the development of the gray economy, but also the smuggling of goods were established. The present chapter will present and explain the ways in which companies from the transport industry participate or assist in trans-border smuggling.

3.1. RAILWAY TRANSPORTATION

The development of railway transport was marked by a drastic setback during the period 1990–2003. The Bulgarian State Railways continue to be a monopolist in the sphere of international railway transport of commodities, and will preserve that status until 2007. In May 2004 the first private domestic transport company, the company Bulmarket DM, was licensed. The number of private railway transport companies is expected to rise. Despite the sizable annual state subsidies—almost €30 million, the cargo sales of the state agency are constantly declining. Over the period 1990–2003, the amount of transported cargo decreased by 70% (from 63,000 down to 18,500 tons) and the number of freight cars also dropped from 40,000 in 1990 down to 23,000 in 2003.

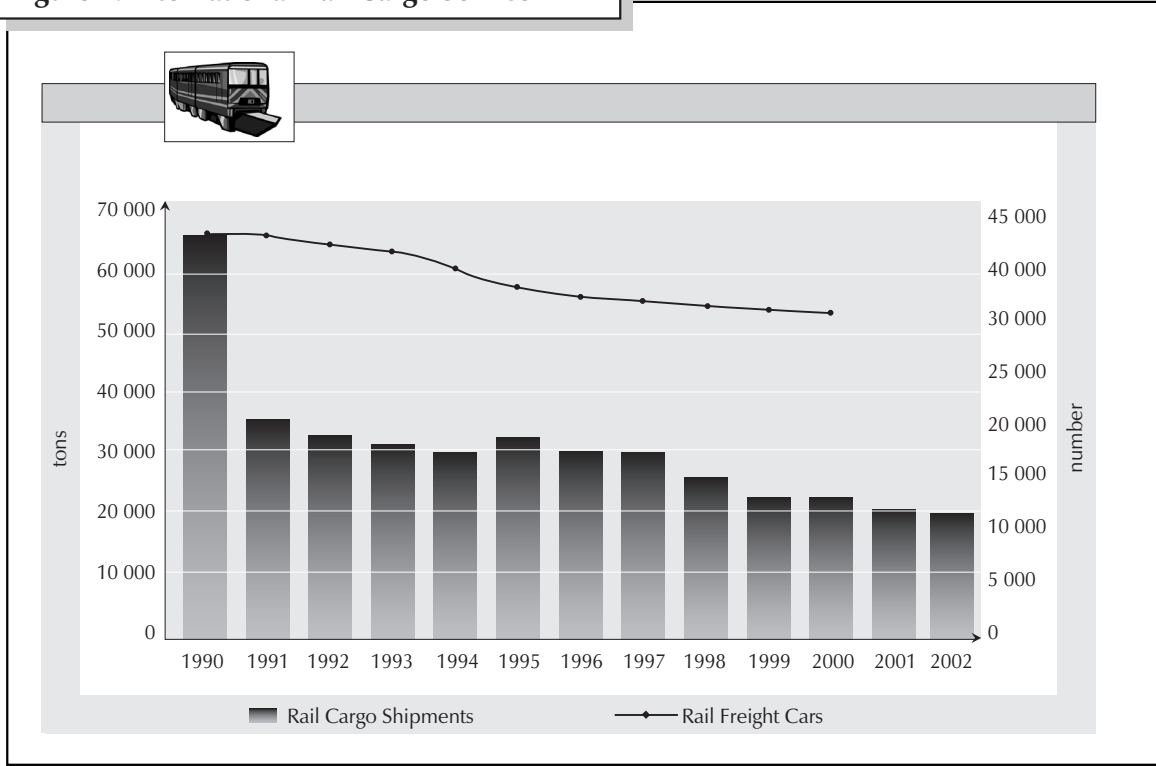
The main risk traditionally associated with railway transport is the smuggling of fuel. During the 1990s UN embargo, oil was smuggled into Yugoslavia, loaded on Bulgarian State Railways' tank cars. In 1991, the state railway company announced that half of its tank cars had been deserted in the former Yugoslav republics where they used to traffic fuel.¹⁵

In the 1990s, tank cars loaded with oil or propane–butane were illegally imported via the Varna–Ilichevsk (Ukraine) ferry. Those channels continued to operate during the government of the Union of Democratic Forces when the representative of the Bulgarian State Railways in Ilichevsk allegedly participated in a smuggling channel that also involved representatives of the Bulgarian Ministry of Interior and the customs.¹⁶

Although there are ongoing attempts for the illegal import of fuel, it is not clear to what extent these smuggling schemes are supported by employees of the Bulgarian

¹⁵ "Who Gives a Damn for the Fathers of Smuggling?" *Paragraph 22 Weekly Supplement of Banker*, 30 August 2003.

¹⁶ "The MoI Writes a Special Denunciation Report," *Monitor*, 21 April 2003.

Figure 1. International Rail Cargo Service


Source: National Statistical Institute

State Railways. More detailed information on the role of rail transport in oil smuggling is presented in the *Smuggling of Oil Products* and *Port of Varna* sections (See Appendix).

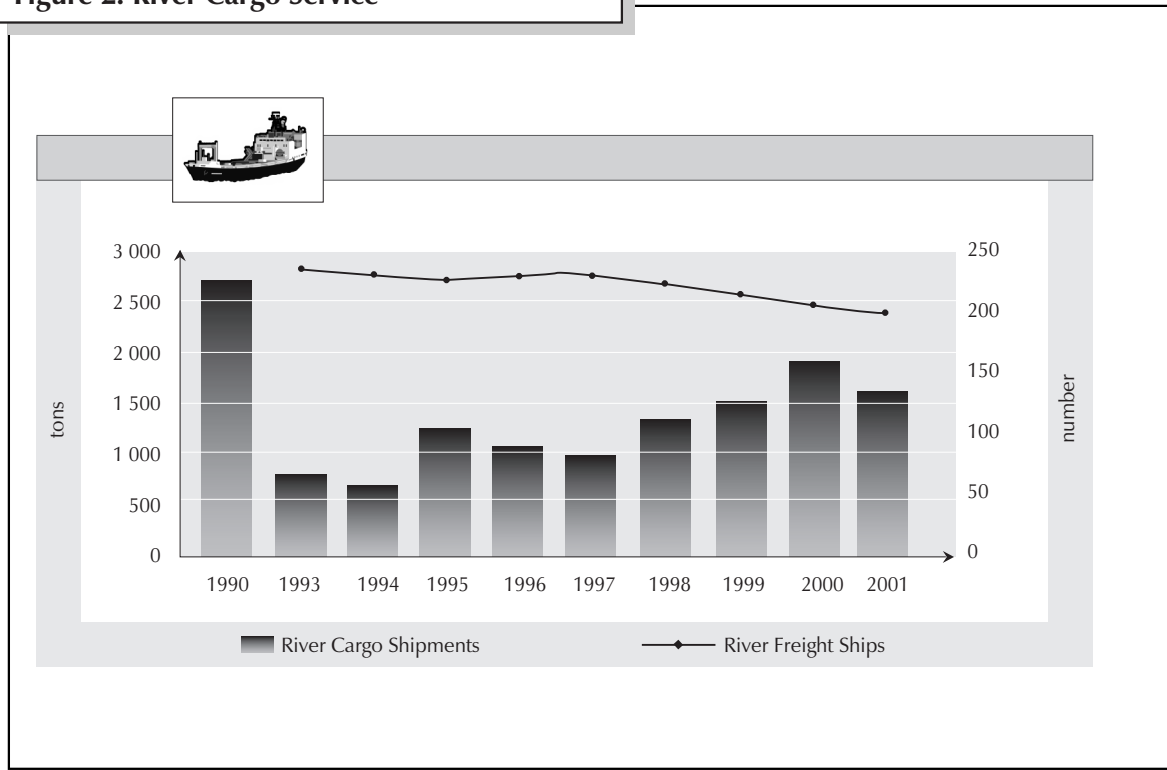
3.2. RIVER TRANSPORTATION

River transportation likewise declined in the period 1990—2003 as a result both of the armed conflicts in former Yugoslavia and the reduced competitiveness of the Bulgarian river transport (due to aging of vessels, lack of funding, and shortage of expert personnel). Despite the fact that the total amount of transported cargo dropped by half, the river transport services preserved their structure and, by the beginning of 2001, the river transportation fleet consisted of about 83 self-propelled ships and tugboats,¹⁷ as well as 222 non self-propelled vessels. About ten private companies have also started to operate on the river transport market, but they comprise less than 24% of the overall amount of river transportation. The remaining 76% of river transportation is controlled by the state-owned Bulgarian River Shipping Co., which is still the biggest river carrier in Bulgaria (See Figure 2).

With the average volume of cargo remaining approximately the same, the river transport market was overloaded within a short time with a high tonnage of vessels. As a rule, the large fleets operate predominantly with large, regular cargo flows, whereas the private vessels provide services rather to the small-sized and ad hoc cargoes.

¹⁷ Ministry of Transport and Communications, *Strategy for Development of the River and Maritime Transport*.

Figure 2. River Cargo Service



Source: National Statistical Institute

In view of the geographic location of Bulgaria, river freight may be divided into three main groups: Eastern (from Ukraine and Romania to Bulgaria), Western (to and from Western Europe) and transit cargo group (to and from other countries). The eastern destination is characterized by a lack of balance, with the main traffic of goods towards Bulgaria being raw industrial materials and metals. At the same time, there is almost no export to Ukraine in volumes that would make river transportation cost-effective, while the typical export to Romania includes metal billets, as well as wheat and corn. On the other hand, exports to Western Europe consist mainly of chemical industrial products, construction materials, and agricultural equipment. There are also a very high percentage of used cars brought into the country. There are almost no transit shipments passing through Bulgaria due to the higher competitiveness of neighboring states and their sea and river ports. As a result, an increasing number of Bulgarian vessels are signing contracts for freight transport services to clients of third countries.¹⁸

Due to the specifics of cargo and destinations, the smuggling of goods on river vessels is rare. As is the case with the sea vessels, the fuel is often loaded illegally on small boats, which attach to passing ships, and then smuggle the fuel to the shore. In May and June 2003, the Bulgarian police arrested several groups (first in the river town of Lom and then in the village Dolni Vidin near the town of Vratza) involved in fuel smuggling along the Danube. Those people were using shipping boats to unload the fuel into cans and barrels and then were transporting the smuggled quantities in vans.¹⁹

¹⁸ "Robert Radoslavov: Quick Decisions and the Human Factor are Crucial in the River Transport", *Dnevnik*, 12 September 2003.

¹⁹ "Oil Smugglers Seized Near Lom", *Dnevnik*, 3 May 2003, and "Trafficking Channel for Diesel Fuel along the Danube Broken Up", *Bulgarian National Television*, 13 June 2003.

In 2003, customs officials succeeded in preventing several instances of cigarettes smuggling: a shipment of 13,000 packs on the way to Germany valued at €40,000 was halted at Vidin Port. Also, customs inspectors managed to discover on board the Bulgarian vessel Fortuna an illegal and undeclared cargo of 26 boxes of cigarettes—Memphis and Mild Sort brands—which was found in a special secret container in the trailer of a truck loaded on the ship.

Customs officers in the customs department of Rousse managed to neutralize a channel for smuggling goods from Cyprus, through the Bulgarian town of Bourgas, for Hungary. They seized 800 boxes of cigarettes imported by the company BPV and with a buyer the Cypriot firm International Business Center of Nicosia. The cigarettes were transported by sea into the port of Bourgas and subsequently shipped on board the vessel Palikariya (owned by the company Doganov & Co.) to the Georgian port town Poti. In fact, the cargo was unloaded at the Ukrainian port of Reni and then reloaded on board of the passenger river ship Ruen, which sailed down the Danube river in the direction of Budapest. According to the new accompanying documentation, the cigarettes were property of the Bulgarian company Alkate (deleted from the official commercial register of Bulgaria) and were intended to arrive at the non-existent duty-free zone Dyor near Budapest (according to an article in the *Demokratia*, 1 February 1999).

3.3. SEA TRANSPORTATION

During the 1990s, despite the initial decline it experienced, Bulgaria's sea transport industry managed to preserve and even improve (after 2001) its significance in the overall trade of Bulgaria. The two main seaports in the country—in the towns of Varna and Bourgas, process more than 60% of Bulgaria's foreign trade. Between 1998 and 2003 the quantity of cargo processed at Varna increased by 40% and the number of vessels that served at the port—by 27% (See *Risk Profile of the Port of Varna*). In 2002, the number of big tramp steamers sailing under Bulgarian flag was around 117, of which only 14 were privately-owned and all of them were more than 20 years old. The remaining 103 ships are property of the old state-owned monopolist Navigation Maritime Bulgare (NMB).²⁰ About 20 (those that are newer) of those vessels sail under flags of convenience.²¹ There are 2,800 maritime vessels registered only at the northern Black Sea coast (including yachts, fishing boats, motor boats and small ships).²² All this fleet is controlled by the NBPS with only two patrol boats.

Anti-smuggling efforts within maritime transport are defined by several factors. First of all, many of the private firms that provide maritime transport services are owned by former employees of NMB and have made attempts to take advantage of the resources of the state company for their personal benefit. One of the illegal schemes involves relatives of senior officials of NMB who register offshore companies and then take on short-term lease vessels of the company at a price much below the market value. The respective senior official diverts business offers that would be of benefit for NMB to the offshore company. Another scheme involves several offshore companies registered by NMB. Such companies are used with the formal intent to provide anonymity and lower taxes to NMB's clients. The offshore firms, though, have become a major factor in the illegal activities of draining funds and business from the NMB.²³ The owners of private vessels, whose illegal operations are hard to curb and whose ships are registered with offshore companies and sail under foreign flags,

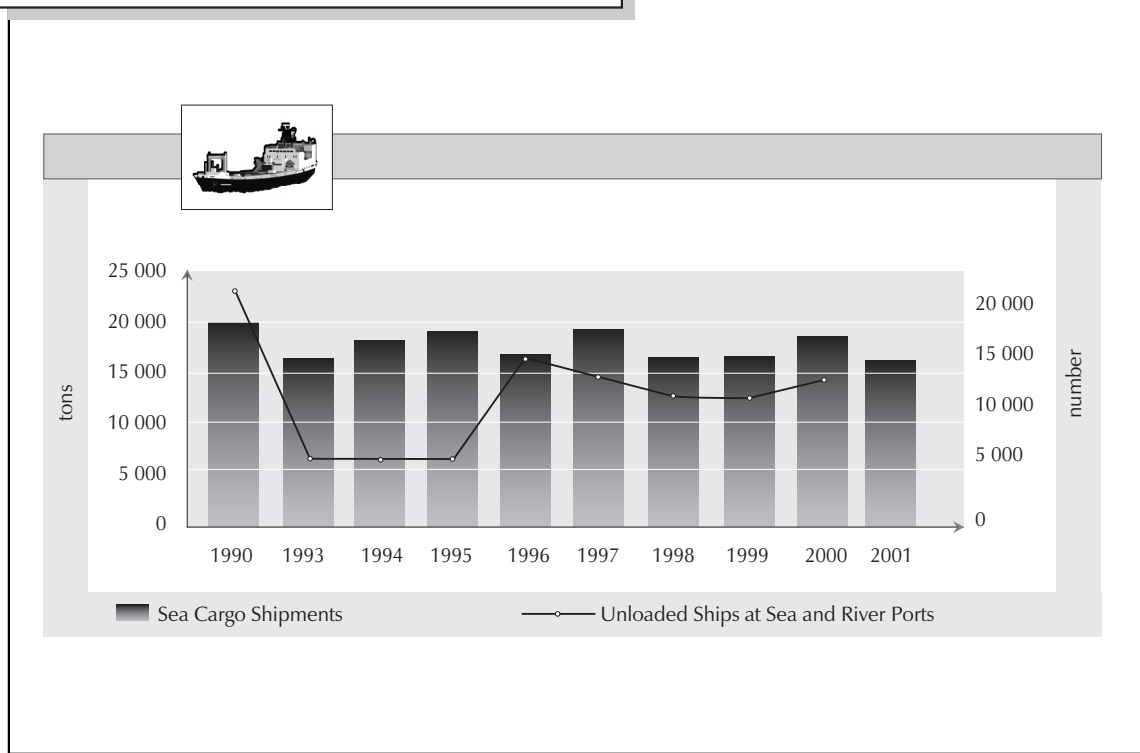
²⁰ Ibid.

²¹ Rossitza Penkova and Angel Petrichev, "The Marine Paradise of Gray Economy," 24 *Chasa*, 27 February 2004.

²² Source: Maritime Administration, Varna.

²³ Ibid.

Figure 3. Sea Cargo Service



Source: National Statistical Institute

represent another serious risk. The sinking of the Bulgarian ship Hera near the Bosphorus Straits in January 2004 is a case in point regarding these difficulties.

All types of vessels are used for smuggling: freighters (mostly container-carriers), boats, yachts, cruise ships, fishing boats. The smuggling activities are carried out most frequently by transferring cargo from arriving or passing vessels onto Bulgarian vessels. The transfer could happen in the littoral zone, the territorial waters and the bay or port areas.

The countering measures against this type of smuggling are difficult to implement for several reasons. First of all, the border police currently possess only three patrol boats and do not have complete radar coverage of some of the risk zones. The port customs authorities lack sufficiently developed infrastructure (such as inspection sheds). The cooperation between customs and border police, on the one hand, and the navy, on the other, is almost nonexistent. The control over private ship-owners by the Ministry of Transport and Communications is hindered because many of them are offshore companies.

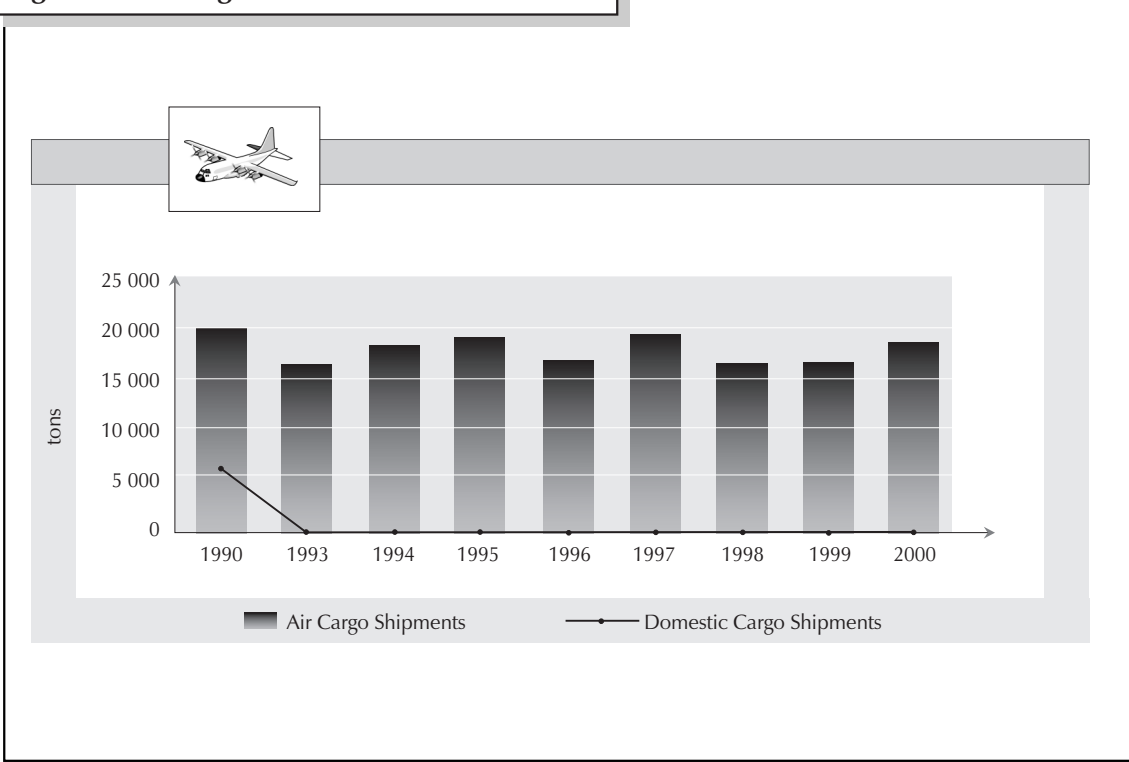
The most frequently smuggled goods are cigarettes, oil products, Chinese goods, and drugs. Related issues are reviewed in more detail in the risk profiles of Chinese goods (Chapter Five), and of cigarettes and oil products (Chapter Six), as well as in the risk profile of the Port of Varna (Appendix).

3.4. AIR TRANSPORTATION

Of all types of transport, air transport ranks last with regard to tonnage and amount of cargo shipped. Nevertheless, it is very important due to the high value of the cargo transported by air. In the last few years international air transportation in Bulgaria has reclaimed its pre-1989 position reaching 22,000 tons of cargo in the year 2000. The main cargo airports in Bulgaria are those of Sofia, Plovdiv and Bourgas. Currently, Bulgaria has 18 airline operators possessing a total of 60 aircraft. The total number of aircraft has not changed significantly after 1990.

Around seven air companies provide cargo transport services. Among them are: Air Sofia, Vega Airlines, ITA, Bright Aviation Services, Heliair, Aviostart, Air Scorpio and others. Most of them operate in third countries, including countries from the Middle East and Asia.²⁴ Six other firms provide charter flights, but they cover only 10% of the air charter transport market (both flights to and from Bulgaria). The table below does not provide sufficient information about current trends because until the year 2000 data on private air carriers had not been collected. The inclusion of private carriers in the statistics explains the 1999–2000 increase.

Figure 4. Air Cargo Service



Source: National Statistical Institute

Goods shipped by air are comparatively small in volume and weight, but are usually of high value. This makes them convenient for customs frauds, theft and insurance frauds. For the same reason, in recent years (not only in Bulgaria but also at many busy

²⁴ Stanislav Stanislavov, Chairperson of the Association of Bulgarian Air Companies. Interview with Ivaylo Lakov in the *Sedmitza Show* of the Bulgarian National Television, 29 March 2003.

international airports) organized crime and groups criminal networks have emerged and have collaborated with customs, border police, security officers, and cargo agents, etc.

Smuggling by air can be divided into two basic types. The first type involves mainly Bulgarian companies that make use of airports on the territory of Bulgaria or of neighboring countries (such as Macedonia or Greece) for the purpose of illegal import of cigarettes. In this case, the carrier usually makes a fictitious export of cigarettes from Bulgaria. Instead of leaving the freight in the neighboring country, the plane returns and unloads its cargo back in Bulgaria. In this way, the payment of excise tax and VAT is avoided.²⁵

Another pattern is employed predominantly by air carriers from the former Soviet republics, mostly Ukraine. Such carriers use the Bulgarian airports in the coastal towns of Bourgas and Varna during the busy tourist season. They also make their fictitious export activities similar to the procedure described above. At the same time, the two airports at the coast are used for redirecting cargo towards risky or embargoed destinations. Although this second scheme was much more frequently applied during the 1990s, there were between ten and twenty illegal cargo shipments in 2003 as well.²⁶

Goods are also trafficked by individuals, albeit on a much smaller scale. The transport of goods by couriers on board of freight aircraft depends on the routes of air traffic, i.e. the flight schedule and the connections between the flights of respective air companies. The couriers travel with the illegal items hidden in their clothes or luggage, or in the cargo sector of the airplane. Not only the passengers may be involved in the smuggling of goods, but also the aircraft crew, the maintenance service and the security staff at the airport.

The illegally transported commodities are usually hidden either in the checked-in luggage of passengers or in their hand luggage. Another option is the exchange of hand luggage at boarding areas around the gates through transfer of the illegal goods from people who have not been inspected at the check-in points.

In addition to the usual baggage and freight on board the plane, there could also be cargo delivered by forwarding companies, as well as mail shipments. There are different control regulations and places for inspection of different types of packages and luggage. Quite often, the customs control of mail shipments has already been implemented at a place outside the airport. The only additional examination at the airport is checking attached identification marks (e.g., the customs sealing). In the case of similar organization of control on the basis of preliminary agreement there exists high probability schemes where certain goods are replaced or added to the shipments that have already passed customs control. The addition or replacement of items could only be carried out by individuals who have the right of access to the respective premises and shipments. In other words, the operation of such a scheme requires a good knowledge of relevant actors involved with the control and movement of respective cargo until the moment of its loading on the airplane.

²⁵ A detailed explanation of that scheme may be found in Yovo Nikolov, "An Ordinary Smuggling Scheme," *Capital*, 24 May 2003.

²⁶ Interview with former BCA and MTC officials, Sofia, March 2004.

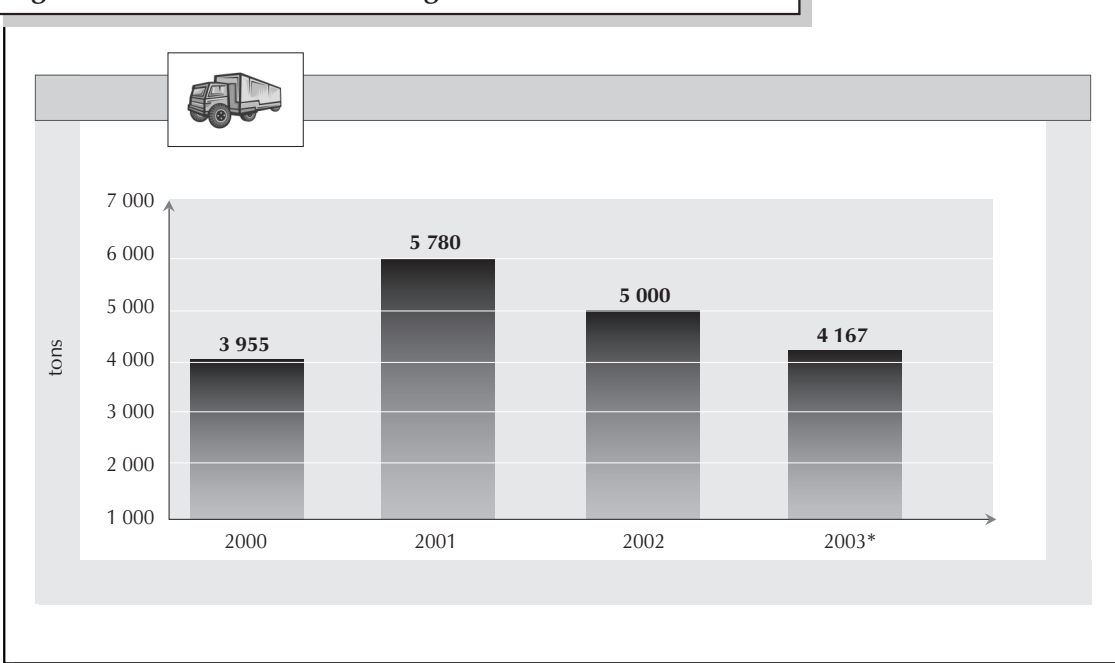
On the other hand, aircraft crews do not undergo such a rigid and thorough inspection as passengers. When utilizing an airplane for the purposes of smuggling, it also involves the participation of ground personnel, who could agree for money to transport illegal cargo and to load and unload it.

3.5. ROAD TRANSPORTATION

Until 2000, there had been no procedure in place for collection of data on the thousands of private companies. The gathering of information since 2000 is based on a methodology that is not comparable to that used before, and this is the reason why it is difficult to properly delineate the trends in the development of that type of transportation.

Until 1990, the international truck transport had been under the monopoly of the state company SOMAT. By 2004, however, the number of private firms providing such services had increased to 4,290 (with 15,563 trucks), which is an exceptionally high number for the size of the Bulgarian economy. In comparison, Turkey has only 1,200 such companies, and Italy has about 350. Taking into account the fact that the biggest share of the market belongs to the successor of SOMAT, SOMAT Willy Betz, which also holds 23% of the international cargo transportation to the EU, the competition among the rest of companies cannot be anything but severe.²⁷

Figure 5. International Truck Cargo Service



* Fourth quarter data for 2003 is based on expert estimate.

Source: National Statistical Institute

The lasting participation in transport services of individuals directly involved in smuggling operations has become a major obstacle, in some cases, for the normal

²⁷ "German Companies are Leaders in Transport and Cargo Shipping", *Dnevnik*, 20 October 2003.

functioning and development of that sector. It has also increased unfair competition. The participation of Bulgarian shipping companies in smuggling activities has also impeded the expansion of the normal trade relations. It has created an environment that is vulnerable to the acts of criminal structures and is attributed to the increase of corruption.

- In November 2003, the Regional Directorate of the Ministry of Interior in the town of Pazardzhik, broke up a criminal group trafficking prostitutes into the EU. Apart from real estate properties and car dealerships, the criminal group had also made a turnover of €10 million over four years and possessed several transport companies, which supported the trafficking activities by transporting the women and the money earned from illegal activities.²⁸
- In February 2002, an employee of the International Automobile Transport Department of the Ministry of Transport and Communications was beaten with baseball bats by unknown perpetrators. A year later, she was dismissed from the ministry on corruption charges. Her department is the one issuing international road transport permits, which are well established on the black market.

It has often been debated whether road carriers are involved in smuggling. On the one hand, it is claimed that the driver is usually not present during the loading of cargo and does not have an idea about what it contains. This is especially true in the cases of container cargo. On the other hand, some of the smuggling schemes require replacement of transportation and commercial documents with falsified ones that declare commodities or quantities different from the actual ones. Such a replacement would hardly be possible without the participation of the driver, who is expected to present the different documents at each customs post. For example, if cargo is loaded in Thessaloniki, the truck has to pass through four customs points on the way: Thessaloniki, Promahonas, Kulata, and Sofia. On this particular route, the driver should carry the following documents:

- international consignment note 7f, which is the shipping contract that contains a description of the cargo;
- the invoice of the commodities, which also contains a description of them;
- a document of origin of the commodity (certificate of origin);
- a purchase/service order, which contains a description of the commodity;
- TIR carnet.

In other words, there are at least 5 documents that describe the commodity. In some smuggling schemes the replacement of documentation takes place in the border area between Bulgaria and the respective neighboring country. The Greek customs authorities see the original documents and the Bulgarian customs authorities see the falsified ones. Accordingly, the replacement of documents can be done only by the driver at the border.

According to the Association of the Bulgarian Enterprises for International Road Transport and the Roads (AEBTRI), bad infrastructure and high traffic at the borders

²⁸ "The Police Foils a Criminal Group Involved in Forcing to Prostitution", *Dnevnik*, 6 November 2003.

also lead to various problems for the drivers, forcing them to resort to illegal payments in order to resolve these problems. The monitoring data collected by the Association, indicate that the border crossing with the highest traffic is Kapitan Andreevo, followed by Kulata, and Kalotina. According to the findings, bribes paid are approximately the same at all border crossing points.

The risk of customs violations is higher with the smaller companies. Out of the 4,290 Bulgarian carriers, 1,479 operate only one truck and 895 have two trucks.²⁹ Such companies do not possess the necessary logistics and know-how for long-distance deliveries and their prices cannot compete with those of bigger firms. The more rigid environmental rules of the European Union also pose problems to small companies. Only 60% of transportation companies have access to the limited number of permits for transport services within the EU.³⁰ As a consequence, the smaller companies have to undertake cargo deliveries to neighboring states, and these cargo shipments—consisting of mainly Turkish and Chinese goods, are often located alongside smuggling channels. As a result of frequent violations of the TIR Convention committed by such smaller firms, in April 2004 the International Road Transport Union requested that the TIR carnets are issued only to companies in possession of at least two trucks.

Transport Companies and Corruption

The participation of drivers and transportation companies in corruption schemes was also noted in the surveys of the World Bank in relation to the Trade and Transport Facilitation in South East Europe Program (TTFSEE). The survey data indicates that 28% of bribes are given to border police officers, 24% to BCA officers, and 55% to other officials. These observations coincide with the conclusions from interviews conducted by the CSD team. The findings clearly demonstrated that employees of the Ministry of Regional Development and Public Works are the most frequent targets of bribing due to the fact that many smaller carriers overload their trucks.³¹

The most, or 48%, of all bribes paid directly by drivers. Only then, at the second position, come the bribes paid by the owners or managers of respective trading companies (44% of all bribes). The bribes paid in 2002 were between €50 and €108 (€79.3 on average). The reasons for bribing differ with the size of the company. While bigger firms desire to limit the waiting time at the customs, the smaller ones seek to dodge legal regulations. These findings are another argument in support to the conclusion that it is the smaller carriers who represent a more serious risk as to the smuggling of goods.

The same conclusion—that the participants in transport increase the risks of smuggling—is also pointed out in the other analysis of the survey data from the Trade and Transport Facilitation in South East Europe Program (TTFSEE). Transport and forwarding companies represent two of a total of four types of companies, which are identified as exerting the highest corruption pressure. **Every third shipping or forwarding company gives bribes to a customs official or to a border police**

²⁹ “The International Union Requested the “Slaughter” for One Third of Bulgarian Cargo Shipping Companies,” Paulina Mihailova, *Capital*, 25 April 2004.

³⁰ Plamen Tsalkov, General Director of the Association of Bulgarian Enterprises for International Shipping, *Cash*, 5 March 2004.

³¹ Helmuth E. Kuntscher, *Interim Report II: Trade and Transport Facilitation in South East Europe Program*, Vienna, 5 July, 2003, p.70-73.

Table 5. Border Crossing Points: Bribes by Size of Company

Criteria		Size of company		
		Big	Medium	Small
Recipient	Customs Service (%)	0	25	29
	Ministry of Interior (%)	50	19	34
	Other agencies (%)	67	60	44
Hierarchy level of recipient of Customs Service	High (%)	0	13	27
	Medium (%)	50	32	34
	Low (%)	50	55	39
Hierarchy level of recipient of Ministry of Interior	High (%)	8	28	41
	Medium (%)	83	40	41
	Low (%)	8	32	17
Payer	Driver (%)	25	49	54
	Manager / Owner (%)	17	42	49
	Others (%)	50	42	51
Consequences in case of non-payment	Increase of waiting time (%)	42	40	54
	Increase of accuracy (%)	25	38	63
	Others (%)	67	36	44
Payment EUR	EUR from... to...	75–100	48–115	35–85
	EUR average total	87.5	81.5	60.0
Frequency of payment (%)		12.5	11.5	10.0

Source: Trade and Transport Facilitation in South East Europe Program

officer. These bribes, in most cases, are given with the aim of dodging a stricter enforcement of the law. Attention should be paid to the fact that even when the company of the respective manufacturer or trader pays for bribe, the person that directly offers the bribe is once again the driver, in most instances (in 35% and 50% of cases, respectively).

The survey among drivers sheds more light on the corruption practices in the transportation sector. The analysis of the interviews indicates that **the drivers employed by smaller firms** (of 1–4 trucks) **are those who are best acquainted with the corruption procedures**, while in the case of bigger companies (of 30 trucks and more), the documentation is usually in order and any incorrect proceedings are instead solved with the assistance of the forwarding company or the customs agency (with or without bribing).

Table 6. Bribes by Type of Business

Criteria		Business of company			
		Manufacturer	Trader	Transporter	Forwarder
Recipient	Customs Service (%)	18	20	24	31
	Ministry of Interior (%)	12	25	31	33
	Other agencies (%)	59	61	55	53
Hierarchy level of recipient of Customs Service	High (%)	18	25	21	22
	Medium (%)	12	36	34	25
	Low (%)	71	39	45	53
Hierarchy level of recipient of Ministry of Interior	High (%)	18	30	31	31
	Medium (%)	47	39	45	51
	Low (%)	35	30	24	18
Payer	Driver (%)	35	50	49	41
	Manager / Owner (%)	47	39	46	45
	Others (%)	47	46	45	43
Consequences in case of non-payment	Increase of waiting time (%)	29	43	50	49
	Increase of accuracy (%)	53	52	54	57
	Others (%)	41	36	39	37
Payments EUR	EUR from... to...	57.5–137.5	50–112	52.5–93.8	58.3–120
	EUR average total	97.5	81.0	73.1	89.2
Frequency of payment (%)		11.3	11.5	11.9	10.8

Source: Trade and Transport Facilitation in South East Europe Program

The most frequent problem of small trading companies is their lack of sufficient knowledge of customs legislation. As their shipments are usually carried without a forwarding company or customs agent company, these smaller traders have to “negotiate” the customs duties themselves. The customs officers, on their part, take advantage of this lack of competence and, as a result, drivers have to pay different customs duties at the different customs departments for the same type of goods because these goods are either declared at a lower value or with different tariff numbers. In most instances, the customs official also receives a bribe, which varies in amount according to the type of commodity. The general attitude of drivers is that any incorrectness in the documentation or any import of smuggled goods could be handled by bribing in order to avoid penalties.

3.6. PASSENGER TRANSPORTATION

In the 1990s, international bus transport was characterized by a significant increase in volume. The official transport statistics, however, do not include data from the private

sector. It is mostly private companies that provide international transport services. The data of the Ministry of Transport and Communications indicates that 355 companies with a total fleet of 1,020 buses are currently licensed to provide international bus transportation. By April 2003, 162 permits for bus line services operated by 66 firms were issued.

The activities of some (but surely not all) of those licensed companies add to the risk of smuggling because they are controlled by individuals or firms linked with the organized crime structures. Their buses are often used for the trafficking of prostitutes, small arms, drugs, cash, counterfeited documents or banknotes. Due to the high number of travelers and luggage they transport, these buses are rarely subject to strict inspection at the border. This makes them very suitable for trafficking in human beings and commodities.

A good illustration of the involvement of bus transportation companies in smuggling is a case investigated by *Radio France International*. In April 2003, the Bulgarian authorities informed the police in Nice, France, that certain individuals, whom the French police suspected of running prostitution rings, were in Bulgaria. After the police interrogated the prostitutes, it was found that two brothers were running the network from the town of Pleven. They were actually using bus lines for the transportation of prostitutes, as well as for the delivery of the money earned by these prostitutes in France.³²

The National Border Police Service keeps a close watch of international bus companies involved in the transportation of illegal migrants to the EU.³³ In 2003, the Bulgarian Ministry of Interior submitted one such list of 15 transportation companies to the respective border control authorities of Schengen states. Most of these companies are bus transportation firms, which facilitate illegal immigration into the EU.³⁴

Bus transport also remains one of the basic means for transfer of small quantities of goods by the shuttle traders, also known as **"suitcase traders."** Bulgaria is located at a crossroads, and the annual transit through its borders is up to 5 or 6 million people. During the 1990s, the highest percentage of suitcase trade was with Romania and the former Soviet Union states due to the direct ferryboat lines between Bulgaria and these countries. At present, however, the largest portion of that trade is with the countries of former Yugoslavia.

As opposed to trends observed during the 1990s, by the beginning of 2004 **the number of Bulgarian suitcase traders had decreased substantially.** Those few who continue to be involved in such trading are mostly people from the border regions, while the highest number of previously active participants in the suitcase commerce (generally small entrepreneurs and shop-owners) purchase their goods at wholesale markets. There are several reasons for the decline in the shuttle trade.

In the first place, in 1998 Parliament ratified the **free trade agreement between Turkey and Bulgaria**, which helped to somewhat curb the scale of shuttle trade

³² "France Investigates Bulgarian Pimps," *RFI*, 24 April, 2004.

³³ "Investigation Started of Twelve Companies Transporting Roma to Oslo," *Novinar*, 20 July 2004; "Twenty Companies Watched for Migrant Workers Smuggling," *Trud*, 18 November 2002.

³⁴ "Fifteen Bulgarian Companies under Scrutiny in Europe," *Trud*, 9 April 2003.

between the two countries. This phenomenon, however, was never completely eliminated because according to the free trade agreement, Bulgaria had a protective regime on more than 3,500 goods. The customs duties for these were not immediately revoked as of January 1, 1999, but gradually dropped during the years until 2002. Among those protected goods were: oil products, paper, textiles, garments, foot wear, refrigerators, ferrous metals, and other products, which at that time constituted almost 35% of Bulgarian exports to Turkey. The list of protected Turkish goods is much smaller—only 350 commodities, which equal 10% of the total Turkish export to Bulgaria.

The second important factor proved to be the spread of **national and international commercial chains of department stores that sell products at highly competitive prices**. In 2003, for example, the German department store chain Metro earned €300 million (no VAT included). The Hungarian chain CBA–Bulgaria (with 137 stores) made €60 million. Other chains such as Billa, Mr. Bricolage, Technopolis, Technomarket Evropa, Technolux, Zora, Dancy Center, and Technomix also invest millions of Euros in the construction of new outlets and stores. The increase in the number of these department chains aroused the interest of other international corporations as well. Investments plans for 2004 have been announced by several other large-scale chains, such as the English company Tesco and the German Kaufland and Hit.

Another major factor in the decline of the shuttle trade practices has been **the development of wholesale marketplaces such as Wholesale Trade JSC in Illiantzi district** (Sofia) which offer Chinese and Turkish consumer goods. These markets became a less expensive and much more convenient mode of supply for numerous retail traders.

Bus transportation remains one of the riskiest modes of transport regarding goods such as firearms, drugs, and counterfeited money and identity papers. Illegal migrants are also transferred to close destinations on buses. Sometimes, cash earned abroad through illegal business is smuggled to Bulgaria.

3.7. FORWARDING COMPANIES AND CUSTOMS AGENTS

The biggest forwarding companies in Bulgaria are:

1. Miltzer and Munch BG, Sofia
2. Schenker Bulgaria, Sofia
3. Scorpion Shipping, Sofia
4. Despred, Sofia
5. Cargolog Wais, Sofia
6. Vectra, Sofia
7. Econt Trans, Rousse
8. Oyroshped, Sofia
9. Rubiships, Rousse
10. Acordtrans, Sofia

Forwarding companies are an extremely important component of the transport industry and play a significant role in all types of transportation services. Forwarding agents often participate in the shipment of smuggled goods, providing good cause to analyze their function in this respect.

Only one official forwarding company—Despred—operated in Bulgaria up to 1989. Today, there are over 2,000 registered forwarding agents in the country.³⁵ The leading positions are occupied by the German companies Schenker and Miltzer and Munch. It is, however, difficult to analyze to what extent these companies are involved in smuggling.

³⁵ "Survival—the Mode of Existence of the Bulgarian Forwarding Businesses," *Banker*, 13 April 1999.

Many of them also provide customs consulting services, and are licensed as customs agents. Currently, several international and domestic firms are operating in Bulgaria. They provide quality services and would not jeopardize their name by participating in illegal frauds. On the other hand, the serious competition on that market may often tempt forwarding companies into compromising some of the regulations. It could be an “innocent” administrative omission, or incorrect entry of the tariff number “by mistake,” so that ultimately the goods are charged with lower customs duties.

The Bulgarian National Forwarding Association (BNFA) declares that its 67 member companies control more than 66% of the forwarding market.³⁶ The hundreds smaller forwarders compete for the remaining market share.

The so called “dispatcher” companies pose a particular risk. They operate in the following manner: they seek to find a company needing a forwarding agent, and then organize the transportation service without making any commitments with respect to the customs clearance and warehousing. Their prices are quite low, but the risks for the clients are significantly higher. Quite often, an unknown “forwarder” (frequently without even an office) undertakes the work of organizing the transportation of certain goods, and hires a carrier service. This carrier fulfills the requested transportation service, but never gets a payment because, as it turns out, the “forwarder” has already disappeared after having first received the money from the client. The Law on Automobile Transport does not envisage any obligatory license regime for the forwarding companies, and there is no such regime in force. That is why companies that need transport services for their cargoes must rely solely upon recommendations and experience when seeking to hire a forwarding company.³⁷

The legal status of the forwarder and the forwarding contract are defined in articles 361–366 of the Commercial Code, according to which “the forwarder can alone implement the transport service completely or partially, in which case the forwarder carries the rights and responsibilities of the transport company”. At the same time, “the contract for forwarding services obliges the forwarder to conclude on his behalf a contract for transport services in return of payment due and at the expense of the client.”

In other words, the legislator sees the forwarder mainly as an **intermediary** acting on his behalf, at the expense of the client, and only in the cases of contracts signed for transport services. The forwarder is also allowed, however, to **provide transport services**. Nevertheless, the tendency over the last few years has been for the forwarding companies to act less as **intermediaries** and more and more as **full-service companies**, providing shipping services on their behalf alone and at their own expense, regardless whether they are utilizing their own resources or hiring sub-contractors.

Apart from signing and implementation of **contracts for transport services**, the forwarding companies also organize and provide a wide range of other services, such as: preparation of documentation, customs clearance documents and procedures, packing, reloading and storing of goods, payment collection on behalf of the client. In addition, the forwarders can sign contracts for logistic services, which oblige them to

³⁶ Interview with Ivan Petrov, Chairperson of the Steering Committee of the Bulgarian National Forwarding Association, in “Only the Professional Survive,” *Cash*, 5 March 2004.

³⁷ “Awaiting the Western Invasion,” *Capital*, 3 April 2004.

supply materials to manufacturers, distribute their production and supply the respective network of stores.

All of this clearly indicates that the forwarding companies could also be an element of the smuggling structures and could quite easily commit customs fraud. The reason is that the forwarder is entitled to provide customs clearance service. At the same time, the forwarder is not responsible for any omissions, mistakes or ill-intentioned acts committed by the client, for example, differences between the imported goods and the entries in the customs documents. Of course, it is also possible for the forwarder and client to be partners in the same smuggling scheme.

The results of the World Bank survey shown in Table 6 indicate that it is exactly the forwarding companies that most often offer bribes to MoI and BCA officials.

Until the beginning of 1999, the participation of forwarding companies in the process of customs clearance was quite insignificant because these procedures were completed by the importers themselves. The new Customs Law, in force as of January 1, 1999, also provides for importers/exporters to complete the customs clearance procedures. However, in addition to them, the Law introduces the figure of **the customs agent**. The customs agents are individuals or legal entities that are licensed by the customs authorities to complete customs procedures for third parties. The customs agents should possess relevant professional competence, financial stability, and clean fiscal and criminal records. The licensed customs agents in Bulgaria after 1999 are not only forwarding companies, but also individuals and firms that are specialized to provide customs clearance services.

Some of the customs consultancies in Bulgaria are owned by former BCA officials. In many cases, these individuals use their professional expertise for the benefit of their clients. Sometimes, however, they employ their relations with corrupted BCA officials in order to facilitate the smuggling of goods.

- In May 2003, the National Service for Combating Organized Crime arrested ten individuals involved in trafficking through fictitious re-export of 500 boxes of cigarettes. The re-export was done without a bank guarantee and with the help of the company Sped Consult, which acted simultaneously as the forwarder and the customs consultant.³⁸
- Irina Miteva, a well-known participant in various channels for smuggling of Turkish, Arabic, and Chinese goods, has worked since 1996 as a customs consultant, initially as a long-time employee of the company Iris.³⁹

³⁸ "An Ordinary Smuggling Scheme," *Capital*, 24 May 2003.

³⁹ "Petkanov: The Origin of Criminal Schemes Does Not Matter," *Capital*, 29 July 2003.

4. TRANSPORT INFRASTRUCTURE

Despite the radical changes in the transport sector during the 1990s, the transport infrastructure in Bulgaria, including the infrastructure in the border areas, started to slowly improve as late as the end of the decade. During 2004, this infrastructure was still inadequate to the traffic load, and impeded the efficient control over the passing vehicles and the trans-border trade. The planned concession of airports and sea ports to private companies will further complicate control in the transport sector.

From a geographical point of view, the popular metaphors of Bulgaria as “the heart of the Balkans,” and the “crossroads between Europe and Asia” are well-justified. From a transport point of view, it means that five of the ten main European corridors pass through Bulgaria.⁴⁰

Despite the favorable geo-political characteristics, there is no well-developed transport network on the territory of Bulgaria, nor is there one in the Balkan region as a whole. This follows from a number of geographical, historical, political, economic, and specifically transport-related circumstances. Most of all, the general backwardness of the Balkan Peninsula as compared to Western Europe has a negative impact on the condition of transport services in the region.

The economic potential of Bulgarian neighbors (Macedonia, Serbia and Montenegro, Romania, Turkey, and Greece) comprises only 1.1% of the world’s gross domestic product. These countries participate in only about 10–12% of the overall foreign trade of Bulgaria.⁴¹

One of the circumstances that may have contributed to the underdevelopment of the transport system in Bulgaria is probably the peculiar geographic location of the country. The majority of the territory is occupied by mountains, which especially dominate the borders with Serbia, Macedonia, Greece, and Turkey. Another factor is the geo-strategic position of Bulgaria during the Cold War period. It was the Bulgarian state, which was used by the Warsaw Pact countries to counter the southeastern flank of NATO—i.e. Greece and Turkey. During that period, the borders with these two neighbors, as well as sectors of the border with some parts of Socialist Federal Republic of Yugoslavia, were blocked by barbed wire and further separated by a border ditch, while the respective border zones on the territory of Bulgaria were placed under a special security regime.

⁴⁰ Corridor **No. 4**: Warsaw–Bucharest or Budapest–Sofia–the Mediterranean. The end points of that corridor could be presented in several variants: Constantza, Istanbul, or Thessaloniki; **No. 7**: the Danube Water Route; **No. 8**: Bourgas (Varna)–Skopje–Tirana–Duras; **No. 9**: Moscow (Kiev)–Bucharest–Veliko Turnovo (Gorna Oryahovitsa)–Dimitrovgrad (Haskovo)–Kardzhali–Alexandropolis; **No. 10**: Berlin (Munich)–Vienna–Budapest–Belgrade–Nish–Sofia (Athens, Thessaloniki)–Istanbul. (See, *Railway Transport Magazine*, 2003, No. 2, p. 8).

⁴¹ Ibid.

Although there do not exist any particular political reasons, the trans-border transport to the north is restricted in a natural way by the river Danube, which serves as a boundary between Romania and Bulgaria. An exemplary illustration of the underdevelopment of trans-border transport in that area of the river where Romania, Bulgaria, and the Ukraine are situated is the fact that only four of all 104 bridges over the Danube are located in that sector of the river, and of those four only one connects Bulgaria and Romania (the bridge Rousse–Gyurgevo).

4.1. ROAD AND RAILWAY BORDER CROSSING POINTS

Trans-border Connections

The modernization of the transport infrastructure is an important element of the strategy for Bulgaria's accession to the European Union. The main goal of the general European transport policy is the establishment of sustainable and efficient transport systems, which would be able to satisfy the social, economic and environmental needs of the population, while also contributing to the increase of the competitiveness of European business on the world markets.⁴²

In compliance with the main EU directives regarding the integration of the road infrastructure. The Bulgarian government approved a *National Program for Construction and Development of the Road Network in Bulgaria*. The section of the document titled "Trans-border Transitions" envisages rehabilitation of the currently existing trans-border roads and construction of new road connections, in full accord with the policies for accession of Bulgaria and opening of its borders to the neighboring countries.

Three more road connections with Greece are planned for construction: Gotse Delchev–Drama, Rudozem–Ksanti, and Kardzhali–Makaza, in addition to the envisaged rehabilitation of the existing roads Kulata–Promahonas and Novo Selo–Ormenion. The new roads and the reconstruction of the old connections are expected to have a positive economic impact for the border region.

Three new roads with Macedonia are also planned for construction: Simitli–Pehchevo, Tsaparevo–Klepalo, and Nevestino–Delchevo. These roads, similarly to some existing border crossings, are mainly local, servicing the territories adjacent to the border, and are less associated with the process of intensification of European commercial relations. Some of the current roads are almost unusable during the winter. There is also a project in place for expanding of the current border crossings.

A new road connection with Serbia and Montenegro is also expected to be opened between Salash (Belogradchik region) and Novo Korito. A rehabilitation of the existing three road connections by land with Romania is also planned, as well as construction of new roads near Kraishte–Dumbroven. The new transit zone with Turkey at Lesovo–Hamzabeili is soon to be officially opened for traffic. Reconstruction of the existing roads with Turkey is also planned.

⁴² The European policy in this sphere comprises the progressive liberalization of transport markets, the reduction of the inconsistencies in the EU regulations and ordinances concerning transport and the facilitation of transit through border crossing points (See *Railway Transport Magazine* No. 7-8, 1999, p. 4).

The Border Crossings and the Increasing Risks

The increase of trade flows through the Bulgarian borders calls not only for modernization of the transport infrastructure, but also for opening of a number of new border crossings. Some of the major projects for improving of the infrastructure are: completion of the national highway ring with parallel construction of detours to Vidin, Rousse, Svilengrad, and Kulata; building of bridges and ferryboat complexes along the Danube river; construction of a tunnel at the Shipchenski mountain passage; equipment of the new border crossings alongside the borders with Romania, Serbia, Macedonia, Greece, and Turkey.⁴³ The opening of the border crossing with Greece (at Makaza), with Turkey (at Lessovo), and with Romania (at the future bridge over the Danube at the town of Vidin) will substantially facilitate the movement of commodity flows.

Apart from the **budget restrictions**, the modernization of the transport infrastructure of Bulgaria is related with the solving of **foreign policy issues**. Bulgaria's neighboring countries have tended to implement transport policies that consistently attempt to divert trade and cargo flows towards the routes that pass through their own territories.⁴⁴ As a result of the bad condition of the Bulgaria roads, the long lines of vehicles, and the corruption at the border crossings, a significant number of the international carriers prefer to use more indirect and roundabout routes, while also opting for less wear and tear and more secure shipments.⁴⁵

The slow crossing of Bulgarian borders is partially a consequence of the multi-staged border control. The procedure requires trucks to go through five separate control points. In the cases when the cargo does not contain any animal or vegetable products, there are only three border control points, but even then the procedure is too lengthy and slows down the passing of the border crossing. This problem is not only about the efficiency of the work. The delays and the cumbersome processing procedure create conditions for corruption. As a result, major transport flows are redirected towards neighboring states.

The Appendix *Risk Profiles of Border Crossing Points* presents conclusions from research carried out at two land border crossings—Kulata and Kapitan Andreevo. The main identified **infrastructure risks** were the following:

- The high number of commercial sites (gas stations, duty-free shops, banks, customs consultancies, etc.) allows easy access to the border zone of many people and goods;

⁴³ Marin Russev. "The Transport Blockade of Bulgaria", *Railway Transport Magazine*, No. 2, 2003, p. 9.

⁴⁴ Romania attempts to redirect corridor No. 4, so that it passes by the city of Constantza; Serbia upholds the Moravian–Vardar alternative of corridor No. 10 going towards Thessaloniki and Athens (the justifications provided by Belgrade about the natural obstacles that hinder the construction of a highway connection between Nish and Sofia are very symptomatic in this respect); utilizing funds provided by the European Union, Greece "reconstructs" the so-called "Via Egnatia" (the ancient Roman road, which serves as baseline of corridor No. 8), but, strangely enough, is doing that much more to the south and completely on Greek territory; Russia, together with Ukraine and the former Caucasus and Central Asian Soviet republics, supports the traditional Black Sea route utilized for their contacts with the Mediterranean countries. (Ibid.)

⁴⁵ A recording of the meeting with representatives of AEBTRI held on 1 December, 2003.

- The distribution of the various border control booths requires the drivers to stop and leave their vehicles several times;
- Traffic jams and long lines create a stressful atmosphere used by corrupt border officials to let through illicit shipments. Traffic jams enhance corruption pressure on border officers since drivers offer bribes for faster processing of their trucks;
- The narrow lanes and the lack of parking lots cause bottlenecks, place the drivers under pressure as they are late for their deliveries, and create conditions for them to try to pay a bribe;
- Inadequate equipment, especially lack of security video cameras and x-ray screening devices makes efficient border control difficult;
- The inadequate lighting and fencing of the border crossing points also makes the work of the border police more difficult.

4.2. SEA PORTS AND AIRPORTS

The most worrying finding is that **not all ports and airports possess fully operational border crossing points**. For example, the airport at the town of Gorna Oryahovitsa only has a border control, while the customs control service is “on call,” i.e. the customs officials are generally stationed in the district customs office and not within the limits of the airport complex. Under certain circumstances, this situation may facilitate the transportation of smuggled goods and the concealment of re-exported commodities.

There is yet another problem: **at many airports and seaports, apart from the official border crossing points, there are also other entry points**. A good illustration is the situation at Sofia Airport, which is the most important center for air transport in Bulgaria. There are several entry points operating at Sofia Airport. There is, however, no customs or border control at all of these entry points and the security police act as the only supervision there. The security police officers, though, do not possess the necessary professional control or technical equipment to carry out proper control over transported goods, neither do they have the responsibility to implement such functions because this would be contradictory to the existing legislative regulations. There is a necessity for introduction of a well-defined control mechanism that would impose certain duties on the manager of the storage area and would enforce a strict set of regulations and precise formulation of the procedure “entering the customs area.”

There is a substantial number of people who possess permits giving them privileged access to the zones of border and customs control. This is still another condition for committing violations. According to some estimates, the number of people who have permits to access border and customs control zones is between 18,000 and 20,000.

Smuggling activities may also involve the participation or assistance of people who have access to or work at the zones for aircraft maintenance, those with access to the airport gates and airport service facilities, as well as the aircraft crew, the

administrative staff of the airport, the air traffic controllers, the officials from the MoI and the customs services, the aviation and other operators of airport activities, security services officers, and the border police guards and national police officers. Indiscriminate access of persons and vehicles in the airport area may result in illicit transfer of goods through the guarded security zones, their entrances/exits and the airport fence.

The security problems of seaports are much more serious than those of airports because seaports have much more complicated infrastructures. The complex transport network at seaports includes railway, automobile, and sea transport. Apart from that, seaports are within or near the limits of towns and cities, a fact that creates additional obstacles for the implementation of relevant security services.

The Appendix to the report presents a detailed picture of the risks of smuggling at the seaports of Varna East and Varna West and partially at the seaport Lesport. The main infrastructure risks identified there include:

- Lack of adequate fencing and electronic surveillance systems;
- Lack of a strict regime for entering and, especially, exiting the border crossing zone;
- Lack of complete radar coverage or electronic surveillance in parts of the Varna Lake zone;
- Absence of x-ray devices for inspection of containers;
- Cumbersome coast-guarding system and insufficient number of patrol boats for exerting strict border or customs control.

Some of the reasons for the lack of the above-mentioned procedures and equipment are related to the fact that seaports—as opposed to the land border crossings—are legal entities. Most seaport security is provided by the Ministry of Transport and Communications and subcontracted to private security firms. The upcoming concessions of sea ports will further complicate the situation because relations will be between a private entity and the state.

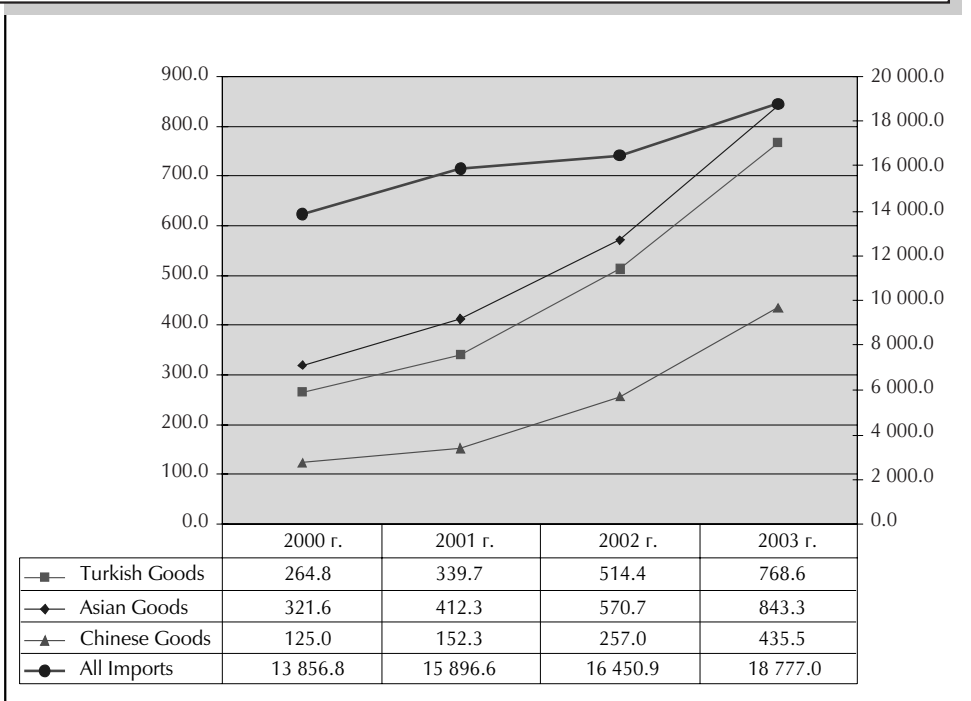
5. ORGANIZED CRIME AND TURKISH AND CHINESE GOODS SMUGGLING

The goods that are smuggled through the land border crossings of the country cause the most serious damages to the state budget. According to the customs data, about two thirds of the so-called sensitive goods (mainly, **Turkish, Chinese, and from other Asian**, including Middle Eastern **countries**) enter Bulgaria through the border with Turkey and Greece. The import of any of the three groups of commodities is dependent on the other two groups. Two main factors should be taken into account when analyzing the interaction between the imports of the various types of goods.

The first factor concerns the rapid and sustained increase in the worldwide import of products coming from the countries named above. The second factor is related to the fact that after the economic stabilization in 1997 the Bulgarian state—by means of its customs and tax administrations—intensified the pressure on importers of sensitive goods to increase the payments of duties, taxes, and fees. The analysis of commercial statistics does not provide sufficient information about the extent of “shrinking of gray import,” i.e. of its transformation into legal import. Also, there is no credible data to estimate whether the Bulgarian market has increased the consumption of goods from these highly export-oriented countries. The data shows that if all imports to Bulgaria (according to CIF) have been increasing with an average of 10.8% per year, the imports of Chinese goods have increased by 53.3%, of Turkish goods by 43%, and of Asian goods by 38.1% (See Diagram 6).

When discussing Diagram 6, one should also mention that according to some marketing surveys there is evidence of aggressive side-lining of the other two groups by the Chinese commodities.⁴⁶ Statistical data reveal that in some commodity groups, Chinese goods have increased their market share from 30–40% to 50–60% for the last four years. The import registration information does not, however, reveal a similar development. It is also evident from the above diagram that the three groups of commodities by origin increase in amount with almost the same pace. At the level “commodity group” of the customs data, the trend recorded by the market surveys is observed with respect to only some types of goods. In Table 7, such a tendency exists only in the commodity group 6401–6405, while in groups 61 and 62 one sees an illustration of the electoral year 2001.

⁴⁶ There are commodity groups which are not competitive at all. For example, in the same way as the Turkish electronic products cannot compete with the Chinese electronics, China cannot compete with Turkey with respect to the export of fruit and vegetables.

Diagram 6. Total Import and Export of Goods from the Different Groups *

* The left scale divisions are in hundreds of millions of leva and present the import from Turkey, China, and the Asian countries; the right scale divisions are in billions of leva and present the total import according to CIF.

Source: Bulgarian Customs Agency

Table 7. Comparison of Selected Commodity Groups of Turkish and Chinese Origin According to Year of Import

Code, Chapter (Position)	Year Name, Chapter (Position)	Turkish Goods 2000		Chinese Goods 2000		Turkish Goods 2001		Chinese Goods 2001	
		Net Weight (kg)	Stat. Value (leva)	Net Weight (kg)	Stat. Value (leva)	Net Weight (kg)	Stat. Value (leva)	Net Weight (kg)	Stat. Value (leva)
61	Clothing and clothes' accessories – synthetics and knitwear.	3 282 409	3 934 403	767 061	2 341 004	3 554 422	9 847 284	433 566	1 831 044
62	Clothing and clothes' accessories different from synthetics and knitwear.	1 865 399	2 176 769	1 121 927	3 662 046	1 790 648	6 448 944	737 375	2 688 213
6401–6405	Footgear, boots, and similar items.	1 604 366	3 081 178	1 694 226	5 441 213	1 856 905	8 295 721	1 464 884	5 230 445
Code, Chapter (Position)	Year Name, Chapter (Position)	Turkish Goods 2000		Chinese Goods 2000		Turkish Goods 2001		Chinese Goods 2001	
61	Clothing and clothes' accessories – synthetics and knitwear.	3 293 033	16 601 656	1 673 133	7 644 634	4 293 426	21 906 234	1 952 499	10 798 527
62	Clothing and clothes' accessories different from synthetics and knitwear.	3 603 161	18 568 672	2 183 841	10 398 621	4 854 512	31 122 353	2 826 106	18 350 380
6401–6405	Footgear, boots, and similar items.	2 659 840	16 482 850	3 384 876	15 379 015	3 425 024	18 033 206	4 891 640	26 376 294

Source: Bulgarian Customs Agency

The gray and the black infrastructure of the import of Chinese and Turkish goods should be differentiated. The **black infrastructure** covers the smuggled products that are:

- Not declared at all at the customs;
- Declared as coming from countries that have signed free trade agreements with Bulgaria;
- Declared as other types of goods, the duty taxes of which are much lower, and so on.

The **gray import** of goods involves their declaration at the customs but in reduced volumes or with lower invoice values. In the present text smuggling refers to both types of import—gray and black.

From a historical perspective, the smuggling of Turkish goods precedes the smuggling of Chinese products. The importers of Turkish goods are the pioneers in the development of the infrastructure that serves the smuggling channels. At the same time, since the beginning of the 1990s, Chinese goods are more and more aggressively introduced on the Bulgarian market, having obtained the necessary access to the gray and black infrastructure.

This is the reason why the present chapter first examines the structures that serve the smuggling of Turkish goods. It then deals with Chinese products and focuses on the dominating role of the gray and black infrastructure.

Most of the gray and black infrastructure has common actors: agents, clerks, declarators, forwarding and transportation firms, consultants—former and current policemen and customs officers. There are also overlaps among these individuals, i.e. the same names may be found in the smuggling of Turkish and of Chinese commodities. On the other hand, this study has demonstrated that **these coincidences are mostly at the intermediate level, while the more significant players and the service-providers tend to be specialized.**

5.1. THE TURKISH ROUTE

In order to best understand the logic and the potential of the different smuggling channels from Turkey, it is necessary to explore their genesis. The so-called “Turkish routes” do not simply represent a special case of trafficking, but are the structure through which organized criminal groups exercise their influence on border institutions. The reach of these structures has expanded over the years to include more institutions and officials, among these: special services, the police, the customs, politicians, and political parties.

5.1.1. *The Guide-Women*

The most interesting figure in the smuggling of Turkish goods is that of the “**guide-woman**” (vodachka). This is the name given to dozens of women who secure the smuggling logistics. In the early 1990s, they used to work only for the shuttle traders,

and their services covered a wide range of travel and trade logistics. Later, they expanded their scope of services with the inclusion of trucks and minibuses.

The figure of the “guide-woman” first emerged after 1989 with the increase in the import of cheap consumer Turkish goods that occurred soon after, and as a consequence of, the expulsion of the Bulgarian Turkish population in the spring and summer of 1989. The favorable conditions that spurred the shuttle trade were the revoking of the visa regime to Turkey for Bulgarian citizens and the deficit of consumer goods in Bulgaria.

Despite the fact that government propaganda had generated strong nationalistic feelings in Bulgaria and Turkey alike, only two months after the expulsion campaign took place, shuttle traders started the mass imports of Turkish goods. The typical procedure consisted in the organization of bus trips for groups of a few dozen shuttle traders. At that time, the phenomenon “guide-women,” called by some an “institution,” appeared.

The most important service provided by these women was the easy crossing of the border with illegal cargo. The crossing of the border was usually arranged by offering bribes to the BCA officers and the border guards. It was not so easy in the case of the Turkish border and customs authorities. They demonstrated a hostile attitude⁴⁷ and frequently confiscated the cargo of the Bulgarian shuttle traders without evident reasons. During that period, the negative feelings towards Bulgarians were stronger than the policy of unrestricted and uncontrolled exports that Turkey often pursues today.

There is a high degree of overlap in the stories told by merchants, drivers, and customs officers that provide details about the “guide-woman” phenomenon. In their opinion the biggest accomplishment of these women was their successful adoption of the culturally-specific Turkish way of bribing. They claimed that the women guides often had intimate relations with the Turkish border guards, as well as with policemen and gendarmes. In this way, they manage to establish close relations with the members of the otherwise closed groups of the customs officers and border guards. It is, however, difficult to assess the degree of truthfulness of these accounts. It is only at the Turkish–Bulgarian border where such intermediaries are only female.

In the early 1990s the Turkish commodities became the major source of consumer goods on the Bulgarian market, especially after the collapse of the Council for Mutual Economic Assistance (CMEA) and the crisis of the Bulgarian economy. At that time the few imports of Chinese or other Asian goods were also smuggled through the Turkish border.

Gradually, the “guide-women” started to diversify their activities as some of them started to assist trading companies that used trailer trucks and vans.⁴⁸ Most of the services they started to provide back then have remained the same until the present moment: ensuring the “logistics” inside Turkey and problem-free border crossing.

⁴⁷ The major reason was the repressions against Bulgaria’s ethnic Turkish minority. In the spring and summer of 1989, about 420,000 people were expelled to Turkey.

⁴⁸ Vans and buses are preferred to trucks because no additional certificates for transportation are required. Claiming that they transport only passengers’ luggage, the buses and vans have become efficient carriers of smuggled goods and gray imports.

Their commission varied between €1 250 and €1 500 for an eight to ten-ton truck. The fee covers all expenses and bribes at the border crossing, transport security, in-land customs departments, etc. Thus, their actual earning is even smaller.

5.1.2. Warehouse Markets and the Security Companies

Along with the guide-women, another key institution, the “**warehouse markets**,” emerged in 1991-1992. During the 1990s, these warehouses turned into market places and experienced a boost of profitable commercial activities. According to marketing estimates of some international retail companies, there are about 50 such markets, spread around all big cities in the country. Usually, their owners are engaged in the informal or illegal economic activities. Often, they are involved in racketeering schemes, disguised as insurance companies. The most famous of these markets is Illiantzi, in Sofia. Illiantzi has already evolved as a central marketplace not only for Bulgaria, but also for merchants from Serbia and Montenegro, Macedonia, Bosnia, and, during a certain period, Albania. It provides very competitive conditions and advantages. Its only serious competitor, the market in the town of Dimitrovgrad (close to the border with Turkey), lost its importance following the beginning of large-scale import of Chinese goods to Illiantzi through Thessaloniki (Greece).

In the early 1990s, neither the mass media, nor the politicians were much interested in the topic of smuggling. In 1993, the newly emerged organized crime groups started to become part of the money-making schemes of smuggling operations and placed the “guide-women” under their “protection.” The formal excuse that organized crime structures used to justify their activities was the increasing number of robberies of trucks and buses from highway gangs. Thus, there was the need for **security guards** that provided paid protection services on the import of Turkish goods.

The security companies quickly established control over a significant number of the participants in the chain of illegal commerce with Turkish goods. Thus the “guide-women” increased their fees to factor in the protection service. The warehouse-markets were rapidly divided among the most powerful of the “security companies.” Any intensification of the conflicts between various security firms had its immediate reverberations with respect to the activities of the warehouse-markets and the “guide-women.” During the periods of mafia wars between the various regional and national structures of the “security companies” cases of arson, destruction of commodities, kidnappings, beatings, and even assassinations became common.

The stories of two emblematic figures of the criminal world—Metodi Metodiev, known as Meto Illianski, and Konstantin Dimitrov, known as Kossyo Samokovetza—provide a good illustration of how organized crime groups participated in the Turkish channels. Meto Illianski became famous after he took control over the wholesale market of Illiantzi in 1994. It was granted to him by one of the most powerful bosses of organized crime during that time, Vassil Iliev, owner of the insurance company VIS-2. Meto Illianski succeeded in preserving this position even after the assassination of Iliev in 1995, despite the attempts to be ousted by people from within his own criminal circle or rivaling crime groups.

Kossyo Samokovetza made his appearance around the same time, in 1995, after the end of the Yugoslav embargo. He was involved with providing protection of the trucks with smuggled goods from Turkey to Illiantzi. His position as a boss of a “protection

squad” alongside the Serbian border provided him with an access to the structures of the Turkish trafficking channels and allowed him to become, within only a couple of years, one of the main smugglers of Turkish goods (Figure 7).

Figure 7. Illegal Import of Turkish Goods



The placement under partial control of major components of the channel for illegal import of Turkish goods is only one of a number of activities implemented by the mafia structures. Even during the time of the embargo on Yugoslavia, when the trade with oil or arms was extremely profitable, the crime groups also used the Turkish border as one of the main channels for excise-taxed goods such as sugar, cigarettes, and alcohol.⁴⁹ When implementing this type of trafficking, separate channels were established. They took advantage of the entire smuggling infrastructure from the wholesale warehouses through the use of customs officers or MoI agencies officers. The level of organization and subordination of these structures should not be exaggerated. According to members of these crime groups, the lack of clear rules, the chaos, the uncontrolled drive for profits at all levels, and the internal conflicts prevented the establishment of large and stable organized crime syndicates. The organizers of excise-taxed goods trafficking did not belong to the “security companies” and gradually many of them tried to legalize their businesses.

⁴⁹ See “Corruption and Trafficking: Monitoring and Prevention,” Center for the Study of Democracy, Sofia, 2000, and “Corruption, Trafficking, and Institutional Reform,” Center for the Study of Democracy, Sofia, 2002.

The warehouse markets continue to operate, but with a substantially lower revenues. The main reason was the competition from the new international low-cost department stores, such as Metro, Mr. Bricolage and Billa, or from domestic ones such as Technomarket and Technopolis. The Illiantzi market, though, has succeeded to preserve its position due to its competitive low prices and the services offered by traders, such as fake invoices, refund on VAT, transportation, etc. As a result, that warehouse market is still a preferred place to acquire specific commodity groups, not only by the Bulgarian, but also by the Serbian and Macedonian traders.

From the interviews carried out, it became clear that Meto Illianski had managed to preserve the control over this warehouse marketplace even after its privatization in 2001. If traders want to operate in Illiantzi, they have to pay fees of the amount of €1,000 to €1,250, no matter whether the smuggling of their goods is protected by one of the big “security companies” or how much rent they pay to Illiantzi’s actual owners. Those traders who attempt to avoid the forcefully imposed “fee” are usually punished: either their property is stolen or destroyed, or the tax inspectors suddenly appear and impose fines. It is evident, however, that after the disappearance of Meto Illianski at the end of November 2003, this criminal organization has been undergoing a deep crisis despite the efforts of some of his replacements to maintain the system in operation.

5.1.3. Political Corruption and Smuggling

When one analyzes the evolution of the import of Turkish goods, one should point out the serious changes that took place towards the middle of the 1990s. The introduction of VAT in April 1994 was one of the reasons for the abrupt transformation of the import conditions. In addition, 1994 was the year when politicians came to realize the importance of smuggling channels with respect to the financing of their political activities and started to use them. Seen in this perspective, understanding of smuggling channels from Turkey needs to be analyzed in light of the political developments at the end of the last century and the beginning of the new millennium.

The end of the period of political uncertainties in 1995 coincided with the emergence of the need to secure state control over the national borders. It soon became evident that such an objective was very difficult to achieve because the mafia structures were already manipulating not only senior state officials in the financial administration, the customs, the police, and the special services, but also a number of key figures from the governing political party both at national and at regional levels. The financial crisis of 1996 and its subsequent transformation into a political one left the state borders at the mercy of the criminal groups controlling the situation there.

At the end of 1996, though, the ruling Bulgarian Socialist Party (BSP) decided to close down the smuggling channels that were financing to the opposition parties.⁵⁰ A series of police raids and wide-scale investigations followed. At that point the senior officials at the Mol came to realize the great extent to which crime groups had penetrated the security services. To reduce the chances of corrupt practices during the operations the Mol organized special police squads consisting of police officers from different regions of the country. According to customs officers and smugglers, the anti-smuggling operations during that period were the most serious blow to organized

⁵⁰ Interviews with former Mol officials, Sofia, February 2004.

smuggling schemes since the beginning of the 1990s. Despite BSP's efforts, the smuggling channels survived. When the opposition Union of Democratic Forces came to power in February 1997, channels across the Kapitan Andreevo border crossing continued to be a cause for accusations between political opponents.⁵¹

It is difficult to assess to what extent the two major political parties (the Union of Democratic Forces and the Movement for Rights and Freedoms) received funding through smuggling schemes and whether the parties' leadership were aware and involved in them. The political changes that took place, however, brought about a temporary re-opening of the hermetic societies of customs officers, border guards, and policemen in the region of Svilengrad.⁵² Some of the former directors of customs and police departments began to make public statements in the media⁵³ and for the first time the issue of the redistribution of national wealth through smuggling became a topic of public discussions. It is quite probable that a significant part of the initiated changes were linked with the attempts at neutralization of the influence of mafia structures in Svilengrad.

Evidence about the penetration of criminal structures into the police, the security services, and the customs' management can be found in the scripts from recorded conversations between "guide-women."⁵⁴ These scripts also confirm the claims made by former police directors from the Svilengrad region that with the end of the formal structure of the "security companies" in 1998⁵⁵ the smuggling channels had been overtaken by their structures at regional and national levels. Thus, the hierarchical structure of organized crime was substituted by a network structure. The former competitors came together as partners in one and the same channel, each of them responsible for the securing of one or more components of the system. At the same time, former associates became rivals and even enemies because of the redistribution of previous clients.

Towards the end of 1998, new patterns of import of Turkish goods began to evolve. The smuggling operations were gradually replaced by more "benign" forms of customs frauds, such as: customs duties levied under lower tariff rates, declaring of smaller quantities or of different types of goods than the actual ones, etc. Some of the mass consumer products gradually become imported almost 100% legally (alcohol and detergents). With other commodities (clothing or food products), although small quantities are still not declared, smuggling is rare.

⁵¹ The new director of the Svilengrad customs and, subsequently, MP from the Union of Democratic Forces, Georgi Shishkov, accused one of the most influential politicians from the Bulgarian Socialist Party (BSP) Lyuben Gotzev, general from the reserve, of being involved in a cigarettes smuggling channel. Later on, General Gotzev won the court case for slander against Shishkov. In response to this, the former Svilengrad customs director and current municipal councilor from the BSP, Pavel Lilyanov (See interviews with Lilyanov in *Sega* magazine), made public statements about the availability of video tape of a courier from the Union of Democratic Forces involved with the smuggling crime groups, including a recording of the delivery of the money by a customs official.

⁵² For example, during 1997, only in the Regional Police Department in the city of Haskovo, four individuals were appointed and dismissed as police department directors. One of them held the position for only fifteen days.

⁵³ Among the most intriguing testimonies is the one provided by the eleventh in a row of appointed directors of the Regional Police Department of Haskovo after 1989, Ventsislav Yordanov.

⁵⁴ See *Sega* magazine, 27 April 2000.

⁵⁵ In the summer of 1998 the government closed down the mafia-run "insurance companies" by revoking their insurance licenses. For more details, see: "Partners in Crime," Center for the Study of Democracy, Sofia, 2004.

5.1.4. The Big Intermediaries

That is also the period when the well-known smuggler Konstantin Dimitrov a.k.a. Kossyo Samokovetza began to build up his hegemony. Details about his role in the trafficking of Turkish goods came to light only in recent years due to the changes of the Bulgarian political elites (following the 2001 elections) and the reforms in the security sector and the customs administration, but particularly following Samokovetza's assassination.

For less than two years, between 1998 and 2000, Kossyo Samokovetza managed to establish an organization of exceptional (for Bulgaria) magnitude. According to the people interviewed, this was possible to achieve only because of his extraordinary abilities in obtaining the support of important figures in almost all relevant institutions—the customs, the tax authorities, special services, and the police.⁵⁶ Kossyo Samokovetza used the already established structure of “guide-women” and worked primarily with a few of them whom he knew and trusted because of having provided the protection service for them. These women found clients and secured the illegal import's overall logistics in Turkey and in Bulgaria.

Kossyo Samokovetza's role was primarily to ensure the problem-free passing through the border. With the help of one of the deputy directors, and, subsequently, director of the Svilengrad customs, he managed to introduce a new organization of the smuggling channels. The trucks of his clients were always levied with lower customs duties, and typically crossed the border more rapidly than the competitors' trucks. However, this was not enough for clients to choose him as intermediary. In a country where clientelism is the rule, changes are difficult and slow. In order to change their attitudes, Samokovetza made use of his contacts with officers from the anti-smuggling department at the National Service for Combating Organized Crime. These officers organized a series of thorough inspections at the Svilengrad customs that slowed some companies' trade with days, and were in effect an attack against his competitors and a way of adding traders to Samokovetza's client network.⁵⁷

The cooperation with the NSCOC, however, proved to be not that simple. The fact that Samokovetza provided information to the NSCOC about the other smugglers and crime structures provoked their reaction and they started also to seek allies in NSCOC. As a result, in August 1999, 30 trucks from Samokovetza's structure were detained in the city of Bourgas.⁵⁸ Although, in the final run, the NSCOC operation failed, Samokovetza was forced to pay higher bribes in order to regain his previous preferential positions.

The summer of 1999 developments resulted in a number of changes in the structures controlled by Samokovetza. He appointed regional units and he withdrew from direct

⁵⁶ This is feedback from interviews with regular and senior officials of the BCA, as well as current and former senior officers from the special services.

⁵⁷ “Fired Police Officer Says Five NSCOC Officers were Kossyo's Men,” *168 Chasa*, 19 December 2003.

⁵⁸ Different stories are being told by interviewees of that operation. The common facts that emerge are as follows: the NSCOC followed thirty trucks that entered through the Malko Turnovo border crossing with Turkey and arrested them on their way to the Fishing Port in Bourgas. Due to a number of procedural violations, Samokovetza's lawyers easily obtained a court order for the release of the trucks. The trucks left back to Turkey but later on, the same trucks entered Bulgaria again, this time through the border crossing of Kapitan Andreevo.

participation in the smuggling channels.⁵⁹ Although the chaos in his structure was never completely overcome, one could discern three levels. The first level is the one of the “guide-women.” The second level is the one of the regional representatives, responsible for the organizing of traders, who place the orders for Turkish goods. In some of the smaller towns, though, the “guide-women” were the ones to recruit and organize the clients. The third level is that of the “collectors,” the individuals collecting the payments from the traders, covering the expenses (such as bribes), and withholding the Samokovetza’s share.

Following these changes Samokovetza was almost untouchable, and it became more and more difficult for the Bulgarian state institutions to prove his participation in smuggling channels. According to most interviewed respondents, the run-up to the 2001 parliamentary elections helped to create a unique situation, which established Samokovetza as the most prominent Bulgarian smuggler. Some newly appointed customs officials in October 2000 provided an opportunity to Samokovetza to evolve as the monopolist of the illegal import of almost all major and most important commodity groups. Under the new arrangement the BCA inspected thoroughly and levied high customs duties on all importers who did not participate in the Samokovetza network. As more traders became part of Samokovetza’s network, his revenues increased as those of rival intermediaries became smaller. Due to his monopolistic position, Samokovetza was willing to charge less commission while the state was able to somewhat increase its revenues. At the same time his clients were still importing their goods at low price.

In order for the monopoly of Samokovetza to function successfully, his representatives had to carry out an enormous amount of “organizational work,” from payments to customs officers to the coordination of the “guide-women”. The expectations for the change of the UDF ruling party with the National Movement Simeon II after the June 2001 elections brought about a collapse within the monopoly structures. Samokovetza’s big rivals in the smuggling business managed to take advantage of the changing political environment and to quickly adapt to it. Samokovetza tried to preserve what his position by fragmenting his organization and giving parts of it to his allies.

One of the people who continued to work for Samokovetza was Tzvetan Vassilev–Hafti.⁶⁰ The information on his activities and schemes came to light following a police operation. In the view of some of his competitors, this operation, although supposedly against him, was in practice pointed more towards eliminating his competitors. The action undertaken in the summer of 2002 along the border with Turkey seriously affected the business of his competitors Bazdat and Abdusalam Ibrahim–the Doctor, and completely ousted some other competitors, such as Lescak–the Pole. Despite these operations, Samokovetza and his former associates could ensure the support that they previously got from corrupt officials at the customs, the police and the judiciary, who ensured much of the late 1990s unfettered border passing and stable incomes.

By the end of the summer of 2001, the pre-monopoly structure of the import of Turkish goods had almost been restored. The intermediaries that inherited

⁵⁹ 168 Chasa, 19 December 2003

⁶⁰ Interviews with MoI officials, Sofia, February 2004.

Samokovetza, were involved with the trafficking of more limited amounts of goods, whereas the substantial quantities were distributed among multiple other participants. The major smugglers continued to operate also during 2004.

5.1.5. Transport Companies and Smuggling

An important element in the system of smuggling of Turkish goods are the **transport companies** that operate the **small 8-10-ton trucks**. The main advantage to smuggling of that type of vehicle is that small traders usually use them to transport small quantities of a wide variety of goods. This makes them very difficult to inspect. They are usually overloaded making it easy to conceal some goods and declare much smaller quantities than the ones actually transported. These companies owning such trucks rarely use TIR carnets and their owners, usually sole proprietors, are willing to undertake high risks. Their exact number is not known, but they are probably more than 1,000 because they provide services to the trafficking channels for Turkish goods for the Balkan countries, including Serbia and Montenegro, Macedonia, Bosnia, and Croatia.

During the interviews, trailer-truck drivers pointed out more than once that small truck owners take very high risks. In their opinion, their drivers often do not know the exact content of the cargo and risk even the possible transportation of drugs. Up until the summer of 2002 a number of the owners of small trucks were actually customs, police, and other border control officials. After a police operation against the gray import through the Turkish border in the summer of 2002, and with a special order of the BCA, the ownership of customs officials of such transportation companies was strictly prohibited. By 2004, the only border authorities that participated in such transportation firms were employees of the Road Taxes and Permits Directorate. The attempts on the part of the Turkish control bodies for intercepting these trucks were very much welcomed by the management of the BCA but, still, there is no evidence that there will be a complete prohibition of their activities because such an order would obstruct the export of Turkish goods—something that is understandably not wanted by the Turkish authorities.

In addition to the above-described structures supporting the smuggling of Turkish goods—the “guide-women,” warehouse markets, and the transport companies—there are other parallel structures that work at lower level. One of these parallel schemes involves the old regional bosses of the security companies who usually gather between five and ten small traders who import Turkish goods and arrange for these traders the illegal smuggling. Instead of “guide-women,” they use “agents” or forwarding companies (which have agents of their own) that ensure the successful crossing of the border and the duty-levying. These small traders do not need the bigger centralized markets and prefer to sell the illegally-imported goods directly at their shops.

Another parallel scheme, which is applied mostly for the import of fruit and vegetables, is the shuttle trade carried out by local people living in the border region. The locals cross the border with small amounts of goods, but, in contrast to the other shuttle traders, they store them in their small town. The truck of the respective gray businessman picks up the cargo from these small storage facilities and takes them to the bigger towns where the goods are sold through the semi-legal retail networks.

5.1.6. The Shrinking of Illegal Turkish Import

As early as the end of the 1990s, the BCA delineated a strategy for reducing the losses for the national economy caused by the illegal trafficking of Turkish goods. There were two main objectives: gradual increase of the duty-levied value per unit of import (kg) and enforcement of requirement for importers to declare the whole amount of imported goods. At the macro level, the data for the last four years (2000–2003) indicates a successful implementation of that strategy even during the above-mentioned crisis period at the beginning of 2001 (See Table 8).

Table 8. Import of Turkish Goods

	2000	2001	2002	2003
net weight (kg)	265 558 049	260 589 809	314 487 762	464 016 623
customs value (BGN)	264 767 290	339 669 007	514 399 322	768 603 455
price per kg (BGN)	1.00	1.30	1.64	1.66
increase of weight		-1.87	20.68	47.55
increase of value		28.29	51.44	49.42

Source: Bulgarian Customs Agency

The optimistic interpretation proposes that in 2001–2002 there was a sharp increase of the declared customs value of imported goods (by 51.40%) including a 64% increase in the declared price for 1 kg. In 2003 these two values increased only slightly, but that happened while there was sharp increase of the declared volume (net weight) of imported goods (by 47.5%). As a result of the increase in these three indicators, the customs were able to collect record-high duties. There are, however, skeptics who claim that the main factor for the increase of the declared value of duty-levied goods in 2002–2003 was the increase in exports that accompanied the recovery of the Turkish economy and were supported by the Turkish government. The other explanation is that the increase of imports of Turkish goods was part of the trend of overall increase of imports in Bulgaria from the EU and Asia. Neither explanation, though, provides evidence about the reasons for the increase in the value per 1 kg. of goods.

The Joint Operation of the National Service for Combating Organized Crime and the Bulgarian Customs Agency, May–June 2002

In compliance with a plan approved by the Secretary General of the MoI, during the period 28 May–14 June 2002, the National Service for Combating Organized Crime participated in a specialized police operation that included thorough customs inspections of 657 vehicles that imported goods through the border crossings of Kapitan Andreevo and Svilengrad in that period. Eight companies importing fruit and vegetables, five food and confectionery importers, and seven industrial goods importers were identified. All amounts of commodities imported during the above-specified period were strictly documented. The analysis that was undertaken by means of comparing these amounts with the ones documented during the preceding time span of seventeen days indicated that with reference to the group of fruit and vegetables the declared amount of import during the monitored period had increased with 17,441 kg, or by 59%.

With respect to food and sugar products there was a decrease of 93% of declared imported quantities, a decrease of 5.9% of the total amount of imported goods in net weight, as well as an increase of 5.7% in the paid VAT and of 5.4% of the total customs duty paid. For the whole monitored period, there was an increase from 4,387 to 7,963 kg of the quantities of food and sugar products imported with a single vehicle. The conclusion is that the average monthly defrauding of the state budget was of over €63,000.

With respect to industrial goods, a comparison indicates that during the time before the monitored period, of the total import 62% was realized by companies under the control of Abdulsalam Ibrahim—the Doctor, and the remaining 38%—by companies controlled by Tzvetan Metodiev Vassilev—Hafti. During the NSCOC operation, this ratio changed and 79% of the import was under the control of Vassilev, and 21% was realized by Ibrahim's companies. At the same time, the total declared amount of import increased by 138%.

The general conclusion from the NSCOC operation was that the most frequent violation was that the invoices of the imported goods were fake and stated prices 10 times lower than the actual ones. In addition:

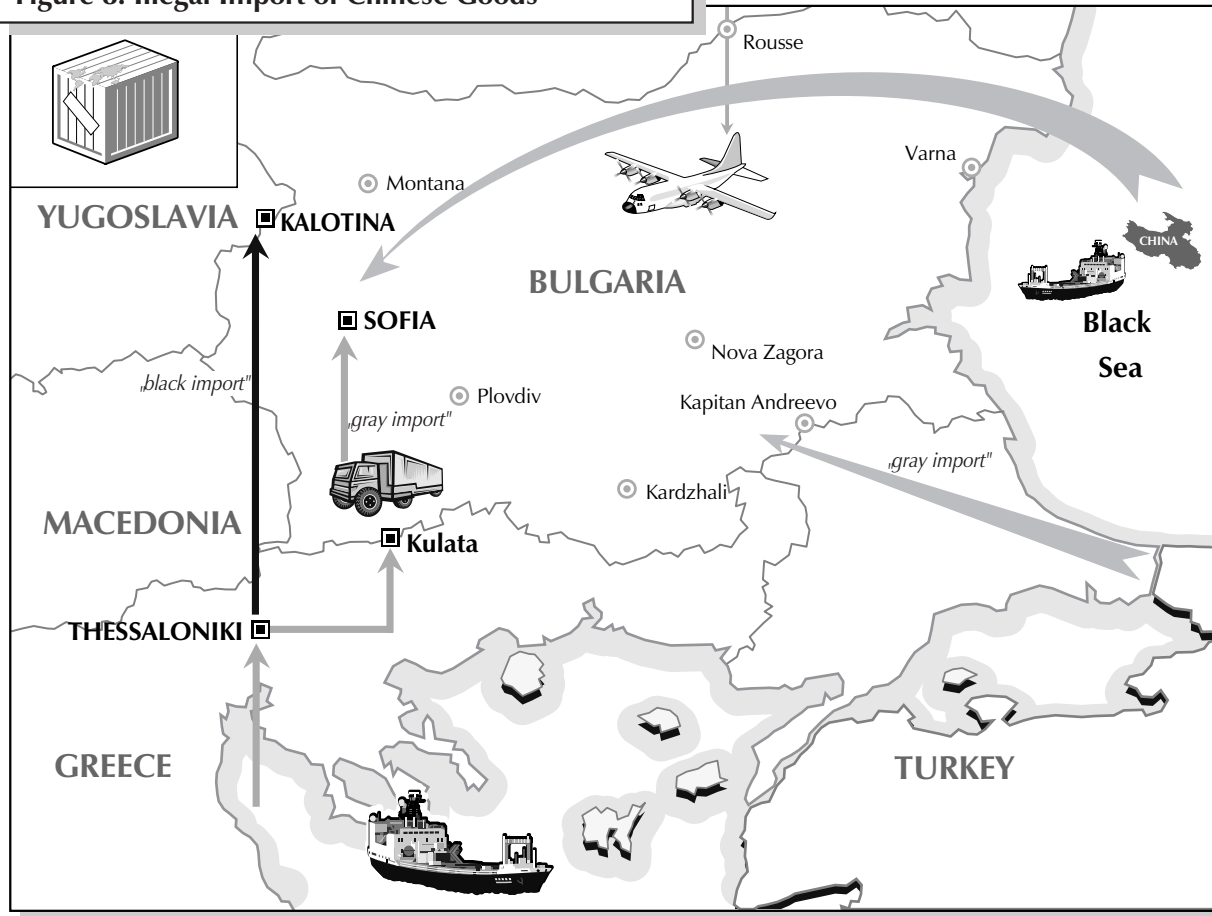
- By using fake invoices, the commodities produced in third countries (China, India, Indonesia, the Philippines, and others) were presented as manufactured in Turkey—the objective was to take advantage of the preferential customs duties established under the customs agreement between Bulgaria and Turkey;
- The VAT on imported goods is defined on the basis of the prices listed on the fake invoices, i.e., the accrued and paid VAT is several times lower than the actual value-added tax due;
- There are missing attachments to the customs documents about paid import transport service and a certificate for cargo insurance, which are obligatory according to the Customs Law;
- The revenues of the transport companies were not declared to the tax authorities. The sum paid for the transportation for the Bulgaria–Turkey–Bulgaria run is €500.
- A significant number of the transportation vehicles used for the import of goods were actually owned by customs officers or people of their circle.

(The data for the above operation was provided by the NSCOC)

5.2. CHINESE GOODS

From the middle of the 1990s the import of Chinese goods became one of the most important sources of income for the gray economy and organized crime in Bulgaria. According to the customs authorities, close to 80% of the import is done through Thessaloniki–Promahonas–Kulata route (See Figure 8). The rest of the import of Chinese goods passes through the Port of Varna, while high-value goods pass through Sofia airport. In addition to the 300–350 containers of Chinese goods that pass through the Bulgarian–Greek border, 140–160 of Chinese goods containers enter from Turkey. These containers are officially registered, though, as Turkish goods, as Bulgaria imposes lower import duties on Turkish goods. There is no verifiable information on the amount of Chinese goods that enter from other countries and are registered as EU-made goods.

Figure 8. Illegal Import of Chinese Goods



5.2.1. Participants in Cross-Border Smuggling

In order to understand the risks for **Chinese goods smuggling**, the **criminal and semi-legal infrastructure that supports it** must be described. This infrastructure includes a number of companies, experts, and individuals that provide a wide range of illegal services. These services include, among many others: the concealment or transportation of smuggled goods; privileged treatment by the customs authorities; threats and attacks on companies and individuals that obstruct smuggling channels; falsifying records, such as these of the chemical composition of imported goods. There are four groups of structures or four levels that comprise the network for Chinese goods smuggling.

1. **The Chinese merchants:** The first group that is at the heart of the smuggling scheme consists of **clusters of families of Chinese citizens permanently residing in Bulgaria**. They finance the biggest part of the import of Chinese goods. They have well-established relationship with Chinese producers and exports in China. These relationships guarantee them prices that are much lower than the prices offered to non-Chinese traders that try to import goods from China. Their contacts in China also ensure regular deliveries and high-quality goods. The payments are usually transferred through offshore banks or banks in other Asian countries with large Chinese diaspora. Thus, any attempts to match money transfers to China with imported goods would prove fruitless.

There is a **strict hierarchy** among the clusters of families in this group of Chinese merchants. The most influential cluster consists of about **ten families**. According to some police and customs officials, as well as members of the Chinese community in Bulgaria, these ten families are supported by the Chinese state. Due to the closed character of the Chinese community, the available information about the activities of these families is contradictory. As for the Chinese community in Bulgaria, it remains unclear whether the apparent success of some families is due to their entrepreneurship or their connections to the Chinese government.⁶¹ The rapid growth of the Chinese community in Bulgaria until 2002 made it difficult to differentiate between importers and various other entrepreneurs such as shop and restaurant owners.⁶²

Around this core group of influential families, a number of small and medium-size family-run trading companies function. In addition, a number of Bulgarian trading companies also import Chinese goods. They use the criminal and semi-legal structure described below⁶³ only in part.

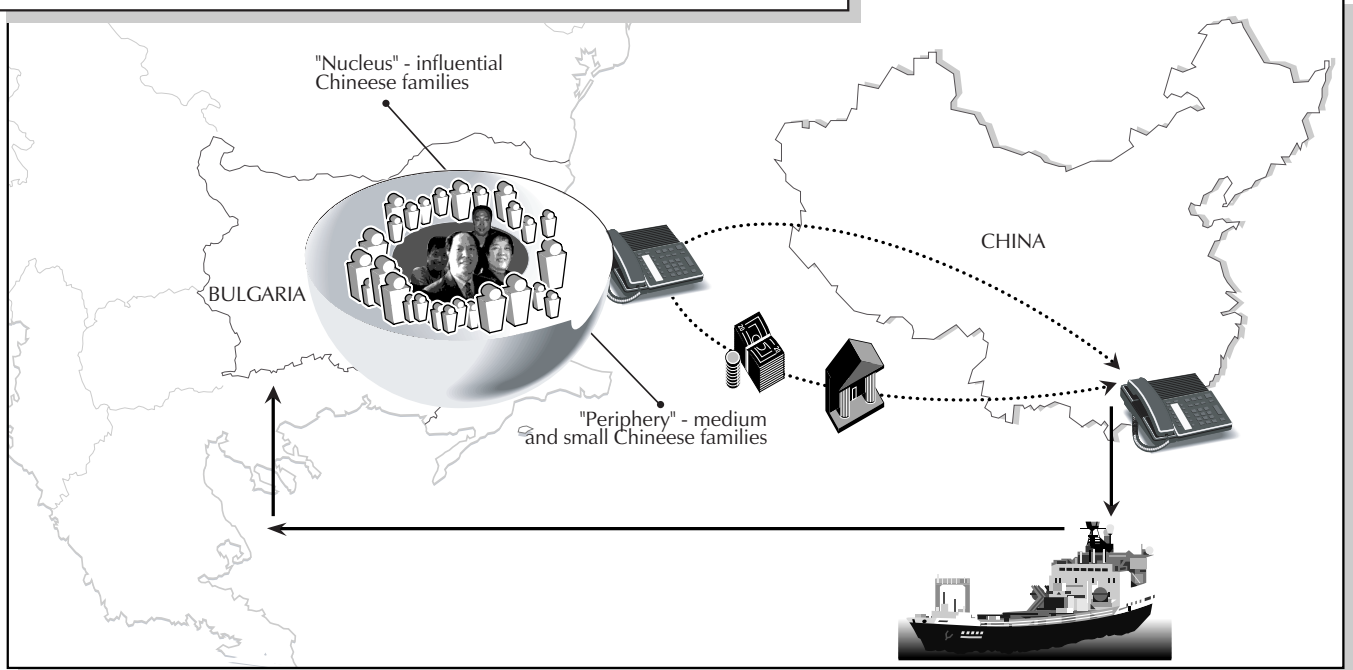
2. **The Security Companies:** The second group includes a number of semi-legal or criminal groups and companies. They usually extort money from the importers who want to gain access to wholesale markets and warehouses, such as Illiantzi (in Sofia) as well as the duty-free zones. In exchange, they provide security to the wholesale areas and the smuggling channels. In the mid-90s, when the smuggling of Chinese goods became a regular practice, most Chinese merchants chose the Illiantzi wholesale market as their main wholesale distribution point in Bulgaria. At that time, Illiantzi had already gained status as a “warehouse market” for smuggled Turkish goods. In order to gain a spot at the market, the Chinese trading companies, similar to Bulgarian, Turkish, and Arabic ones, needed to pay to the security companies, who controlled this market.

⁶¹ This might mean that “family ties” are actually state support ensuring loans and safe delivery of cargoes for the chosen families. But critics of this hypothesis claim that most large Chinese importers, who have moved from former Yugoslavia or Romania to settle in Bulgaria, have lost connection with the Chinese state and run independent businesses.

⁶² Chinese imports and the broader topic of this comparatively new ethnic community in Bulgaria cannot be considered separately. In addition, developments in the last decade have created a need for special extensive research into the problems posed by the illegal immigration channels through Bulgaria to Western Europe and these “new minorities.”

⁶³ It is not clear whether the core cluster cooperates much with the outer clusters. Although the core cluster is almost hermetically closed, it has members that are in contact with Bulgarian society. These individuals are mostly in mixed marriages with Bulgarians but are kept outside the immediate circle of the core.

Figure 9. Chinese Families and Chinese Goods Import



Merchants claim that the man who started and controlled this structure was Meto Illianski, who was succeeded by Lyubo Chetvorkata (also known as Lyubo Illianski) from 2001 onwards. Some of the Chinese traders at the Illiantzi market tried to boycott the racketeers in 2001, after the market was privatized,⁶⁴ only to provoke a series of thefts, incendiaries, and tax inspections.

As the **Chinese families** started paying for their access to the Illiantzi market in the late 1990s, some of the more influential ones **resorted to the services of Bulgarian organized crime** to gain and also retain their positions. Chen Shian, known as the Big Chen,⁶⁵ who was deported from Bulgaria in 2001, is a typical example of these relations. However, serious incidents have stopped since 2001. The Chinese merchants claim that little has changed since Meto Illianski's disappearance in November 2003. They pay the same protection rackets, €500 to €2,500 per month for a market stall, or for a stall plus a warehouse. The amounts extorted depend on the type of goods merchants import. If any portion of the goods is concealed, racketeers punish the trader.

3. **The Intermediaries.** Intermediaries secure cheap border crossing into Bulgaria of Chinese goods. Thus, they manage to compete with the initially stronger Turkish and Bulgarian commodities. Price-wise, Chinese goods *are* a rival, but they couldn't match the cargo entering through established smuggling channels used by Bulgarian, Turkish, and Arabic entrepreneurs most of whose business is semi-legal and has been protected by Bulgarian organized crime since the 1990s. Chinese

⁶⁴ Since no verifiable information is available, the relations between the market warehouses' new owners, their agents, and the former racketeer company are not examined in the present report.

⁶⁵ See *Monitor*, 9 March 2001; *Sega*, 9 March 2001. It is believed that she currently lives in Greece, continuing her collaboration with the "big four" (that is, the big three plus Lyubo Chetvorkata) in the importation of Chinese goods which is discussed below.

containers and *cargo trucks* at first used the Danube Bridge border crossing,⁶⁶ and later switched to Sofia Airport where they were shielded by the respective racketeer groups.

As in the case with Turkish goods, **the role of the intermediaries** remains of prime importance to the smuggling schemes. They have to secure the in-country movement of the goods (or, with Chinese goods, their trip from the Port of Thessaloniki to Bulgaria) until they reach the warehouses. The most expensive part of the smuggling is the customs clearance, followed by duty collection at a suitable customs bureau at the right price. According to the interviewed importers, forwarders, police, and customs officers, Chinese import requires a variety of intermediaries. Following the labels given to them by customs officers, they can be broadly divided into the “the big” and “the brokers” (that is, of medium power).

It is considered that at least 60 % of Chinese imports (at the start of 2004), are run by **the big intermediaries**. Since 1998, at any one time, there have been between two and four individuals at this level. Each of them controls a criminal network comprising, in some of the cases, up to 200 people. Another significant part of the Chinese goods imports is controlled by smaller intermediaries, called “**brokers**”. They handle from 3–4 trucks a year to 4–5 per week. The channels and the associates that the brokers use are not fixed but change depending on the conditions around each smuggling operation. Sometimes, brokers deal with the problems in stages. An example for a limited service could be a situation where the forwarder’s truck passes the border’s customs post legally, but the broker connects them to a corrupt official at a customs post in the interior of the country. It is at this customs post where customs duties are paid and with the broker’s help the forwarder pays a lesser amount than the required one.

The main advantage of intermediaries is that information about the actual value of goods is unavailable since Chinese authorities, like the Turkish ones, do not cooperate with Bulgarian customs. This makes possible the import of goods at false, lower prices, and consequently lower customs duties and VAT.

4. **The wholesale markets.** The distribution of Chinese goods on the domestic market is also a good environment for violations. In the mid-1990s, the Illiantzi wholesale market allowed importers to access not only Bulgarian retailers, but also retailers from Serbia, Macedonia, Bosnia, and even Croatia and Albania. Even after the economic stabilization (following the establishment of a Currency Board in 1997) and the spread of multinational department store chains after 2001, the gray retail and wholesale businesses persist and continue to facilitate tax evasion.

The gray structures, far from being big centralized organizations, are a rather **disordered assortment of structures, combining tens of networks and involving thousands of trading companies** from warehouses to roadside stalls. They are extremely competitive due to the wide range of false documents they offer (from VAT invoices to certificates of origin) which enable very low consumer prices. Illiantzi is a

⁶⁶ They used the Chinese import channels already established in Romania. Chinese trading communities first formed in Romania, where many Chinese students resided during the Chaushesko regime.

source of customized VAT invoices⁶⁷ to the numerous ex-Yugoslav traders, who could not get them at the Metro department store, for instance. Thus, they can fully compensate for the VAT when they return home and they also get full logistic support, such as loading and transport. Bulgarian retailers have a whole range of options at Illiantzi as well, corresponding to the risks taken: they can choose between fake invoices mostly printed in the Roma-populated neighborhoods of Sofia to invoices supposedly issued by large Western companies.

These semi-legal retail networks do not automatically grant success, but follow the ordinary competitive market principles. One's profitability depends on how competitive their prices and commodities are. That does not mean, however, that organized crime is unrelated. The former security companies control in many towns the municipal markets as well as the issuance of sidewalk stall or kiosk permits. Through this network they have created a typical oligopoly market. Although this network coexists with thousands of other retailers and the big department stores, the security companies control the best market locations, have much higher profits margins and have the largest market share. **The gray networks also supply a number of luxury stores and boutiques in downtown Sofia and customers can hardly distinguish between original brand goods and Chinese fakes.**⁶⁸

In addition to all structures described above, a number of law-enforcement and judiciary officials join in to mediate between gray businesses and top officials from their institutions. This echelon that includes lawyers, police officers, investigators, and judges supports the criminal and gray economy all over the country. Chinese imports could hardly be competitive without its existence.⁶⁹

5.2.2. The Big Intermediaries

As the present report focuses on the role of the transport industry for the functioning of organized crime networks, the intermediaries deserve special attention as a group. So far, there has been a single radical shift in the structure of the Chinese goods import market. In October, 2000, the late **Konstantin Dimitrov, a.k.a. Samokovetza**, established a monopoly⁷⁰ over gray import and smuggling (described in part one of the current chapter). Interviewees at the Greek border, the main inroad for Chinese imports, repeatedly quoted him saying: "You pay *me* 5,000 leva (2,500 euros) per container, or you pay the state 50,000."⁷¹ The customs officers interviewed claimed that during the monopoly period, high customs or Mol officials would send a list of the companies that had paid Samokovetza, which meant that all the other companies had to be inspected.

⁶⁷ The invoices were issued on the name of actually existing companies. Fake invoices went out of use after electronic information on registered companies became available.

⁶⁸ The network of boutiques also has the peculiar "social" function of providing jobs to the girlfriends of criminal bosses and their aides.

⁶⁹ On the interaction with law-enforcement and the judicial system see: *The Drug Market in Bulgaria*, Center for the Study of Democracy, Sofia, 2003.

⁷⁰ All interviewed drivers, forwarders, traders, customs, and Mol officers have agreed with regard to the time when this shift happened.

⁷¹ Interviews with customs officers and drivers, Sofia, February 2004.

Another “incentive” pushed by Samokovetza so that companies would obey his monopoly was a decrease of his fees: instead of the traditional €15,000⁷² per 40-foot container of smuggled Chinese goods he charged only €11,000–12,000. The duration of this monopoly was around 6–7 months. The revenue gathered in that period by those who run the monopoly is easy to calculate, having in mind that the average monthly number of illicitly imported containers was between 250 and 300.

After the 2001 elections, which brought change of the ruling majority, intermediaries gradually returned to the previous organization of business, while Samokovetza’s network disintegrated. It was at this point that the group of the three large intermediaries was formed—the **Chinese Doctor, Niki Kitaetza (Niki the Chinese), and Niki Pileto (Niki the Chicken)**. Their names are frequently mentioned by traders, customs officials, the media, and even politicians. Pileto, who was Samokovetza’s main associate during the monopoly period, attempted to set up an independent network. In April, 2002, he was threatened by bomb blasts near his home and his girlfriend’s offices, which tossed him back to Samokovetza’s sphere.⁷³

In the summer of 2002, a series of measures taken by the customs administration to shrink gray imports forced some of **the big three to move from entirely criminal to semi-legal or gray imports**. Reportedly, Niki Pileto was the one that decided not to legalize his business. A number of investigations that became public in 2003–2004 allow for a description of the smuggling schemes.

The smuggling schemes

An investigation conducted jointly by the Sofia police and the customs uncovered that roughly 300 containers with Chinese cargo had passed through the Kulata border crossing as “construction materials” between the summer of 2002 and July 2003. The levies due to the state for such amounts of construction materials are approximately €1,000. The levies due for the actual shipment were €20,000. Thus, in this case alone, the state was robbed of €5–6 million.⁷⁴

On 19 July, 2003, the police arrested eight trucks (in a single smuggling scheme). The operation had been prepared for a month and was carried out upon a signal. There is evidence in the investigation that uncovers a number of rules involved in the operation of such a channel, among them certain economic prerequisites. As noted above, the customs administration pursued a course of levying cargo by its real value which started in mid-2002. Thus, cheap Chinese goods import became increasingly unprofitable. Up to then, the smuggling of these goods at the lowest price had brought profits equal to those from cigarette smuggling, with the only difference being that Chinese-produced articles have a really huge market.⁷⁵

The investigation also showed that the perpetrators had known the system inside out. Containers were shipped through the border on the busiest days, that is, on Fridays,

⁷² In the late 1990s, containers with Chinese cargo were trafficked as follows: the trader gave € 15,000 to the intermediary who had to smuggle in the container, with which he was supposed to pay all taxes, duties, fees, and bribes.

⁷³ See *Noshten Trud*, 21 April 2002; *Dnevnik*, 22 April 2002; *Capital*, 26 July 2003.

⁷⁴ Interviews with customs officials, Sofia, February 2004.

⁷⁵ Goods such as clothing and footwear costing between 1 and 10 leva are quite attractive since they can always be marketed among large groups of the population whose solvency is rather humble.

when the truck flow reaches 220–250 trucks, whereas on other days it is a normal 170–180 trucks. So the trucks of Niki Pileto would pass on Fridays. Trucks would travel by night or at weekends to avoid being checked by the Crown Agents mobile teams.

In addition, some of the importers turned out not to be registered under the mandatory BULSTAT database of business entities. Their owners/representatives also used fake personal identification numbers. The transfer of the 300 containers through the Kulata border crossing had been aided by at least six customs officers. The whole chain of customs control had been corrupt—from the shift supervisor who ensured there would be no inspections, through the officers who inspect the documents, to the officer who had to enter the cargo details in the customs' electronic information system (BICIS). The imported goods had been registered as "household appliances" or "construction materials" which were certain to escape attention due to the usual large-volume import of such goods from Western Europe.

Inland customs offices determining the customs duties were also secured. According to documents, the cargo was levied at a number of customs offices throughout the country, in the small towns of Gorna Oryahovitsa, Gabrovo, Sevlievo, Kalotina, or in bigger cities like Bourgas, and Varna. The main objective was to eschew the follow-up control in Sofia. The only exception was the customs office in Gorublyane, Sofia, where corrupt officers also served Niki Pileto's network. There is one more issue which has not been discussed so far, namely, if such a huge channel could have possibly functioned for so long without the aid of the Greek customs authorities.

Despite the bilateral cooperation, the Greek authorities have been quite unresponsive, providing only scant information of incoming goods, behind the excuse of the pending elections and Summer Olympics. In April, 2004, it became known that during the first half of 2003, 88 containers of MGS Ltd. owned by Niki Pileto had crossed the Kalotina border without undergoing customs inspections. Before that the cargo was unloaded at the Port of Thessaloniki (Greece), loaded on trains and trailer-trucks, shipped through Macedonia and then through the Serbian border crossing Gradina reached the adjacent Bulgarian crossing point of Kalotina. Before the cargo entered Kalotina, however, its documents were substituted. Four customs officers were dismissed after the April case. They accused their superiors of ordering them to let Chinese goods through without inspection.

Some customs officers (who wished to remain anonymous) claimed that the smuggling channel through Kulata was still in operation,⁷⁶ despite all disclosures made at the border crossing. A variety of schemes are reportedly still employed to import Chinese goods, which are usually declared as fabrics and other materials supplied to South Bulgarian dressmaking companies by Greek customers. Goods are also sometimes declared as second-hand clothes from Western Europe at other Bulgarian border crossings. There are even some rather unique cases, such as the import of 50 containers of Chinese goods through the Danube port of Rousse, described as toilet paper and other sanitation supplies, for which duties were paid at small-town customs bureaus like Gabrovo and Lovech.

⁷⁶ The previous customs director Emil Dimitrov replaced all customs officers at Kulata with teams from the Kalotina border crossing. Some MoI officials claim that officers at both customs points had had a long-standing cooperation, which the intermediaries deftly used.

The disclosures in the summer of 2003 show some of the actions used to **protect the high-level intermediaries**: brazen arrogance, brash physical violence, and pressure on law-enforcement and judicial bodies. In July 2003, the Sofia regional police directorate detained eight trucks after catching them at the moment they had removed the customs seal from the border's customs post and were transferring the cargo to other trucks. Their intention was to then load the cargo with building materials, reseal the truck and drive it to the customs office where lower duties would have been paid.⁷⁷ The police sealed the trucks and moved to the customs supervised warehouse, where police guard was also assigned. When an inspection was made on the following morning, the content of the trucks turned out to be construction materials and the Chinese goods had disappeared. As the investigation showed, Niki Pileto had attempted to bribe and then had threatened the police guards, who eventually let him change the cargo. In addition, a corrupt customs officer had been brought by Niki Pileto and had sealed the trucks as if nothing had happened.⁷⁸ As the investigation progressed, a number of policemen, customs officers and even a district prosecutor tried to bail Niki Pileto out. Ultimately, he was released in October 2003, despite the fact that he had threatened public officials and despite another pending smuggling trial. He had also been charged with rape.⁷⁹ After the channel through Kulata used by his trucks⁸⁰ was uncovered, he shifted to traffic through Kalotina. Here the question remains of what are the other two large intermediaries doing. Pileto is not more important than them.⁸¹

The Gray Imports Schemes

Besides the outright large-scale smuggling operations of the large intermediaries, a huge portion of the Chinese cargo is trafficked along smaller scale gray channels. The analysis of the data the CSD team gathered indicates that at present, **in order to minimize risks, a very intricate system of quasi-legal import is in operation.** Without going into details or multiple individual cases, the pattern set in the late 1990s is as follows:

- **The merchant**, whether one from the nucleus or the periphery of the business, orders the goods to his intermediaries in China (usually members of the extended family), paying for it either through an offshore bank or a bank in outer China. Note that cargo and cash take different routes here. The cargo arriving at ports/airports is an anonymous property, that is, property of a claimant in possession of a consignment note. Transportation costs are also covered by the

⁷⁷ For more details, see the national dailies from the period 20–30 July 2003.

⁷⁸ The readiness, availability of the necessary materials to seal the trucks, and the prompt completion of the operation within a single night are worthy of notice.

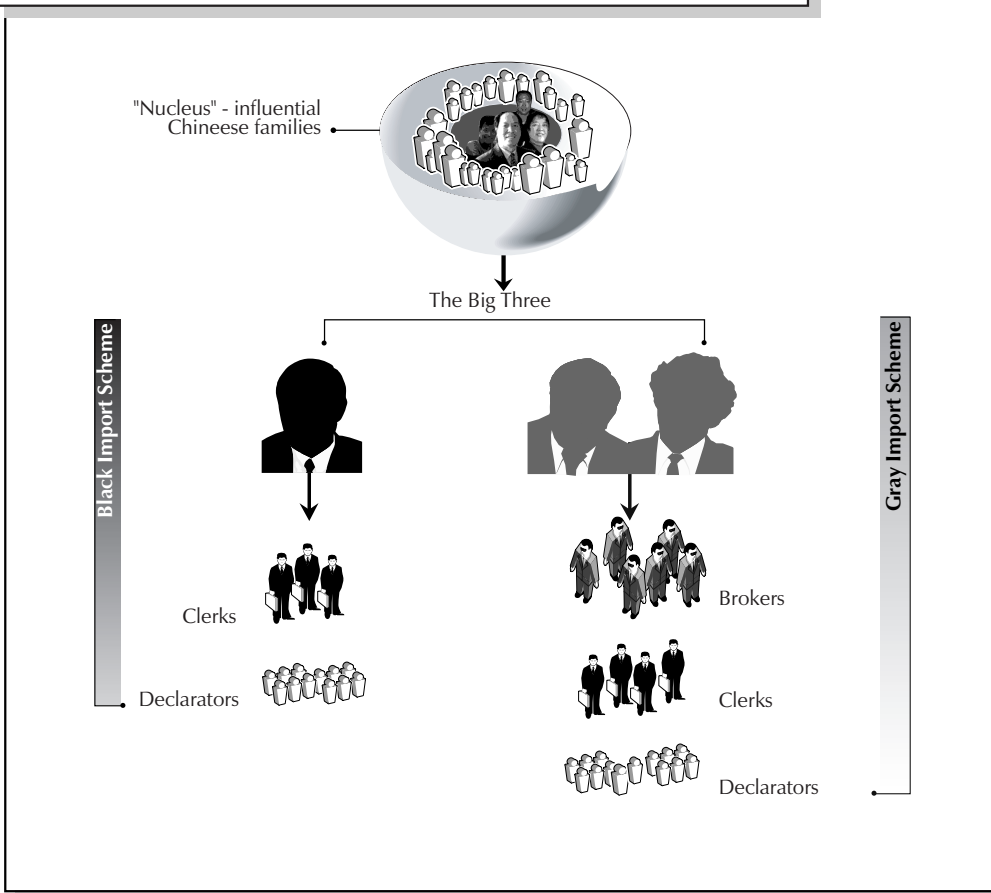
⁷⁹ "Niki Pileto's Associates in the Customs Seized," *Banker/Paragraph* 22, 31 January 2003.

⁸⁰ Niki Pileto's company has 15 trucks and it is curious why he continues to use it, since its business is common knowledge at both the police and the customs services. He has an impressive experience in working via fake companies. One explanation of this paradox might lie in the sentence ascribed to him: "My company transports, but does not pay duties."

⁸¹ The answers which the CSD team got to these questions made the picture look even more complicated and messy. However, the aim of this report is not to discuss the multitude of contradictory statements, such as the claim that there were informers of the National Security Service among the customs officers sacked from Kalotina border crossing or "information" about which circles of former customs managers and which intermediaries used the media as a means to tarnish their rivals.

merchant.⁸² The consignment notes themselves are sent by express mail as valuables. At this point, the Chinese merchant contacts the intermediary to deliver the note to him.

Figure 10. Chinese Goods: Black and Gray Import Schemes



- **The intermediary** is supposed to find a trading company to assign the container to, a forwarder to deal with the consignment note, a carrier, etc. Such operations cost the merchant from €11,000–12,000 to €25,000 (depending on the type of cargo) which he gives the intermediary for the delivery of a single container to a particular warehouse. The sum is supposed to cover all taxes, duties, fees, and bribes. The intermediary’s main task is to collect the cargo from the Greek Port of Thessaloniki (occasionally from Varna, or from Sofia airport if the cargo is expensive), and then to transport it through the customs post (the border crossing of Kulata in most cases) and pay the duty at an inland customs office. Whatever cash the intermediary manages to salvage from any of the stages (transportation, forwarding, and duties), he takes as his due commission. Intermediaries are chosen as a result of complicated client interdependencies or severe competition among the intermediaries themselves. Among the large intermediaries in gray import are the Chinese Doctor and Niki the Chinese. Among the lesser

⁸² The average cost of the transportation of a 40-foot container from China to Thessaloniki Port is USD 4,000; to the Port of Varna it is USD 4,400. The cost for air transport from China to Sofia is USD 1 per kg.

intermediaries, the more significant ones are Irina Debelata (Fat Irina), Zdravko Prokurora (Zdravko The Prosecutor), Toni Vietnemetza (Toni the Vietnamese), Chau, etc.⁸³

Large intermediaries have specialized in Chinese goods and their numbers have varied during the years. The smaller intermediaries do not usually specialize strictly in one type of goods. They also handle goods from Turkey and Dubai, meat, vegetables, etc. They work in network, sharing associates to which each pays a certain fee. If a particular intermediary's client has got a problem at a customs office and the intermediary is not close to any of the key personnel, he finds another, better connected intermediary. The two intermediaries then have to share the profit. These smaller intermediaries or **brokers**, follow a kind of free market principle, competing for clients and contacts. They come from different backgrounds: former and current customs officers and even regular tradesmen. To enter a broker network they have to offer certain resources in exchange of this participation. These resources are generally a portfolio of suitable men and contacts, in the most popular case—customs officers in the right places.

- The intermediaries get in touch with the lower level participants. These are fairly independent, although some of the big players keep some “full-time staff” for follow-up activities. Intermediaries also set-up nominal **companies**, usually on the name of students, pensioners or poor Roma. In case of any hindrances, these companies can easily be closed down. Another specific low-level group is that of the **clerks**, considered as the lowest level of intermediaries. Although clerks happen to attend to a client without “talks” with superiors, they do not have the means to be properly called intermediaries. In fact, their basic function is to handle the necessary importation documents. However, clerks often do not even have an office or registration and are separate entities constantly on the move and at the disposal of intermediaries. The system is additionally supported by other low-rank doers—the so called **declarators** hired to represent the importer. Such an individual is needed because pensioners, students, or Roma people are not qualified to do this. Thus, in case of failure, it is the declarator's name that will be registered in the BICIS (and he will have to change his line of business). Declarants are paid from €10 to €15 a day to queue at institutions' doors and handle the necessary documents.

Besides employing low-rank middlemen, the top intermediaries have to secure their own “transport infrastructure,” i.e. loyal carriers and forwarders, as well as customs and police infrastructure in which customs, border police, local police officers, and special service officers are networked. Apart from the freelance clerks–declarators pattern, intermediaries may legally use expert assistance, namely companies called customs agents. The latter divides the cash between border and inland customs officers, completes the goods customs declarations, handles the TIR carnets, etc.

The biggest customs office in the country—that of Sofia airport, which has turned out to be yet another ring in the Chinese goods chain should also be considered. Budget revenues collected at Sofia airport customs are either the largest or the second largest every year. It attracts the attention of criminal and semi-criminal structures. A

⁸³ Most mid-level intermediaries are not mentioned in this report as they have not yet been publicized by the media.

report of the National Service for Combating Organized Crime on this customs bureau shows that its director Boryana Emilova had created an orderly system for imposing lower duties on certain risk goods. The customs investigation, however, could not prove her guilty. She was nevertheless removed from her position and went on unpaid leave.

From the interviews, one can conclude that her system was operative for nearly a whole year—from May, 2003 to February, 2004. The man that remained in charge of “fee collection” was Zhoro Purata (Zhoro the Cigar). Interviewees asserted that he was the unofficial collector handling clients’ contributions and distributing them upwards—to criminal group bosses, customs and Mol superiors, and downwards to simple performer. On a good month, the amount to be distributed would reach € 250,000. As evident from the beatings of customs officers in late 2003, discipline within the system was kept through physical violence.⁸⁴ Zhoro Purata is comparable to the boss of Illiantzi in that he is probably accountable to higher-standing figures.

As in the case with Niki Pileto’s containers, the BCA got close to crushing the system by pure chance—only after some incidents related to the beatings. Customs authorities decided to ban the levying of risk goods at Sofia airport customs posts. The decision did not disrupt Chinese imports in any significant way as cargo traffic was diverted to similar customs bureaus. But it serves to topple a system earning huge incomes to organized crime.

5.2.3. Transformation of the Organized Crime Structures

An indirect estimate of the state budget losses incurred through such schemes can be done by comparing the customs data for the last three years. Its statistics show that duties on imported Chinese goods have brought an additional €160 million, reaching an annual total of €218 million in the year 2003. This 250% increase was achieved at a mere 15% rise in domestic consumption. It can be deduced, therefore, that the losses of gray business and organized crime amounted to about €150 million as compared to the year 2000.

In spite of the significant reduction of smuggling and gray import, the structures described above have not ceased to function. Their activities, however, have been transformed and reduced by several additional factors. Legislative changes made it **more difficult for Chinese nationals to gain permits for conducting economic activities in Bulgaria.** Between 2001 and 2003 the number of active companies owned by Chinese nationals has dropped due to an amendment in the Law on Foreigners that allows permanent residence solely to foreigners whose companies hire fulltime at least ten Bulgarian citizens.⁸⁵ The Chinese families’ cluster of merchants has also thinned. Yet, these developments have touched mostly the small Chinese importers who have been compelled to leave the country.

The change of government in mid-2001 was the second factor, leading to a restructuring of the criminal networks. In 2002 some large criminal formations lost

⁸⁴ Zhoro Purata also fought his way up to his collector position by thrashing his predecessor Plamen Shunkata (Plamen the Ham).

⁸⁵ Law on Foreigners in the Republic of Bulgaria, Art. 24.2, amended SG 42/ 2001, supplemented SG 37/2003.

their influence, some dissolved while others changed bosses. The disappearance of Metodi Metodiev-Illianski (Meto Illianski), who controlled the Illiantzi wholesale market, was just an episode from the loss of ground of former racketeer groups controlling the Chinese import. Although it is not clear who sits at the top of these racketeer groups, Lyubo Chetvorkata, the individual appointed by Meto Illianski, has been collecting fees from Chinese merchants and their brokers alike.

The third and perhaps the most important factor of the transformation is the **customs policy to gradually increase the collected customs duties by pressuring companies to declare the real values of imported goods**. This strategy has affected mostly the import of Chinese goods. Toward the beginning of 2002, intermediaries started having a hard time hiding the real prices of imported goods, as the BCA introduced obligatory minimal values for certain groups of commodities.⁸⁶ Thus, intermediaries' fees on top of the mandatory minimal prices became only slightly lower than the value that could be declared if the import was done legally. As a result, large Bulgarian importers that have built sustainable trade relations with Chinese manufacturers opted for entirely legalizing business operations as the additional profits were low compared to the risk involved. Chinese merchants, on the other hand, did not forsake their channels with such ease. They chose instead to start importing better-quality goods, striving at the same time to keep their share of the gray sector profits intact.⁸⁷ The meager incomes of Bulgarian consumers, however, present a problem, since they would not buy better and therefore more expensive t-shirts, for instance. This is why Chinese importers try to preserve the mass market by maintaining low prices. This low-end market can only be supported by intermediaries ready to venture outright smuggling operations.

⁸⁶ The BCA can hardly follow a policy of imposing duties on the actual prices of the goods due to the lack of cooperation by Chinese authorities. In contrast to Western European goods, where each invoice can be verified, Chinese goods importers can very easily state any price they wish.

⁸⁷ An illustration of this strategy offered by merchants is the simple comparison between the prices of imported goods and the expenses for duties and taxes. If up to the year 2000 merchants imported t-shirts bought for 1 lev, and the state got 10 stotinki from it, in 2003, when t-shirt duty became 40 stotinki, importers bought them for 1.3 leva, thus trying to keep their 90 stotinki from the year 2000.

6. CIGARETTES AND OIL PRODUCTS SMUGGLING

Among the commodities most frequently smuggled from the 1990s till the present are those subject to excise taxes (cigarettes, alcohol, oil products, etc.). Concerning alcohol smuggling, the authorities have achieved a satisfactory prevention level with the active support of big private alcohol distributors such as Diageo. Cigarettes and oil product smuggling, however, are yet to be restricted. There is a variety of schemes and participants and the authorities have to use different approaches and measures to restrict the smuggling of these goods.

6.1. CIGARETTES SMUGGLING AT THE DUTY-FREE SHOPS

6.1.1. *Illegal Export Channels*

The smuggling channels in Bulgaria, including those for illicit export of tobacco products, date back to the 1970s. Initially, they **emerged as a result of attempts by the totalitarian state to overcome its economic problems by boosting its foreign currency reserve** through smuggling. The objects of smuggling were “the typical illegal transit goods such as gold, foreign currency, home appliances, cigarettes, alcohol, and others. Smuggling also included the re-export of weapons and ammunition, as well as the export of medicaments restricted by the World Health Organization.”⁸⁸ Until the 1990s, smuggling channels were a matter of state policy and were supervised by the State Security Service. The state smuggling channels were established and operated as part of international smuggling networks. After the 1989 reforms, they fell under the control of individuals of various backgrounds, including former State Security officers.

Illegal trafficking in tobacco products on the Balkans is largely controlled by the Italian family Prudentino, i.e., Prudentino father and son, considered to be among the bosses of the international smuggling network controlling the traffic through the Balkans to Western Europe. The Prudentinos operate the concessions of Philip Morris and RJ Reynolds throughout the Mediterranean. Their close relations with Milo Dzhukanovich, the president of Montenegro, who was already involved in cigarettes smuggling, are widely known. The Prudentinos, however, are not related to the family that bears the same name and is part of the Italian mafia organization Sacra Corona Unita. In 2001, Prudentino Senior was arrested in Greece, but this circumstance has in no way influenced the dynamics of smuggling.⁸⁹

Tobacco products smuggling through Bulgaria has undergone several specific transformations. As a result, three specialized trafficking channels can be identified,

⁸⁸ National Service for Protection of the Constitution, Report No.1 of the Central Group of the Ministry of Interior for Implementing Council of Ministers Decision of 27 January 1991. Excerpts of the report were published in “Smuggling Channels Originated in the Mol,” *Capital*, 2 August, 2003.

⁸⁹ “The President-Smuggler,” *Banker/Paragraph* 22, 1 September 2003.

provisionally called the “Western European,” the “Russian,” and the “British” smuggling channel.

- **The Western European Smuggling Channel** is used for the smuggling of popular cigarette brands from and to Western Europe. A significant amount of them is manufactured in Asian or Middle Eastern countries. Among the trafficked brands are: Marlboro, Viceroy, LM, Winston, Bond, Dunhill, and Rothmans. This channel was formed in the early 1990s and its main extension into Russia and the Commonwealth of Independent States was also established at that time. This branch of the network became very active after 1997/98, when local markets were penetrated by imported cigarette brands. Later on, this segment became fairly independent, and is now regarded as a separate *Russian Smuggling Channel*.
- **The British Smuggling Channel** is the route along which original or fake tobacco products are smuggled to the British market. It became independent after 1999, when there was a rapid increase in the smuggling of cigarette brands such as Superkings, Regal, and Sovereign, which are in high demand in the UK. This smuggling network is very profitable because the prices of tobacco products legally sold in the UK are many times as high as the prices of smuggled cigarettes. Even if the police catch part of the smuggled cigarettes, the rest can be sold at such prices that cover all losses and still bring significant profits.

In June 2003, the Bourgas customs caught four containers of 1,830 boxes with cigarettes, of 50 cartons each. Their price in Dubai, where they were bought, was USD 183,000. With transportation costs to Bulgaria, their total value became USD 200,000. Customs officers let through a fifth container bound to the UK without inspection. The cargo was declared as containing 300 ovens. In fact, it contained 90,000 packs of cigarettes. The black market price of a box of cigarettes in the UK is USD 5, that is $90,000 \times 5 = \text{USD } 150,000$.⁹⁰

One specific characteristic of cigarettes smuggling is the **combination of various modes of transportation (air, sea, and land) and the variety of illicit cargo concealment methods. In addition, the smuggling schemes heavily depend on using vital transport infrastructure such as sea ports and airports.**

The Case with the Elena

In December 2003, a signal was received from the ship Elena that two sailors had been murdered and that the captain and another crew member had been seriously wounded. The investigation revealed two 40-foot containers that were initially full of cigarettes but had subsequently been emptied of their cargo. The murders on board of the Elena foiled a smuggling scheme which involved the following procedure: first, the vessel signaled damage and dropped anchor beyond territorial waters. Afterwards, the smuggled cargo was transferred onto smaller boats, which transported it to the coast. The only ship to approach the damaged Elena after the signal was the Bourgas-registered tug-boat Golden Black, which was hired by the maritime operator Board Marine to help the damaged Elena. At the same time, a military ship was patrolling two miles away, but its crew could not discern from such a distance whether any illegal reloading was taking place. After failing to tug Elena, the Golden Black returned to the port of Bourgas. The rescue operation was completed by the rescue ship Perun. The official explanation about the prolonged rescue activities said that, although Golden Black was three times as powerful, its crew did not have sufficient experience in rescue services.

⁹⁰ “Bourgas Customs Officers Investigated for Smuggling,” *Standard*, 1 September 2003.

The smuggling of tobacco products is concentrated mostly in the ports of Bourgas and Varna. Goods are typically smuggled in 40-foot containers. The camouflage has to correspond to the weight of the shipped cigarettes or should be easy to use. Thus, the documents accompanying certain cargo may state that it consists of blankets and towels, bed linen, footwear, lamps, chinaware, fluffy toys, or home appliances. The imported commodities are re-exported by sea or land. Although the official export documents indicate an end destination, the cargo is actually unloaded at a port halfway to that destination. The cigarettes may also be transferred into different containers and the original containers are exported empty, although according to the accompanying documents they transport goods (fictitious export). The reloading of cargo from one container into another and its transfer from one port site to another is usually carried out at night when no customs or police officers are present. A significant share of the smuggled goods are transported with low-tonnage vessels (up to 2,000 tons), either Russian or Ukrainian, which sail along most of the smuggling routes, or, in some cases, on Bulgarian trawlers. The usual end destinations are the Ukrainian port of Odessa, the Romanian port of Constanta, the Montenegrin port of Bar, the Albanian port of Duras, and the Croatian port of Dubrovnik. The vessels involved in illegal re-export are either hired or owned by various agent companies. They sail under different flags—Bulgarian, Belizean, Turkish, Greek, Estonian, Ukrainian, etc. Frequently, in order to cover up the end destination and smuggled goods, the smugglers use circuitous routes and sundry combinations of sea, river, and land transport.

Trucks alone are rarely the main mode of smuggling. Their use is usually only an element of a grander scheme. Since the breaking up of the Novo Selo smuggling channel in 1998 and the uncovering of the smuggled cigarettes depot in the village of Gabrovo (in Kardzhali district) in 1999, no substantial instances of cigarettes smuggled in trucks have been registered. Smuggled cargo has been detained at all land border crossings in Bulgaria, but it has happened more frequently at the border crossings situated on Bulgaria's western border: Feribota (near Vidin), Gyueshevo (near Kyustendil), and Kalotina (near Dragoman), where illegal goods are caught on their way to Western or Central Europe.

Most trucks carrying smuggled cigarettes are loaded at the ports of Bourgas and Varna. Some of them are involved in schemes of fictitious export, e.g. trucks that depart from Bourgas cross the border with Macedonia at Gyueshevo and then return to Bulgaria without having unloaded the cargo. It is taken back to the port and then exported by sea. There are other smuggling schemes, as well: the trucks pass through the Gyueshevo border crossing, then return through the same crossing point, and then leave the country through another border crossing with different documents towards Western Europe. In order to facilitate smuggling operations, special depots for illegal goods exist in Sofia. Two such depots in the districts of Iskar and Chelopechene near Sofia were uncovered in 2000.

The variety of concealment methods is typical for cigarettes smuggling. Besides the conventional camouflage such as underwear, mattresses, fruit, pine timber, furniture and wooden toys, some other types of camouflage came into use after 1999: hollow wooden boards, concrete building blocks, or metal sheets. Concealment is done in specialized depots. Such cover-ups are mainly used in the *British Smuggling Channel*.

- The Romanian authorities broke up a smuggling channel from Bulgaria: illegal shipments of cigarettes for about USD 16 million passed the border crossings of Gyurgevo and Cherna Voda between 1996 and 1999. This huge shipment (80 trucks with 160 tons of cigarettes) was most probably declared and masked as chewing gum (*Sega*, 4 March 1999);
- In a railway station warehouse, 230 boxes of the cigarette brands Regal and Sovereign were discovered camouflaged in metal sheets for the production of which a special manufacturing unit was built. Five or six such shipments have since passed through the border. Another 3,000 boxes with cigarettes stored in a similar warehouse in the Chelopechene residential area were discovered (*Monitor*, 5 May 2000);
- 340 boxes of Superkings disguised as wooden boards were discovered at Kalotina. Each of the boards contained five cartons of cigarettes. The boards were produced by a timber company based in Plovdiv. The illicit cargo was to be sent to the United Kingdom (*Sega*, 10 June 2000);
- Two Bulgarian drivers were arrested and convicted in Germany for the illegal import of 16,900 cartons of Regal cigarettes, which were declared at the customs as aluminum filings. From mid-1999 until October 2000, the same truck crossed the Czech–German border fifteen times. On twelve occasions, the cargo was declared as aluminum filings (*Trud*, 13 April 2001);

The airports in Sofia, Plovdiv, and Bourgas are actively used for illegal transfer of tobacco products. There are, however, certain differences in the smuggling procedures employed at each of the three airports. The Bourgas airport, for example, is used mostly for cigarettes which are subsequently shipped by sea or land to various destinations. The cargo is usually transported from the Belgian port of Oostende on Ukrainian or Russian planes, and then it is reloaded onto other means of transport, which transfer it back to Western Europe. The airport in Plovdiv, however, is a venue of direct smuggling. The air transport in this smuggling scheme is only one element of a complex organization for fictitious export of tobacco products. Cigarettes are shipped by sea to the ports of Varna or Bourgas and are subsequently reloaded on trucks which take them to the duty-free zone in Plovdiv. Then the cargo is reloaded on Ukrainian or Bulgarian planes which fly to Greece, Serbia, and Macedonia, where they are refueled and then go back. At the Plovdiv airport, the cigarettes are reloaded on trucks, which carry them to Western Europe.

In the first half of 2003, illegal shipments of cigarettes were detected ten times when Ukrainian airplanes landed at Plovdiv airport. All were cases of fictitious export. The cargoes included Superkings, Sovereign, and Regal cigarettes. Seven customs and police officers were arrested after being caught while letting 500 boxes of Sovereigns pass undeclared. The illegal cargo was for the UK market. (*24 Chasa*, 18 May 2003).

The illegal re-export of tobacco products through Bulgaria is controlled by several companies whose activities are no secret for the authorities. Their documentation, however, is usually in perfect order and thus the frauds cannot be proven. On the contrary, such companies appear to be carrying out regular business. But the existence of well-organized smuggling schemes coordinated by these companies described in the above paragraphs is undeniable.

Figure 11. Illegal Import / Export of Cigarettes



During the last fifteen years, not even one big cigarette smuggler has been arrested and convicted. The main reason are the existing corruption practices. In order for smuggling activities to go well and smoothly, they should involve various law-enforcement authorities, such as the customs, the police and the secret services. As smuggling brings considerable profit, it is easy to set aside large sums to bribe officials. For instance, each customs officer on duty receives €5,000 only to secure the problem-free customs clearance of a 40-foot container (the data is from July 2003). Trucks are often escorted by police officers. The close relations between smugglers and law-enforcement officers from anti-smuggling departments ensure the protection and early warning information to organized crime. This is why, it is mainly the performers of the particular deliveries who are arrested (and much more rarely convicted). The efforts of security services and law-enforcement bodies are focused on investigating the involvement of their own employees in smuggling schemes, but the harshest penalty they receive is dismissal from work.

The customs director of the Port of Varna West, Mr. Yanaki Yanakiev, was under investigation in 2004 for involvement in illegal activities that have defrauded the state of about USD 300,000. The immediate cause for the investigation was the uncovering of five containers of various brands of British cigarettes awaiting export in a warehouse. The five 40-foot containers had arrived at the port with the vessel Uve Car coming from the port of Limassol and the official recipient of the cargo was the Sofia-based company Alba B + C. Within a few months, however, the containers were exported again, this time to the port of Nicosia, and were later once again transported back to Bulgaria. The cigarettes had to be confiscated for exceeding the legal period of storage, but the cargo was cleared with the help of Yanakiev. (*Monitor*, 15 January 2004).

The companies involved in cigarette smuggling are often owners of investment agencies (or own a share in such agencies). The investment agencies have to legitimate the profit by making illicit financial transfers. According to experts, smugglers should be convicted for such illegal financial operations in order to restrict the smuggling itself, not least by blocking the funds invested in it.

A money laundering suit was brought against Petar Petrov and the Miryanov brothers from the Bulgarian company Amigos, on suspicion of laundering about €50 million during 1999–2001. They had used the following scheme: fictitious companies registered in Bulgaria bought currency from Amigos and received documents for the purchase. Then, they signed contracts with foreign companies for the import of commodities. That import, however, was completely fictitious. The money-laundering scheme involved the participation of four companies, registered in the period 1996/1997 and their owners were probably foreign nominee owners. The financial transactions date back to the same period. Money was transferred from various banks in Bulgaria to bank accounts abroad. Petrov and the Miryanov brothers were arrested in 2003, but were later released on bail. Together with another partner of theirs, Ivan Todorov, the Doctor, they are considered to be in charge of the British smuggling channel (*Monitor*, 3 October 2003).

In 2003, for the first time, there were attempts at some of the cigarettes smuggling bosses. It is almost certain that this new development is closely related to the redistribution of control over cigarettes trafficking through Bulgaria. Control is now sought by individuals who are involved in other, less safe and profitable, trafficking schemes. In response to this redistribution war, security services and law-enforcement bodies are taking energetic action. In addition, the names of individuals and companies that have played a significant role in cigarettes smuggling over the last fifteen years have been revealed to the public.

In April 2003, there was an unsuccessful assassination attempt at Ivan Todorov, the Doctor. He is one of the senior partners in the company Amigos. The Doctor owns real estate properties in Sofia, Cyprus, and London. His vehicle fleet consists of several armored jeeps and Mercedes limousines. He also owns a yacht docked at the port of Bourgas.

In the early 1990s, Ivan Todorov, the Doctor, became involved with the Miryanov brothers. One of them used to work in the former State Security. It is claimed that in partnership with them and several other individuals, he managed to re-establish an old smuggling channel and started smuggling imported cigarettes. He registered a number of companies containing the word Amigos. A number of smaller companies were also established to carry out services such as forwarding, security, transportation, and customs consultations. Eastern Finances, a licensed trust company and investment agent, provided the financial back-up of the Doctor's firms. Eastern Finances is said to be involved in the funding of the Novo Selo affair (1998) when it paid a bail of USD 800,000 for the Greek intermediary in the smuggling scheme.

Ivan Todorov and his associates are considered to be the main actors in the illegal re-export through Bulgaria of cigarettes for the United Kingdom. According to information from the security department of Philip Morris, they are also in direct control of the illegal re-export of cigarette brands owned by Philip Morris. Ivan Todorov personally performs and supervises the delivery of most large shipments. In the period 1999–2000, the former Secretary of the Mol, Georgi Ivanov, who died in a car accident in 2002, worked as an adviser on security affairs at the Amigos company.

During the same period, the Amigos firms had good connections with officers from the National Service for Combating Organized Crime and the National Security Service. In 2002, five officers of the Trafficking in Goods Department at the NSCOC were dismissed for screening their criminal activities. The same happened to an official from the NSS economic unit. In September 2002, the Doctor's associates Petar Petrov and the Miryanov brothers were accused of money laundering.

(The above information was taken from the print media and expert reports).

6.1.2. *Illegal Import Channels: The Duty-Free Shops*

Duty-free shops play a main part in cigarettes smuggling in Bulgaria. This practice started in the early 1980s when the socialist state, through the state-owned company Transimpex, opened a number of duty-free shops along its land borders in order to gain more foreign currency revenues. Even then part of the goods intended for retail sale at the duty-free shops were imported illegally into the country in substantial quantities. When the 1990 democratic changes took place, entrepreneurs grabbed the profitable opportunity provided by duty-free trade and set up the first private stores at the busiest border crossings.⁹¹

The data from a survey carried out in May 2002 indicates that the state monopolist Transimpex was controlling at that time only half of duty-free sales. The same survey also shows that the duty-free shops were used as an alternative channel for illegal import of highly taxed goods (such as cigarettes and alcohol) throughout the 1990s. As the risk of alcohol and cigarette smuggling increased in the late 1990s, the duty-free shops gradually evolved into one of the main channels to reduce the state's tax revenues.⁹²

Since 1990, the duty-free shops have been the place where income generated through smuggling (mostly of excise-taxed goods) is distributed. Decisions about this

⁹¹ Initially, the activities of duty-free shops in Bulgaria were regulated by Regulation No. 15 of the Council of Ministers on the Currency Regime from 1991. Then, the Regulation was revoked by the Currency Law adopted by Parliament in 2000. At the beginning of 1992, the companies which had obtained permits to act as duty-free operators under the 1991 Council of Ministers Regulation, signed ten-year contracts with the customs.

⁹² Data from a non-public marketing survey of a private company.

distribution are taken at the highest political level. This statement can be supported by two facts. First, the permits for duty-free trade activities at border crossings are granted at the highest level of state governance. Second, the politicians have frequently used the revenue generated by Transimpex to solve financial crises at state-owned enterprises such as the Bulgarian State Railways.⁹³ Analyzing the current situation (from 2002 to the beginning of 2004), the violations of the customs and tax regimes by the duty-free shops can be divided **into two major schemes**.

The first scheme involves the retail marketing of goods bought at duty-free shops. Smugglers drive along the exit lane of the border crossing, shop for duty-free cigarettes and alcohol and return home without crossing Bulgaria's borders (which should entitled them to duty-free shopping). In case there is an inspection at the border crossing they pretend to have problems with the documents. Customs officers are also involved in this scheme. The last step is to sell the purchased goods to shops in the border regions and night clubs in the big cities.

The above scheme follows three basic scenarios:

- **Non-Organized Smuggling.** It is based on the mutual interests of small shop owners and unemployed persons in the small towns. Shop owners make regular trips to the duty-free shops in order to buy new stock for their trade and then resell the goods within the country.
- **Primitive Organization.** In this scheme, shop owners from the border region hire two or three dealers of smuggled goods who cross the border every day and buy cigarettes and alcohol in small quantities for personal use, which is allowed by the law. The goods are then delivered to the "employer" who sells them through his own shop(s). Often, the same group of smugglers is used by several shop owners.
- **Large networks** incorporate dozens of individuals who go to the border and back about ten to twenty times a day. The smuggled goods are stored in specially rented houses in border villages and then an illegal distribution network delivers them to various end users and buyers within the country. The daily profit of each dealer amounts to €10. The number of people involved in these operations constantly increases, judging by the rising number of reports for customs violations issued in 2003. Currently, several smuggling networks are known to exist.⁹⁴ The illegal smuggling operations usually involve the cigarette brands Cartier, Rothmans, Superkings and Karelia.

Sometimes cigarettes and alcohol are purchased at duty-free shops in Greece and Turkey. Nevertheless, the Bulgarian duty-free shops are much more attractive for retail dealers as the prices are lower compared to those in the Greek and Turkish stores. The reverse process is also observed: citizens of Macedonia, Serbia, and Montenegro buy commodities from the duty-free shops at Bulgarian border crossings and then return without being officially registered as having entered Bulgaria. This is the reason why there is a discrepancy between the duty-free shops' turnover and the official data on passenger traffic.

⁹³ This practice was confirmed in off-the-record interviews with the major western importers of branded alcohol.

⁹⁴ For instance, four "networks," one of them owned by a notorious crime boss, are in operation between Kalotina and Sofia.

The second scheme, which incurs greater losses to the state budget, involves illegal wholesale import of containers with excise goods (alcohol and cigarettes). There are various hypotheses about the main actors in this scheme. Most probably, they are different from the owners of duty-free shops, and include individuals such as the above-mentioned Ivan Todorov, the Doctor. The cigarettes are delivered by companies involved in foreign trade and registered in offshore zones. There are also some hypotheses that the major operations under this scheme also involve a number of licensed duty-free operators. Officially, the commodities are imported for sale in the duty-free shops but they are instead sold at lower prices on the domestic market. According to customs officers, such frauds are done as goods are delivered from distributor warehouses to the storehouses of licensed duty-free traders.

The major Bulgarian importers of branded cigarettes labeled “for duty-free sale only” are B.N.K, Duty Free Ltd., Whitenauer, and BRV, which import the Philip Morris brands (Marlboro, LM, Parliament, Chesterfield, etc.), and Seacom, the importer of British American Tobacco’s Rothmans, Viceroy, etc.

Before arriving at the duty-free shops, the goods are delivered to the so-called entrepot of the distributor, i.e. a warehouse where they are secured with bank warranties and placed under customs control. According to an agreement between the supplier and the duty-free operator, the goods are shipped to respective shops under the initial bank warranty or a new bank warranty of the buyer. Then, the due documents are authenticated by a lawyer at the customs office before the cargo is loaded and transported to the end client. The loading is carried out in the presence of a customs officer, a border police officer, and a tax officer. The trucks are sealed and transported as transit shipments to licensed duty-free shops. On arrival, a customs manifesto is signed, and a customs declaration for “storage” is stamped. The procedure should bar excise-tax goods (officially for duty-free sale) from being sold on the domestic market, unless there is corruption in law-enforcement bodies.

Duty-free merchants claim that about 95% of cigarettes on the internal market that bear the label “duty-free” are actually fakes produced in the Middle East or China and illegally imported in Bulgaria. Such a smuggling channel operates at the port of Bourgas where the containers arrive from Asian countries and are then declared as re-export for England, but part of the shipment is marketed in Bulgaria. A story that made the news in late August, 2003, was the uncovering of four containers with fake cigarettes to be exported to the UK.

Although a significant amount of fake cigarettes are sold on the Bulgarian market, the estimates of the duty-free merchants are debatable.⁹⁵ During a survey, carried out in the autumn of 2003, cartons of cigarettes were purchased from retail traders in four cities in Bulgaria. The results showed that between 50% and 90% of the packs were labeled “duty-free,” and these labels were **identical with the labels on the cigarettes sold at duty-free shops** at the land borders.⁹⁶

In addition, customs inspections were made of the turnover figures of duty-free traders. When the turnover of duty-free shops was compared to the number of passengers who crossed the border, no direct correlation between turnover and

⁹⁵ Interviews with BCA officials, Sofia, February 2004.

⁹⁶ Data from a non-public marketing survey of a private company.

passenger traffic was found. A special inspection on the part of the Ministry of Finance revealed that it is practically impossible to monitor whether the people who buy commodities at the duty-free shops actually cross the state border.⁹⁷ There were, however, a number of experimental inspections to compare the number of passengers crossing the border during the day with the respective daily sales at the duty-free shops. According to experts from the Ministry of Finance, the results of the inspections demonstrated serious discrepancies between the number of passengers and the cash turnover. For example, an inspection of cash receipts revealed that in a single minute 75 cartons of cigarettes were sold to twelve clients.⁹⁸

Another argument is the increase of alcohol and cigarettes sales at duty-free shops in 2003 (See Table 9). In 2003, the big tobacco companies cut their official import to Bulgaria. Some of them even closed down their representative offices. These events could hardly be considered coincidental.

Table 9. Supply of Cigarettes and Alcohol to Duty-free Shops⁹⁹

	Year	Statistical value (BGN)
Alcohol	2002	14 782 759
	2003	16 329 307
Cigarettes	2002	83 118 501
	2003	106 993 263

Source: Bulgarian Customs Agency

The increase in the relative value of cigarettes and alcohol supply to duty-free shops is also backed up by the data provided by duty-free operators themselves,¹⁰⁰ who declare that their revenue for 2003 was equal to €131.5 million, €81.5 million of which came from the sale of alcohol, cigarettes and perfumery. The remaining €50 million came from the gas stations of the Turkish businessman Fuat Guven, whose company *Magazin Shipka Fuat Guven Ltd.* has a contract with the Bulgarian Ministry of Finance for the sale of fuel in the Svilengrad and Vidin duty-free zones and the border crossings Kapitan Andreevo and Kalotina. Although both experts and policy makers are well aware that huge losses are incurred to the state budget by duty-free shops, none of the Bulgarian governments since 1990 has attempted to stop that practice.

⁹⁷ Interview with General Tax Directorate officials, Sofia, August 2003

⁹⁸ Stamen Tassev, Deputy Minister of Finance, "Duty Free Trade," interview on *bTV*, 13 September 2003.

⁹⁹ These are the quantities that duty-free operators have declared as being delivered to the shops. Duty-free operators are required to place a warranty sum if they want to obtain a permit for delivery of such commodities. After the sales are verified by cash receipts, the customs officials reimburse the deposited warranty money.

¹⁰⁰ The Association of Duty-Free Trade Enterprises consists of ten trade partnerships, which own about 80% of the duty-free market of alcohol and cigarettes. The sales of state-owned duty-free shops at national airports, on the other hand, amount to approximately € 17 million.

The general understanding that the duty-free shops are an efficient channel for tax evasion has been debated ever since 1992. In comparison to declared turnover, the income taxes paid by duty-free operators to the state budget (via transfers to the bank accounts of the BCA) in 2003 amount to a mere €2.135 million.

In the late 1990s, the debate about the possible closing down of duty-free shops was officially related to the EU decision to cancel the activities of the duty-free operators located at the land borders with the EU countries (as of 30 June 1999). The government of the United Democratic Forces that was in power at that time also decided to close the Bulgarian duty-free shops. This decision, however, was not implemented in practice and the relevant legal amendments were never made.

There is a provision in the Customs Law adopted in 2000, according to which all duty-free shops in Bulgaria should be closed down after the expiration of their contracts with the BCA, but not later than 31 December, 2002. In December 2001, however, an amendment to the Law on Excise Taxes of Commercial Companies Conducting Duty-Free Trade provided for a ten-month extension of the operation of duty-free shops, after termination of the contracts with the BCA. In compliance with the transitional and concluding provisions of the Excise Law, adopted by parliament in late 2002, the Minister of Finance should hold a selection procedure for re-licensing of duty-free operators within 45 days of the publication of the approved amendments.¹⁰¹ With the enforcement of the *Excise Tax Law* amendments on 1 January, 2003, the right to apply for a duty-free operator license was also granted to companies, which had not possessed such a license before.

In compliance with the provisions of the *Excise Tax Law*, a permit for duty-free operation can only be obtained by local legal entities whose capital is at least € 125,000. The applicants must prove that they are not subject to court proceedings for insolvency or liquidation and that they do not have any liabilities exceeding €1,500.

Ordinance No. 8 regulating the issuance of permits for duty-free trade requires that the licensing procedure should be held twice a year (in the second week of January and the second week of July) by an inter-departmental commission that should include two Ministry of Finance officials, one BCA official, one General Tax Directorate inspector, one MoI representative, and one Ministry of Regional Development and Public Works official.¹⁰²

No selection procedures, however, were ever organized. Instead, on 16 May, 2003 the Ministry of Finance proposed measures to combat the gray economy and the smuggling of excise goods. One measure was to close down 44 of the 57 duty-free shops near land and port border crossings.

Duty-free trade, the ministry said, should only be conducted at the airport and international railway stations, as well as on board of planes during international flights and on international passenger trains where passengers can prove their travel by presenting their ticket.

¹⁰¹ Amendments and Supplements to the Excise Law, SG 118 / 20.12.2002.

¹⁰² Art. 5, Ordinance No. 8 of 3 October 2002 on Duty-Free Trade, SG 96 / 11.10.2002.

The Ministry of Finance based its proposals on the fact that the financial reports of duty-free operators include revenues and expenses from activities other than duty-free trade. This hampers financial control over them. Thus, the annual financial result and the taxation for the respective year are erroneous as the result for the current year is also influenced by the results of previous years, as well as by the losses from other activities.

In July 2003, the Council of Ministers approved a draft amendment to the *Excise Tax Law* providing for the closing down of 44 duty-free shops situated at land border crossings. The amendments were vehemently opposed by the Movement for Rights and Freedoms, a coalition partner of the ruling party National Movement Simeon II. The draft was never passed in parliament. As a result of this opposition, at the end of December, 2003, the Minister of Finance issued an order for a three-year extension of the validity of duty-free trade permits of 14 firms.

6.2. OIL PRODUCTS SMUGGLING

The biggest market in the country, that of oil products, continues to lure the gray business, mostly because of its significant portion and value (about €0.8–0.9 billion for 2003), as well as due to the relatively low risk involved. At the same time, there are two very important preconditions that allow all this to happen. The first relates to the availability of a large number of small gasoline and gas stations, which are willing to facilitate the access of the gray import to customers. The second precondition involves the relatively easy admission of Bulgarian smugglers to the major criminal structures in countries such as Romania, Ukraine and, to a lesser extent Greece. As a result, the gray import of goods into Bulgaria was estimated in 2000–2001 to amount to 35%–45%.¹⁰³

In 2002, and especially in 2003, a series of measures by the customs authorities significantly reduced the gray import of commodities. On the one hand, these measures came as a consequence of the assessment that the relevant state institutions made of the enormous budget losses. On the other hand, the measures were due to the pressure by oil companies such as Shell, OMV, and Lukoil, which were also experiencing substantial losses as a result of the undercutting prices of gray business (See Table 10).

Despite the skeptical attitude towards such statements, the 45% increase in 2003 of **the quantity of imported oil products** (See the net weight values in Table 10) can be explained mainly with the successful shrinkage of gray import and smuggling.¹⁰⁴ The fluctuations in oil prices have a minimum effect. The most important factors that led to the changes are related to the introduction of new rules and procedures as of the middle of 2002 with regard to risky oil products.¹⁰⁵ As a result, there was a sharp increase in the number of controlled operations with oil products and the discretion of officers applying the criteria for sample selection was strictly limited.¹⁰⁶

¹⁰³ When comparing the data from the market surveys of sales of oil products with the official import statistics.

¹⁰⁴ When annual consumption of oil products increased by 8–10%.

¹⁰⁵ Order No. 122/26.06.2002 by the Director of BCA, which regulates the customs clearance on import of commodities under Chapter 27 of the Customs Tariff.

¹⁰⁶ Interviews with customs officials, Sofia, March 2004.

Table 10. Oil Products Import

	1999	2000	2001	2002	2003
Net Weight (kg.)	306 551 062	440 259 426	341 616 124	439 870 385	638 659 740
Increase as compared to preceding year (%)		43.6	-22.4	28.8	45.2
Estimated market (million kg.)	460	570	600	630	750
State revenue (leva)	91 420 552	267 402 684	179 810 186	142 598 919	305 293 908
Revenue (leva)	2002		2003		CHANGE
VAT	60 971 829		105 066 639		72.32
Excise tax	55 807 867		107 855 738		93.26
Duty tax	2 133 179		263 701		-87.64
Road Network Fund	21 506 774		87 976 006		309.06
Environmental Protection Fund	2 179 270		4 131 824		89.60
TOTAL	142 598 919		305 293 908		114.09

Source: Bulgarian Customs Agency

When these inspections were executed, the selection of inspected companies was based on risk level. For example, when a certain type of goods has been declared under the tariff number with the highest rate (that requires the highest payment), there is no risk of fraud by declaring oil products that have lower tariff rates. Thus, such declarations are not subject to inspection. There is almost 30% control executed over the products that are most frequently utilized in the schemes of customs fraud: diesel fuel, industrial gas-oil, heavy fuel oil, or gas for lighting.¹⁰⁷ As a result, in 2003 a number of 2,414 samples were received at the Central Customs Laboratory for analysis of oil products and laboratory tests were performed on 1,605 of them. In 196 of the cases discrepancies with the declared tariff rate were identified. Evidently, losses over 10% are too high for the average gray importer, and there are numerous indications that many illegal schemes that were in operation before 2002 have now been abandoned.

The joint efforts by the BCA and the National Police Service Directorate (NPSD) have also proven to be a successful factor in the sluggishness of gray imports. A typical example was the nationwide operation carried out in July and August 2003 which enacted a comprehensive supervision of customs operations with oil products that had lower customs tariff rates. As a consequence of this operation, there was a sharp

¹⁰⁷ These are products that are not levied with the Road Network Fund tax and the Environmental Protection Fund tax. The excise payment due for these products is at a lower rate.

Figure 12. Illegal Import of Oil Products



decrease in the quantities of declared import of oil products that could be used as motor fuel and which are levied with lower import tariff rates in Bulgaria. During the same period, there was also a decrease of imported gas for lighting and heavy fuel oil, which are among the highest-risk products with respect to tariff rating and, thus, are among the most frequent products subject to customs frauds (most often, in this case, kerosene and diesel fuel are declared as, respectively, gas for lighting and heavy fuel oil). During the same period, on the other hand, there was an increase in the import of diesel fuel and oil, which are among the most highly taxed oil products. On the whole, despite the general decrease of the total imported amount of oil products (by 9.61%) the collected state taxes increased by 4.52% as compared to the preceding month. And yet, it is important to point out that the gray importers quickly detect such control operations and start applying a wait-and-see strategy in order to minimize the risk. Illustrative evidence for this is the decrease by almost 10% of the import of oil products.

The serious shrinkage of gray imports and smuggled fuels in 2003 could be compared with the increase during 2000, when the import of oil products surged by 44%. The subsequent anomaly of a 22.4% reduction of oil products imports worldwide during 2001 (parliamentary elections were held that year), are usually due to natural disasters or wars. The upcoming parliamentary elections in 2005 will be an important test about the effectiveness of Bulgarian institutions in combating the increasing pressure of gray businesses for the illegal import of oil products.

Despite the good results achieved by the BCA and the MoI, and the shrinkage of the gray sector that ensued, oil products continue to be **one of the markets that generate**

the highest losses for the Bulgarian state budget. This is mostly due to the volume of these goods. The interviews with customs officers, officials from the MoI, and individual merchants only confirmed the fact that despite the tendency towards the “bleaching” of the import of oil products, some of the old schemes continue to function.

An example is the old scheme with the so-called catalytic cracking towers, which involves the primitive refining of liquid fuels. The operations under this scheme are the following: a certain amount of heavy fuel oil is imported, but only VAT is paid on it. As far as customs regulations are concerned, there is no discrepancy or defrauding of the state budget, and the import is completely legal. Afterwards, the importing firms declare to the tax authorities that they had used the heavy fuel oil for some kind of chemical production (for example, diluters for paint or other products) or directly as fuel for industrial purposes, and in this way they manage to refund the VAT paid on the import. What actually happens, however, is that the heavy fuel oil is refined and turned into gas oil or diesel. Payments of all excise and the environmental and road taxes are thus avoided. After working for two or three months the operation is closed down and the state loses even the refunded tax credit. Such towers for catalytic cracking exist near the cities of Rousse, Pleven, Plovdiv, and Stara Zagora.

The state budget also suffers serious losses as a result of **one of the schemes for outright smuggling** that is spread and realized not only in Bulgaria. It involves **the refueling of vessels**, so-called “bunkering,” at the ports of Varna and Bourgas, as well as down the River Danube. Due to the high number of such bunkering sites, and because of the mode of storing of oil products in bunkers, the customs authorities could not exercise efficient control. It is evident that customs officers cannot determine the actual quantities, which are supplied on a daily basis, but there is serious evidence that there are some trafficking activities under way. For example, it should be suspicious when, say, a Russian vessel leaves a nearby Black Sea port on a long-distance sailing but suddenly, only a few miles away, stops for a full refueling (several thousand tons) in the port of Bourgas. Then, the vessel is again in the open sea and it cannot be identified how much fuel it had actually loaded. In this way, there is first a fictitious export of fuel and then this cargo is placed on the internal black market while the state loses from the refunding of the excise tax, VAT and other taxes.

There are four levels of control of the gray imports. First, instead of the old approach, when samples were taken only if there were suspicions aroused in the customs officers (at the border customs points) and the generally subjective type of assessment obtained, there is now a requirement for **inspection of all risk oil products**, i.e., such that are levied with lower taxes and customs duties as compared to normal fuels. Thus, the customs officers would take a risk not to execute a laboratory analysis of certain imported goods. Although as a result of these new measures the number of samples taken for testing has increased substantially, at the border crossings of Rousse, Kulata, and the Kulata Railway Station—still there are **companies that continue to import oil products from risk categories, of which samples are rarely taken.**

The second danger consists in the **physical tampering with samples when they are taken at the import customs office.** This happens quite easy when the customs officers give preferential treatment to an importer, or if these officers lack sufficient

skills for the proper taking, sealing, storage, and dispatch of respective samples to the Central Chemical Laboratory of the BCA. According to customs officers interviewed, this incorrect handling of the sample-taking operation compromises the admissibility of evidence in the courts. Only when the court cases that began in 2003 are completed, will these accusations be verified.

Third, even when well-sealed samples—having successfully passed the above-described controls (which may happen rather by accident than as part of a regulated customs-control procedure)—arrive at the **Central Chemical Laboratory** for analysis, there are still attempts made for **physical tampering and document frauds**. The laboratory workers are consistently pushed and forced to produce reports that would be beneficial for the respective importer. The pressure exerted on them comes either from the BCA or by the interested actors themselves who are allowed to attend the analyses. This criticism is not new to the laboratory, and it is difficult to obtain an objective assessment because of the closed nature of this institution, as well as due to the impossibility of independent expertise.¹⁰⁸

After the case has passed through the three stages of the procedure for the import of liquid fuel, and the laboratory analyses have revealed a discrepancy between the declared and the actual type of products, **a customs violation report** is issued. According to available data, the BCA loses more than 50% of court appeals by perpetrators, with the subsequent revoking of legal punishment and all other consequences. The most frequent motives presented by the court are: lack of compliance with the procedures for taking and registering samples, improper storage of samples in the laboratory and during transportation, etc. Most importantly, even seven years after it was established, the laboratory is not yet accredited. It should also be mentioned that the mobile teams rarely take samples. This is quite strange, given the direct responsibilities of the Crown Agents consultants with respect to that structure.

¹⁰⁸ It is believed that the influence of gray importers is higher at the other two laboratories in Bulgaria which are provided with equipment and expertise for carrying out chemical analysis of oil products.

7. RECOMMENDATIONS

These recommendations were made after consideration of several factors. They were based on the recommendations made by the EU Phare consultants to the BCA and the National Border Police Service. Another set of recommendations drawn upon was that of Crown Agents under a contract to assist reform of the customs administration in Bulgaria. Finally, the goals the *Business Strategy of the Customs Administration of the Republic of Bulgaria* and the financial framework of *Detailed Financial Plan of the Budgetary and Human Resources Necessary for the Thorough Implementation of the Business Strategy of the Customs Administration of the Republic of Bulgaria* were born in mind. Although the list can easily be made longer, the recommendations in this paper keep focus on risk reduction in areas where the transport sector might engage in smuggling practices.

Inter-institutional and international collaboration

1. **Real time information exchange with the customs authorities of neighboring states.** An exchange of this kind would eliminate a variety of customs violations (See Chapters Four and Five). It would enable Bulgarian customs and border police authorities to compare the details of the vehicles crossing the border (details about the type, quantity, value and origin of the cargo) as they are registered at the border crossing stations of the two neighboring countries. It will also facilitate risk profiling, speed up document processing time at border crossings, and considerably improve the country's transport capabilities.

Currently, information exchange for excise goods (oil, cigarettes, spirits, etc.) exists with Greece. There are also a number of established information exchange practices at the border with Serbia and Montenegro. Other adjacent states have also been approached on this issue, but regular exchange has been achieved with none of them. Moreover, the existing exchange is non-electronic and the scope of information is limited. Pertinent inter-governmental agreements should be concluded between Bulgaria and neighboring states on the speedy implementation of information exchange programs.

This is especially relevant at the Bulgarian—Turkish border, which is to become European Union's border after 2007. Information exchange with Greece is of equal importance because of the bulk of Chinese imports which incur grave losses to the Bulgarian budget. Bulgaria could apply for the support of the European Commission for agreements with both Turkey and Greece.

2. **Improvement of the mechanisms for exchange of operational and specialized information** between the Customs Intelligence and Investigation Directorate and the various MoI agencies: the National Service for Combating Organized Crime, the National Border Police Service, and the Coordination, Information and

Analysis Service, as well as the General Tax Directorate at the Ministry of Finance. **A limited number of high-level officials** of these agencies should be **allowed mutual access** to their information systems. Thus, the customs or the tax administration would be able to get more substantial information on suspected offenders from MoI's automated information system, while MoI services could use the Bulgarian Integrated Customs Information System to follow suspect companies and persons. As a result, domestic organized crime and trans-border crime groups could be countered more effectively.

3. **Integration of the border and customs control information systems at border crossing points.** Currently, the Customs, the Border Police and the Road Taxes and Permits Directorate are engaged in the collection of numerous overlapping details of the border crossing vehicles. A border control database needs to be developed, so that vehicle details would only be registered once and would be accessible to all services operating at the border crossing stations. Processing time for trucks would thus also be considerably reduced. This will ease corruption pressure by drivers who regularly offer bribes to speed up the inspection procedure.
4. **Improvement of cooperation and greater efficiency of joint operations for uncovering smuggling channels** carried out by the Ministry of Finance and the MoI. Certain positive results have been achieved by joint BCA–MoI operations, but the overall efficiency is erratic. The relations between the two institutions lack in trust and openness, which often results in half-done jobs. Joint actions have never been more than sporadic and influenced by the current political situation. For a lasting effect to be achieved in the task of curbing smuggling and organized crime, joint operations should be based on mutual trust and well regulated cooperative relations.
5. **Increase the powers of the Bulgarian Navy to facilitate smuggling prevention.** Current legislation does not provide for any participation of the Navy in exposing or preventing smuggling. The Navy is not authorized to inspect or control suspicious vessels. The Navy, however, has at its disposal a significantly larger fleet and more surveillance equipment. Given these advantages, the Navy could play a more active part in anti-smuggling activities along Bulgaria's Black Sea border.

The MoI and the BCA should work out a set of instructions on their cooperation with the Navy. Particular programs for military personnel training should also be developed and experience in the sphere of combating trans-border crime and smuggling should be shared.

6. **Speeding up the launch of the *Operational Center for Sea Sovereignty*.** The idea promoted by the Navy should become priority not only to the Ministry of Defense, but also to other public authorities that will be served by the Operational Center, such as the MoI, the Ministry of Finance, and the Ministry of Transport and Communications. Support from the European Union should be sought since the Center will protect the Union's borders in the near future.
7. **Inclusion of customs officers and fishing experts from the Ministry of Transport and Communications in the patrol boat crews of the Border Police.**

Efforts to this effect have been taken but are not routine. At present, NBPS patrol boats are staffed with experts trained to uncover smuggling of hazardous devices and drugs. Customs and ministry of transport experts will contribute to a more efficient control by patrol boats.

Border security

8. **Coastal border crossing stations at the ports should be strictly demarcated zones.** At ports like Varna East it is now hard to distinguish between the trade infrastructure and the border crossing facilities. All port employees or those doing business at Varna East have access without any passport or customs control. Only newly arrived ships are declared to be “border area” until it has cleared inspection by port and border authorities. A ship is generally considered to have countless convenient hiding places and a few-hour-long inspection by the NBPS and the customs could not be as comprehensive as to preclude smuggling. Thus, unchecked access to docked ships poses the risk of importing/exporting drugs, arms and other goods. The zones around the ships to be constantly watched by the NBPS should be strictly demarcated.
9. **Improving border control at sea ports and airports.** No strictly defined responsibilities exist regarding the protection of sea and airports. Private security companies and NBPS officers work simultaneously at ports, while airports are also guarded by Security Police units. These problems should be most urgently addressed at sea ports. Port entrances are not guarded by the NBPS and its officers can rarely be seen even within the ports. Security companies and the border police do not have any guiding rules for cooperation. There are two approaches to tackling this problem:
 - a. Preserving the current pattern which lacks clear border control zones. In this case, certain amendments to the *Law on Private Security* should be made. The law should set forth stricter requirements to private companies working in proximity to border crossings at sea and airports. They should be obliged to apply full control over the inflow and outflow of passengers and vehicles as well as hire only highly qualified security staff at the border crossing zones.
 - b. Transferring all airport and seaport security responsibilities to the NBPS. Only then can the border police take over the functions of private security actors and implement border control in a way similar to that at land border crossings.
10. **Enhancing port security.** The Port Administration Agency at the Ministry of Transport and Communications should take measures to enhance port security. Investments should be made into electronic surveillance and security systems. The ports of Varna and Bourgas are in greatest need of such devices since the port areas are significant. The rules regulating port control and access should be improved. Beside the lack of surveillance equipment and the miles-long fences, the berths and the terminals at all ports are poorly lighted. Such equipment should be purchased at international airports, as well. The twelve-kilometer fence at Sofia airport is without any lighting and is not equipped with either surveillance cameras or sensors.

11. **Implementing control measures.** As excise taxes on cigarettes, alcohol and oil products will increase to reach EU levels, having duty-free shops operate as they do at the moment would only encourage the mechanisms for evading excise and other taxes. Since no radical solution of this problem on a policy level is possible, it should be tackled by certain technical measures that can be applied jointly by the BCA and the General Tax Directorate. Frequent inspections—as done traditionally—are based on the level of risk and on random sampling. A new IT-based approach would be the introduction of real time online control. The sale of any single item at duty-free outlets should be immediately registered by the BCA. Thus, one of the most frequent frauds at duty-free shops—numerous fictitious sales within a short time—could be prevented.

Risk analysis

12. **Thorough investigation of the airport and seaport concession applicants.** The Ministry of Transport and Communications should request the cooperation and opinion of the NSCOC, the BCA, the National Security Service and the National Intelligence Service who should investigate whether concession applicants are related to any smuggling channels before the concession agreements are actually signed. Before all, such investigations should be made into the businesses of Chinese, Turkish and Russian companies since the probability of smuggling goods from these countries is substantial.
13. **The Ministry of Transport and Communications should provide information to the BCA and the Mol on the licensed international carriers.** Companies that would engage in smuggling cargo, often also lack licenses for transportation activities. The NBPS and the BCA, however, do not possess information on who is an authorized carrier, since it is the transport ministry who issues the authorizations. The Ministry could only benefit from it, too, by applying stricter control on carriers. It will also serve the NBPS and the BCA to accomplish risk profiling of transport companies.
14. **One-stop service.** All inspections of trucks should be made at one point. Currently, truck drivers, particularly foreign, are serviced and make payments at various booths which increases processing delays. State fee payment at the border (mostly road tolls, and where applicable phytosanitary and veterinary fees) should be collected only by the BCA. Such a reform will be in harmony with EU practice and will shorten the waiting and truck-inspection time. As a result, the chances of bribe-offering will drop, as most of the bribes are generally given to officers from the Road Administration. Quicker services will ease the corruption pressure applied by drivers. On 3 June 2004, the Council of Ministers adopted a set of measures aimed at facilitating border crossing. The measures envisage the introduction of one-stop-shop service, but without any deadlines. The government should identify target dates for these measures to be implemented.
15. **Phytosanitary and veterinary control should be a follow-up control** and should be carried out outside the border-crossing zone. Temporary stations could be placed at the border crossing point only when absolutely necessary or during epidemics. If the two services are relocated, border crossing time and corruption attempts by drivers will be significantly reduced.

16. **Provision of preliminary information on arriving cargo.** Such practice has been adopted by a limited number of companies working mainly with the Port of Varna authorities. Other sea, river and railway freight transport companies could supply this information in advance. This might be done through legal amendments to the *Law on Customs* setting forth requirements that all carriers should send a customs manifest before the goods enter the country. An effective first step would be to sign bilateral agreements with the largest Bulgarian carriers which transfer a significant part of the overall import, i.e. firms like: Navigation Maritime Bulgare, Bulgarian River Shipping Co., Bulgarian State Railways, and Bulgarian Air.

Human resource management

17. **Introduction of high-risk work environment payments to BCA officers.** Many customs officers work in risky conditions, in particular those who work at the border crossing stations or with the Crown Agents mobile teams and the Customs Intelligence and Investigation Directorate. However, their remuneration, unlike that of police officers, does not in any way correspond to the level of risk. Customs officers should be remunerated in accordance with the risks they take at work.

A new system linking remuneration to risk would allow for a more general interpretation of the latter term. For instance, corruption pressure could be defined as a kind of risk that could also be measured. This would ensure that customs and Mol services securing the state border would receive substantial financial compensation for the high-risk tasks they perform.

18. **Improvement of the incentives system of the BCA.** In view of the current legislative framework and the BCA's financial resources, smuggling could be most effectively and quickly curbed, if the system of incentives for uncovering customs frauds is changed. The various systems used so far have various shortcomings. Up to 2000–2001, for instance, each report drawn against an offender was awarded. Thus, reports were drawn with poor evidence and were motivated only by the desire for reward which led to many being repealed in court. In 2002, the system was changed so that incentives are given only after the court has confirmed the legality of the report. This, however, detracts from the motivation of customs officers, since court appeals can be delayed for years.

A system that prevents groundless reports against offenders but still motivates officers should be designed. The award systems should be flexible and should take into account experience from the last fifteen years as well as most recent developments. For instance, customs officers could receive part of the award straight after they have issued a report for a violation. In case the court ruling confirms the violation, the rest of the amount will be paid out to them. However, if the report is repealed, the part of the award already given should be deducted from the officer's salary in due time.

Additional internal mechanisms for performance rating could also be introduced. The officers whose reports are less frequently repealed at court could receive a higher-percentage award. The various proposals for performance indicator systems could be tested within pilot projects at the different border crossing points to evaluate their impact.

19. **Changing the remuneration structure at the BCA.** Without a clearly defined policy for continuous raises of the basic salary, none of the financial incentives would have any effect. If this step is not taken, the customs administration would continue to be vulnerable to corruption. This would be a policy decision and would need to be justified by sound economic reasons. A possible approach is to raise significantly the average salary of the customs administration (before all other branches of state administration) at the time of Bulgaria's expected accession to the European Union in 2007. Currently, the most popular proposal is the salary of Bulgarian customs officers to reach 50% of the salary at Greek customs. This would establish clear prospects for loyal customs officers, with additional anti-corruption motivation coming from expected stable career development.

APPENDIX

RISK PROFILES OF BORDER CROSSING POINTS

The risk profiles presented here of the border crossings of Kapitan Andreevo, the Port of Varna and Kulata, contain particular observations and facts on the basis of which the first two analytical parts of this report were developed.

Figure 13. Border Crossing Points at Risk



1. KAPITAN ANDREEVO¹⁰⁹

General Information

Kapitan Andreevo is one of the largest border crossings in Europe. It employs a staff of between 400 and 500, while the daily average of trucks crossing the border is between 750 and 850. **Although its annual cargo traffic has risen from 193,127 in 2001 to over 300,000 trucks in 2003, no infrastructure expansion or upgrades have been undertaken at the border station for around 15 years.** There is a single lane for processing freight vehicles which causes 2 to 3-day delays for drivers on the Turkish side of the border during heavy-traffic periods. The traffic of trucks is unevenly distributed due to EU restrictions on weekend travel. This is why the heavy trucks transporting goods from Turkey usually choose to cross the border at the weekend, so that they are able to travel in the EU on weekdays. Thus,

¹⁰⁹ The analyses of the three border crossings, Kapitan Andreevo, Kulata, and the Port of Varna offered below, are based on interviews with former and current officials of the MoI, the NBPS, the BCA, and the Bulgarian Navy. The interviews were conducted between November 2003 and March 2004. The anonymity of the individuals interviewed has been preserved due to the sensitive character of the issues discussed. All quotations, evaluations, and data are from the interviews taken in the above-mentioned period.

the bottlenecks start Friday noon to be relieved no earlier than late night on Sunday. In addition, there are border traffic jams from Tuesday to Thursday when trucks supplying goods to the markets in Bulgaria and most Balkan states (e.g. Romania, Serbia, Macedonia, Croatia, etc) cluster at Kapitan Andreevo.

Structure and Organization

Similar to all land border crossing stations in Bulgaria, there are six different border control agencies working at Kapitan Andreevo (which is a requirement posed by the Ordinance on Border Crossing Points). These are: the National Border Police Service, the customs, the phyto-sanitary control service, the veterinary-medical control body, sanitary control, and control over vehicles. All these independent agencies are accountable to the border police director—also director to the respective border crossing. This creates tension between customs and border officials and the officers from other agencies since the former have greater influence and power.¹¹⁰ The structure and organization of the Kapitan Andreevo crossing point is described below:

- There are three customs bureaus—Haskovo, Dimitrovgrad and Kardzhali—which are subordinated to the Regional Customs Directorate in Plovdiv, as well as a dependent Territorial Customs Directorate in Svilengrad. The Svilengrad Territorial Directorate is the main customs point for several other offices: the Novo Selo Customs Post, the Kapitan Andreevo Customs Post, Svilengrad Railway Station Customs Post, and Svilengrad Duty-Free Zone Customs Bureau.
- Employees at the Kapitan Andreevo border crossing work in four shifts of 28-30 officers each. Customs officers are organized in groups performing different functions:
 - a. A TIR-carnet department
 - b. A department for combating smuggling. The department is staffed with two or three officers per shift. During the field visit, an interview was requested with at least one of them, but it turned out the shift consisted of two officers, one of whom was on a sick leave, while the second officer was on duty.
 - c. Regular customs control department consisting of three to four officers.
 - d. Drug trafficking department including four officers.

Risk Profile

There are three basic groups of risks to be tackled at Kapitan Andreevo border crossing.

- Kapitan Andreevo is the junction of the most significant drug trafficking route through the country—from Turkey to Western Europe. Since the 1980s, the largest amounts of heroin have invariably been captured there. In the last two years, sizeable amounts of amphetamines going from Bulgaria toward Turkey have been caught as well. Although the volume of drugs captured is constantly growing, the customs officers claimed that it comprises no more than 20% of all trafficked drugs. Otherwise, traffickers would not find it profitable to use that route.
- Kapitan Andreevo is the main gateway for goods produced in Turkey and the Middle East. This creates a significant sense of pressure upon customs officers as regards goods smuggling and customs frauds. Some of the most important trafficking channels used by organized crime (employing various customs frauds) have passed and are probably still passing through Kapitan Andreevo. Customs violations there are surely large-scale. Compared to year 2000, illegal incomes in 2003 dropped by € 100 million due to measures taken to raise the average price for a kilogram of goods imported from Turkey.¹¹¹
- The smuggling of illegal migrants from the Middle East, Central Asia, and Africa to Western and Central Europe. Most of smuggling channels lead through the green border, but part of the illegal emigrants, who use counterfeited identity papers, is let in by border authorities through the border crossing as well.

¹¹⁰ In accordance with this report's focus, the CSD team interviews inquired mainly about the BCA and NBPS activities.

¹¹¹ The calculation is based on BCA data for the period 2000-2003.

Cooperation

Turkey

There is no regular information exchange with the Turkish border authorities. The customs officers on either side of the border do not know each other and their relations are kept formal. This is odd, given that most officers have been employed at Kapitan Andreevo for ten to twenty years. Their Turkish counterparts are in a similar situation. The infrequent visits of the regional customs director or the border-crossing director are limited to an exchange of promises that are usually broken by the Turkish side. For instance, if a suspicious truck has passed through from Turkey and the Turkish authorities are asked to check the authenticity of its goods customs declaration, they usually refuse to do so under the excuse that the information is not available and the documents "have just been sent out." Such checks or coordination between the adjacent border posts would be an efficient method of control. Compared to Turkey, cooperation with Greece is much better, and the Greek authorities regularly transmit the requested information (for more details, see the section on the Kulata Border Crossing Point). The customs officers interviewed identified two main reasons for such ineffective relations. The first is Turkey's policy of stimulating export at all costs. If the actual value of goods is stated in the invoice, merchants' expenditures would be higher and therefore Turkish goods would be less competitive. Second, there are cultural specificities inhibiting the Turkish authorities when they have to respond to requests for cooperation from their Bulgarian counterparts.

National Border Police Service

Customs officers perceive their relations with the NBPS as satisfactory. It has become clear that whenever either of the services requests the other's cooperation (e.g. an inspection), it is usually performed neatly and on time. During the field study well-ordered information-exchange meetings between shift supervisors of the customs and border police were witnessed. Nevertheless, customs and border police officers are distrustful and suspicious of each other. Some of the interviewees think that the tension between the two services dates back to the time between 1991 and 1997, when border police officers often reported against customs officers, assuming that this would further their career. As to future information exchange based on currently existing databases, most of the interviewees were skeptical, although no clear reasoning was given why passport and vehicle details shouldn't be registered by one of the services only.

Other services

Services like the road tolls and the veterinary and phyto-sanitary control are only marginally present at the border crossing point. Customs and border police officers, on the other hand, have a disparaging attitude to them, and one of their remarks was that these services try to exploit every chance to get a bribe by being excessively strict to the passengers and vehicles crossing the border. Other comments were targeted against the very system of border control involving too many separate services and their employees interested in keeping the status quo, given the variety of passage fees through which they generate income.

Equipment and Infrastructure

The following vital equipment is available at the Kapitan Andreevo border crossing station:

- X-ray units: There is one large x-ray machine where scanning of pallets is done, and another, mobile x-ray unit. The larger machine is positioned in a shed, where cargo can be inspected thoroughly. Since the shed is at the entry lane, it is usually trucks entering the country that are scanned. Trucks exiting Bulgaria are rarely scanned or searched, but scanning is possible if the need arises. The Turkish border authorities have a very large x-ray unit at their disposal, which can scan trucks without unloading the cargo. A similar high-quality x-ray unit in the mid-1990s was delivered to Kapitan Andreevo, but it was never actually put to use because of the expense of installation. According to some opinions, this was a policy deliberately chosen to facilitate trafficking channels at that time.
- Freezer sheds where trucks carrying perishable goods are searched.
- A radioactive detector through which every vehicle is required to pass.

- Surveillance cameras
 - ♦ The border police have their own surveillance cameras that record the license plates of all vehicles entering and exiting Bulgaria.
 - ♦ The border police have their own cameras at the first gate. Thus, the customs officials have 20 minutes to check their database and confirm the carrier's reliability. Nevertheless, customs officers think that the quality of handling passengers and cargo has not improved after the cameras were installed.
- Dogs: four dogs trained in Germany assist the anti-drug operations at Kapitan Andreevo. However, their olfactory sense is reduced in the summer season due to heat and exhaust gases from motor vehicles.

Thorough inspections

- Such inspections have various levels of thoroughness depending on the type of cargo, and take from one to three hours, although in some cases they may last as long as one to three days. An average of four officers is usually engaged in these checks.
- No more than three trucks per day are inspected thoroughly. According to official statistics, however, an average of twelve thorough customs inspections (TCI) per month was carried out in 2003. This is so because checks that did not involve unloading of the whole cargo, noting the number of items, and weighing and inspecting them, were also recorded as thorough inspections.

Table 11. Customs Inspections at Kapitan Andreevo

	2002	2003
Thorough customs inspections carried out (TCI)	1907 (-5 / 24 hours)	4593 (-12 / 24 hours)
Customs fraud reports	288	507

Source: Regional Customs Directorate—Plovdiv

- Thorough inspections are done in the following cases:
 - ♦ If a truck is owned by a company with a bad record.
 - ♦ The border police have sent a preliminary, oral or written, warning, together with a mandatory written request for a thorough inspection.
 - ♦ NSCOC and NBPS have started conducting checks with greater regularity.
 - ♦ Checks of trucks with TIR-carnets are more infrequent.
- A list of approved traders and manufacturers has been published, and the companies on it are inspected on rare occasions.
- The BCA risk analysis department alerts the border crossing stations about untrustworthy companies (e.g. the so called "cargo traders"), which are afterwards thoroughly inspected.

Transit flows at Kapitan Andreevo are rather uneven. Most trucks cross the border point on Fridays and Saturdays. The flow also varies across seasons, with the traffic being busiest during the Christmas holidays. Given that the BCA aims to ensure that 2-3% of entering trucks are inspected, two conclusions can be drawn. If one assumes that the number of TCIs would correspond to heightened traffic during certain days or seasons, this would mean that each inspection would have to take no longer than an hour. Therefore, they would not be effective enough. If TCIs are made with regular frequency (twelve per 24 hours on average), then the risk of smuggling on busy days and seasons will increase considerably. With the current staffing and infrastructure, both approaches foster a high smuggling risk.

Some former Kapitan Andreevo customs officers, or officers not favored by the present management, stated that the practice was to “bully small companies and let through the big shots.” The CSD team could not check the authenticity of such statements, neither have their authors provided any evidence to confirm them.

The Crown Agents Customs Mobile Teams

The interviewed border guards at Kapitan Andreevo found it hard to decide whether the mobile teams are effective or not, since they work primarily inland. Besides, no information has been sent to the border crossing about their activities. The mobile groups visit the site periodically, but neither a positive, nor a negative effect of their work has yet been observed. The customs officers were not aware of any fault that the teams might have found with their work.

These findings pose the crucial issue of feedback. The mobile groups’ conclusions and criticism should be used to improve customs operation locally.

Customs Frauds and Smuggling

- Some of the officers interviewed were of the opinion that from 1998 on, pressure for illicit customs clearance of cargo—either on the part of traders doing business in Bulgaria or by corrupt senior customs officials and Mol agencies—has been easing.
- Although the number of flagrant violations (i.e. contraband) has considerably fallen since 1998, the “softer” version of illicit goods clearance has remained a widespread practice. Examples were given of indirect pressure for such activities during the period 1998-2002:
 - a. Through unofficial orders by the regional director of the BCA that the trucks of a certain company should not be thoroughly inspected. In other cases, senior government officials sent representatives to ensure that a “special treatment” be provided to certain trade companies. Yet on other occasions, such attitudes were mandated through a phone call.
 - b. The trucks of certain companies are thoroughly inspected on any possible occasion. Thus, they are compelled to accept the protection of certain well-positioned intermediaries. When asked directly about the business of the late Konstantin Dimitrov, a.k.a. Samokovetza, some officers recounted cases dating from before 2002 when NSCOC officers came from Sofia to order that the trucks of his rival companies be always thoroughly checked. These inspections stopped only after the rivals started paying their dues, that is, became part of Samokovetza’s network.
 - c. With big smuggling channels or when the police break up a channel and the owner must salvage his cargo, they are assisted both by BCA and NSCOC officers.
- **Drug trafficking.** All official reports released by the BCA or the anti-drug departments of the Mol contain no information for complicity of customs officials in any drug violations. All interviewees denied the possibility that any of their colleagues had participated or are presently participating in any of the drug channels. Most of them backed their statements with moral arguments such as: “he may have been into all kinds of affairs during these fourteen years, but he has never gotten mixed up in drugs.” Some other, more rational explanations, referred to the high risk of being involved in a drug channel. The smuggling of goods rarely results in a verdict, while the perpetrators in drug trafficking cases are usually punished by ten to fifteen years of imprisonment. At the same time, the officers interviewed agreed that the drug traffickers are very well aware of the operation of all services at Kapitan Andreevo. A case in point was a recent heroin haul (foiled on 14 December 2003). The attempt to smuggle 30 kilos of heroin in a van was made exactly when the customs officials were changing shifts. In addition, some of the known criminal bosses like Kossyo Samokovetza ran goods-smuggling channels through Kapitan Andreevo. One could easily suppose that the same custom officers can be used to aid the transit of drugs.
- **The “cargo companies,”** as both customs officers and traders have dubbed them, are associations of 4-5 to 20-30 different traders importing goods from Turkey and Asia. Thus, a truck whose cargo’s value is €5,000-7,500 is levied at €1,000-1,700. Interviewees described this as one of the most frequently used smuggling schemes, which, however, is hard to prevent since the real price of the goods was impossible to prove. As mentioned above, the Turkish authorities are not willing to cooperate, either.

- **Shuttle traders.** Although suitcase trade has diminished considerably in comparison to the boom in the period 1990-1999, officers confirmed that even nowadays certain types of goods are illegally imported on a petty scale. The team witnessed how motor cars with enlarged fuel tanks are filled in at the duty-free gas stations at the border crossing only to sell the gas right after they cross over into Turkey. The types of goods and the patterns of trafficking them are numerous. Some of the officers interviewed claimed that the local “suitcase traders” from the border area who make a living from their activity were not problematic. It is rather the big players who collect the goods and redistribute them to the large markets in the country that present a problem. They deal mainly in excise goods (alcohol, cigarettes, and fuels) and agricultural products (fruits and vegetables).
- **Smuggling.** All of the officers that were interviewed, both the complacent and the critically-minded, agreed that the **lifted-gate type of smuggling** is no longer practiced. Cases when entire shipments were not declared at all are rare (including the variety of concealing whole contraband shipments screened behind a small amount of regular goods, or when declaring lower amounts of the shipped merchandise) and most violations are not as brash as in the past. The growing price of Turkish and Asian goods, as some of the local traders noted, might however incite certain players to use the “old methods,” where brash violations of the law carrying a high risk are committed.

General Evaluation

The general impression that the Kapitan Andreevo border crossing and the area around it give is that of dilapidation and poor hygiene. The infrastructure is outdated and is in urgent need of modernization. The employees at the border crossing, however, were distrustful that any modernization might alter the current situation. More than that, the necessary and inevitable changes were perceived as a threat rather than a positive development.

Svilengrad, the town closest to the border crossing where most of the border officers come from, had, by contrast, a different look. A number of luxury cars stood out, their Sofia or Plovdiv-registered license plates with four identical digits (a privilege only for those well-connected with the MoI) revealing who of the shady business bosses were in town. The occasion that had brought them there, it turned out, was a wedding reception. Such a congregation of €100,000-priced cars in a small-sized remote town is a clear signal of what interests the border zone is still attracting. The structure of gray business could also be deduced from the layout of the posh or less luxurious vehicles’ owners seated in the local restaurant.

Some local townsmen in Svilengrad, who had never worked at the border, disclosed that there were several famous families for whom the “promised” Kapitan Andreevo border crossing was reserved. Many border matters were being decided within their circles and no outsiders were ever allowed to trespass. Most people believed that one group of these families was in charge of the customs, and the rest controlled the border police. Occasionally, people from these families are employed at the other border services, but the strict division between customs and border police control is never broken. It is hard to say how much of all of this is true. The officers interviewed at Kapitan Andreevo confirmed the above hypothesis by refusing to give comprehensive and direct answers to CSD’s team.

Regarding the various risks at the border crossing, one fact should be specifically mentioned: there are numerous trade outlets around Kapitan Andreevo, most of them doing business in the gray, according to interviewees. The duty-free zone of Svilengrad, the duty-free shops and especially the three gas stations owned by the Turkish national Fuat Guven were cited as relevant examples. This type of business is also reserved for certain families in which no strangers are admitted.

It is noteworthy that the particular cases recounted by Kapitan Andreevo officers were all set in the past, not going beyond the time when the BCA’s penultimate Director, Emil Dimitrov, resigned from office in 2001.

From the interviews with people who are either no longer employed at the border, or who are in a certain “isolation” from the rest of their colleagues, it could be concluded that the expertise of customs and border officers also poses certain risks. They are fully aware of what part of their activities may be subject to audit and by what authorities, what charges might be brought against them for each failure in fulfilling their duties, and how these charges are proven.

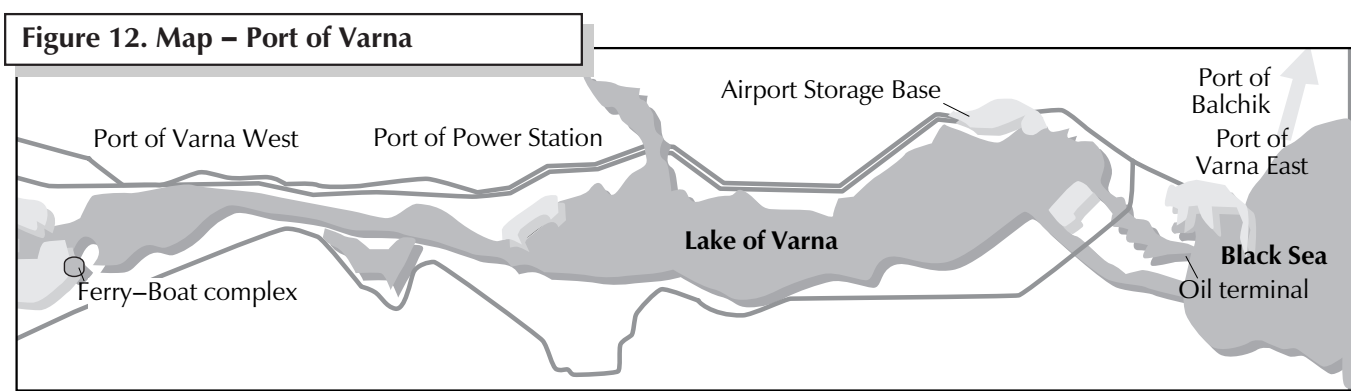
The interviewees with a critical attitude argued that there are a variety of ways to get income at the customs post, its size depending on two main conditions: the position the customs officer occupies and the risks he is inclined to take. Grassroots officers could earn €5-10 by providing the truck that pays faster

clearance or service. Alternatively, they could advise a trader about what goods it is advisable to declare, in which cases the company bears the whole risk and therefore the customs officer's commission would be modest. They could let in a truck without inspecting it every two months and the importer or organizer would pay for the risk taken by the officer. Therefore, good knowledge of the system is essential for significantly reducing the risk of clearance violations when the presented cargo clearance documents are precisely completed. As some interviewees put it, only "dumbos and rough players" get caught, and then only if their luck fails them. The issue of the customs management's attitude and the corresponding threat to one's position is more complex and ambiguous. You could "lose the trust of your superiors without actually committing a faux pas, just because rival colleagues have set you up."

2. PORT OF VARNA

General Information

The structure of the Port of Varna includes three component port units: Port of Varna East, Port of Varna West, and the remote Port of Balchik, which will not be discussed in this report. The risk profile of the Port of Varna is worth drawing since it is one of the largest, most complex and hardest to guard border infrastructures in Bulgaria with constantly growing cargo traffic. These characteristics make it one of the main points where customs violations and goods or drug trafficking are attempted. Certain issues regarding the Port of Power Station and Port Naphtex are also brought up, and a broader overview of security along the northern Black Sea border is provided.



A number of factors in recent years have made Varna the leading port at the Bulgarian Black Sea coast. It has a well-developed infrastructure, offers quality services and competitive prices, enough to draw clients even from the other large port, Bourgas. Northern Bulgaria as a whole has made considerable economic progress, therefore increasing cargo traffic. After Greece lifted its embargo on Macedonia, the cargo traffic shifted back to Thessaloniki (during the embargo it passed through Bourgas) and thus Varna became the port of highest gross tonnage.¹¹² A total of 1,437 ships were serviced at the port in 2003. It has several terminals for liquid chemicals, for clinker and cement, as well as facilities for dichloroethane and liquid fertilizers, sulphuric acid, soda, carbamate, etc. The number of handled containers has grown by 45% since 1998, reaching a peak of 65,063 containers in 2003.

The primary export trade destinations are CIS states through the Varna-Ilichevsk and Varna-Poti ferry lines, as well as the Middle East and South Africa. The port also handles transit cargo headed for Serbia and Montenegro and Macedonia. Over 60% of the port's turnover is provided by products of the chemical plants in the nearby town of Devnya—Solvay Sodi JSCo, Devnya Cement JSCo, and Agropolychim, as well as Union Miniere and Chimco Ltd, Vratza. Customs **duties** on the greater part of the container cargo **are not imposed at the Varna Customs, but are in transit to be handled at inland customs bureaux.**

¹¹² Bourgas, however, still ranks first as regards the value of cargo passing through the port, mainly due to the Lukoil refinery.

Table 12. Ship Traffic (1998-2003)

Year	Tons	Number of ships serviced
1998	6 426 312*	1 312*
1999	6 188 953	1 130
2000	6 263 160	1 219
2001	6 773 750	1 179
2002	7 503 514	1 311
2003	8 056 957	1 437

Source: Port of Varna Plc.

* Figures for 1998 include also the ship traffic of Varna Power Station berth. Since 1999, this port facility is not within the structure of Port of Varna Plc.

Table 13. Container Traffic (1998-2002)

Year	Container traffic
1998	44 900
1999	43 022
2000	37 255
2001	45 489
2002	59 061
2003	65 063

Source: Port of Varna Plc.

The port is seeking to improve its operation in view of the growing number of containers. It is a pilot site for a project for transiting containers, whose aim is to dispense with excessive bureaucratic procedures. This is a project within the larger, World Bank supported Trade and Transport Facilitation in Southeast Europe Program, under which several companies have been pre-approved to undergo expeditious customs servicing. For these companies' cargo Varna customs receives the preliminary ship manifests listing their cargo twenty-four hours before these companies' ships have entered the port. Although the procedure has already been launched, thorough inspections are still being made at the Varna customs clearance terminal, even with cargo of these companies, so that expeditious service is not interpreted as lack of control. Such facilitations are not applied to excise goods.

The Port of Varna East is situated on the northern shore of Varna Bay, in proximity to the old part of the city and the railway station. Its total quay length is 2.4 kilometers. The port handles mainly general and container cargo, grain, and occasionally other types of bulk cargo. Passenger ships are handled at the port's passenger terminal. The container terminal operates container trailers and containers, including the expeditious handling of transit container cargo. There are open storage areas and warehouses as well as a storage base for liquid cargo (wine). The port has its own railway tracks connecting it to the country's railroad network.

The Port of Varna West was built in the industrial area of Devnya, 25 km. west of Varna, on the shore of Lake of Varna. A canal links the port to the Black Sea. Access to the national railway network is provided through Razdelna Station, while road lanes link it to the country's road network. The cargo handled at the port is of the general, bulk, and container variety. It has facilities for liquid chemicals as well. Ships carrying apatite, phosphorite, sulphuric acid, dichloroethane, and liquid fertilizers are handled at a specialized chemical and hazardous cargo terminal. The bulk cargo terminal services vessels shipping fuel, clinker, bulk soda, and carbamate. It also handles export shipments of calcinated soda produced by the Devnya plant Solvay Sodi and carbamate produced by Chimco. Varna West also deals

in exports such as bulk and packaged cement, inert materials, quartz sand, china clay, caustic soda, fertilizers, etc. There is also a container terminal.

Risks Arising from the Infrastructure

In contrast to land borders, the specific features of the sea border invite broader interpretations of security issues. Smuggling and customs violations can be committed not only in port areas where the border crossing stations are located, but also in the territorial sea, the coast line, inland waterways (e.g. the lake of Varna), and ports without permanent border crossing points (such as the Varna Power Station Port and the Naphtex Port).

Port Security

Security at the two sites the CSD team visited—the ports of Varna East and Varna West—is at levels comparable to that of all other Bulgarian ports. The main problem is that, since the old security system was discarded, it hasn't been replaced by any of the modern IT-based low-priced solutions. A case in point is the security of the berths. One of the border police service tasks in the past was to assign each berth where a ship is moored a border guard who would monitor crew members and visitors. Nowadays, border guards are only monitoring some of the ports' entrances. No security zones actually exist and access to the berths is not barred in any way.

The Port of Varna East is fenced with low walls that are not equipped with video surveillance systems. There are four gates to the port, only one of which is suited for trucks, another two for pedestrians and a fourth one for trains. The central gate is not heavily guarded or supplied with surveillance cameras. No information about incoming and outgoing individuals is recorded, neither is their hand luggage checked. Upon entering the port, a pass is required, but no control whatever is exercised over those exiting it. This is a border crossing area, yet no border police patrols are safeguarding it. The few surveillance cameras available at the port are installed only around the excise goods enclosures; the latter are also permanently man-guarded.

The inflow and outflow of people at the port is hard to control. Thousands of people working at the port, the port administration, the company warehouses, or as stevedores enter the port daily. It would be unfeasible if they cleared customs or went through passport control each day. However, there is no obstacle for illegal entrants or the smuggling of small quantities of drugs or arms in or out of the country. The vehicles gate does not prevent such possibilities either, since much of the port staff also enters the port in their own cars.

Varna West is faced with similar problems. It is built on an even larger expanse of land, with a total quay length 3.2 km. Its eastern part is protected by a stretch of natural marshlands. The whole port is surrounded by industrial facilities, mostly of the Solvay Sodi plant. The presence of border police officers is even more inconspicuous than at Varna East. The fences are easy to jump over, especially by night, due to poor lighting and the lack of any video or electronic surveillance devices. Apart from the enclosures around the excise goods warehouses—which are equipped with alarm devices and 24-hour guards—the port has no surveillance cameras. There is only one gate with a booth, where passport and customs control is exercised.

The customs and border police officers interviewed asserted that despite lax controls, goods smuggling by trucks and containers was difficult. They claimed that the risk was too high and no such cases had been registered. However, some striking stories were told about Bulgarian seamen trying to smuggle in cars for personal use.

Port security is also low at the other two ports in the area, the Varna Power Station Port and the Naphtex Port, since they have no permanent BCA or NBPD posts there. Besides the lack of secure fences and electronic surveillance devices, the period of customs and border police monitoring of the ships moored at the two ports is rather short. In some cases, the authorities arrive at the site hours after the arrival of the ships.

Security services for the two ports of Varna East and Varna West (and, in addition, the Port of Bourgas) are provided by Daga-S, one of the largest and oldest security firms in Bulgaria owned by former military counterintelligence officers. The customs officers interviewed by us confirmed that they were satisfied to work with a private company and assessed its efficiency as much higher than that of police guards.

Coast Security

Prior to 1998, the protection of the Black Sea coast was a responsibility of the Navy, which then handed it over to the National Border Police Service. Nowadays, there are two systems of surveillance of the littoral area (12 miles off the shore) of the NBPS and the territorial waters (from 12 to 24 miles into the sea) by the Navy. The two systems are not integrated and they only provide information upon request from the other party. When necessary, information might be exchanged with other services such as the BCA, and the port administrations of Varna and Bourgas.

At the start of 2004, the NBPS had only three patrol boats in service (two 40-ton vessels provided under the PHARE Program and another 220-ton second-hand craft). The remaining nine ships were out of Commission. One of the functioning patrol boats is used by the Port of Varna to safeguard Bulgaria's Northern Black Sea border. Coast protection, including the fast patrol boats (FPBs) used in Varna, is coordinated by the Regional Border Police Service in Bourgas. They contact the Varna Regional Border Police only if need arises.

Navy experts claim that the available NBPS vessels cannot perform their tasks when the wind force is over 4 on the Beaufort scale. The three ships (with even the fourth 220-ton craft to be purchased in 2004) of the border police are not sufficient to control and intercept violations in the littoral and territorial waters, let alone the exclusive economic zone extending up to 200 nautical miles from the coast. On the other hand, the Navy, which has about 50 ships and patrol boats, is not empowered by law to stop, inspect, or arrest merchant ships that might be engaged in trafficking.

The Navy started promoting the introduction of a *national, automated radar system for control of navigation and protection of the sea borders* called Ekran, as early as in the year 2000. The arguments supporting this proposed system are the following:

- Positioning of radar sites along the coast does not provide for full control of shipping.
- The great variety in radar and communications equipment used by the Navy, the NBPS, and the Port Administration Agency hinders compatibility, and even interoperability among the units of the system.
- The low level of automation in information processing and information exchange impedes adequate decision making, especially in rapidly changing situations.¹¹³

The Ekran system could function as an information and coordination center collecting, processing, and transmitting data from all video surveillance and radar sites to all authorities concerned (the NBPS, the Bulgarian Navy, etc.). The Navy maintains that the Ekran system could facilitate the search, detection, identification, classification, and tracking of ships and boats. It will help introduce automatic data processing, picture compilation, and integrated display on digital maritime charts in a unified standardized coordinate system. In terms of reducing the risk of trafficking, an important component of the system will be the stricter control of navigation in the littoral zone, straits, and channels. Data will be transmitted to the automated command and control systems of the Navy, the NBPS, the State Maritime Administration, the BCA, the ports, etc. In addition, there is a considerable potential in the integration of the Bulgarian automated information system Ekran with similar systems in Turkey and Romania.

Although an inter-agency group¹¹⁴ has started working on the establishment of an integrated information system similar to Ekran, there are still certain inter-institutional contentions to resolve. The main one is who should be in control of the system. The Navy claims that it should be the leading authority and the one having permanent access to all the information. The Maritime Administration, NBPS and the BCA would receive filtered information corresponding to their needs and will also access additional data on special occasions. The NBPS is the chief opponent of this proposal. They think that their responsibility of protecting the sea border of Bulgaria entitles them to permanent and full control over the information. Moreover, during off-the-record conversations, border police officers shared that their service introduced their own modern radar surveillance system in 2003, so they would not need to cooperate with the Navy. In their opinion, some naval officers take advantage of their position to engage in illegal goods trafficking.

¹¹³ Petrov, Peter, "Towards Creation of a Unified Information System of the Navies of the Black Sea Countries," *Information and Security*, Volume 6, 2001, pp. 94-101.

¹¹⁴ Decision 64 of the Council of Ministers of 27 January 2003 supplementing Decision 204 of the Council of Ministers of the Republic of Bulgaria of 12 April, 2002 on the Establishment of a National Friend-or-Foe Identification System.

One of the most serious challenges faced by the NBPS and the BCA is the smuggling of goods outside the zones of international ports. Such activities have a long history dating back to the days of total state control. The usual practice at that time was for ships sailing back from abroad to throw goods close to the coastline, which would be later fished out by accomplices in small boats.

Another smuggling pattern is applied out at sea, where fishing boats approach a ship and the goods are transferred overboard in motion. These actions can only be captured through visual surveillance equipment. Radar observation cannot discern between two crafts merely sailing close to each other and two crafts exchanging goods. Often, such smuggling operations are carried out close to the sea borderline with Romania, and if the authorities attempt any actions, the boats can cross into Romanian territory. These boats are usually unloaded in small harbors without permanent customs or border control. The more direct smuggling pattern is when small boats enter small bays or harbors.

The situation is even harder to control nowadays, when trade between Turkish and Bulgarian small fishing crafts and boats is commonplace. Bulgarian fishermen sell or barter fish or shellfish in the open sea with their Turkish counterparts, which provoke concerns that at-risk goods might be imported. There have been certain signals about the possible import of heroin in recent years, but inspections have not confirmed any of them. Nevertheless, it is considered that part of the smaller vessels (up to 200 tons) sailing under flags of convenience (Ukrainian, Georgian, etc.) have managed to smuggle heroin to Bulgarian shores.

Small craft are also suspected of trafficking various brands of import cigarettes. It is considered that they unload the cargo beyond the 12-mile zone or in the zones of radar shadow. One of the versions of the incident with the *Elena* was that two of the containers with cigarettes that turned out to be empty had been unloaded with the help of a small craft.

Apart from the described patterns, certain zones of radar shadow in the open sea are also used to perform such operations. The area around Cape Kaliakra and most of the Varna Lake are radar shadow zones. Buoy 9, anchored in the widest part of the Lake of Varna, has become a synonym for smuggling. At that particular spot small boats often swarm around passing ships. Customs officers explained that there are numerous cases when not only goods, but also fuel is dropped off from passing ships to small boats and then loaded on automobiles and vans parked by the roadside. Such maneuvers are also done on the lake's south banks, which is farthest from the Port of Varna and the port authorities would take longer to react to any signal. The canal's southeastern part is also situated in a radar hole and is handily used by smugglers to unload goods.

Mode of Operation

The organization of work at the ports also heightens certain risks. There are two separate customs units at Varna East and Varna West, but the border police remain with a centralized department based at Varna East. The low-rank officers will rarely venture to take action without the shift supervisor's approval, which delays the procedures, and is generally ineffective, since the Varna East supervisor might not be familiar with the specific problems at Varna West.

Incoming ships are always inspected by officers from the whole range of border agencies—NBPS, the BCA, the Maritime Administration, the phyto-sanitary, veterinary and sanitary control services—irrespective of the type of cargo shipped. Thus, the phyto-sanitary, veterinary and sanitary experts are often a redundant part of the inspecting team.

The legally regulated tasks of NBPS are passport control and the control of drugs and hazardous devices. However, for some time they have been tracking goods traffic as well. Border police officers have been instructed to be especially watchful of certain types of cargo, e.g. meat. Yet, such control is inefficient since NBPS officers are not trained accordingly in customs regulations. To the bystander, the scene which the CSD team witnessed—of ten officers moving from container to container feigning an inspection—looks no less than ridiculous: they just opened the containers, threw a glance, and closed them, thus considering the order for inspection to be fulfilled. To the question of how one would discern problem meat from normal meat, only the customs officer could reply that “the meat which looks different may be sent to the laboratory in Sofia for expertise.”

Collaboration between Institutions

At the Port of Varna, the NBPS and the BCA remain two divided institutions, interacting by intricate bureaucratic procedures. Conversations with either service easily reveal mutual distrust. Operational intelligence information is provided by any of the services only upon the express demand of the other. The two agencies keep formal high-rank or strictly informal contacts only when necessary.

Apart from superficial, routine knowledge, border police officers are not familiar with the work of the customs. Even high-level officers are not acquainted with BICIS. No customs officers are included in the NBPS patrol boats crews inspecting ships suspected of violations. Thus, their checks lack efficiency due to the border police's unawareness of the possible customs violations, especially in terms of drug trafficking.

Moreover, the NBPS provide input to the National Service for Combating Organized Crime and the National Security Service—the two agencies gathering and processing the operational intelligence data. The latter, however, rarely supplies the NBPS with reciprocal data or feedback.

Customs Frauds and Smuggling

The trend from the last two years has been that of increased attempts at lighter customs frauds at the expense of smuggled imports. Between 1998 and 2002, cargo traffic rose by 44%, which has enhanced the risk of smuggling and customs frauds. This is all the more applicable for container traffic at the Port of Varna.

The rise in cargo traffic is, however, not accompanied by an improvement of technical capacity and staff skills. This is why the number of thorough inspections is way below European standards requiring that 4% of the traffic be checked (Table 16).

It is striking that the number of thorough inspections has gone way up at most border crossings, while at Varna hardly any change in inspections or proven violations is observed, despite the steady growth in cargo traffic. Critics of Varna customs, a core group of who resides in Bourgas, argue that "Varna supports the most 'liberal' import regime in the country." The Varna model includes private customs brokers and forwarders employing former customs officers that use their contacts at the customs bureau to secure speedy passage for their clients. Varna customs officials, on the other hand, claim that this border crossing is generally preferred for its competent, highly qualified staff. The CSD team fully supports this last argument, on the basis of conclusions drawn from the CSD team's visits to a few other border crossing points. The problem is that no reliable criteria, including quantitative ones, have yet been designed to allow for objective assessment of the various types of inspections and their effectiveness in the separate customs posts and bureaus.

The efficiency of control is further affected by the specific features of coastal customs. For instance, a ship is considered to have between 12,000 and 14,000 convenient caches all of which are practically impossible to search. Some of the border and customs officers claimed that a proper thorough inspection of a large vessel had not been made for ten years, even when there had been signals for drugs or arms being carried.

The other problem is the low motivation to inspect containers thoroughly, especially if they are full of miniature items. On certain occasions, a team of six or seven officers has had to spend three days to make a thorough container check.

One reason against thorough inspection, the interviewees pointed out, is that these might impair the goods, and traders might claim damages. In one such instance, smuggled cigarettes were found in pallets full of timber. The unpacking of such cargo can cause a problem, since the customs do not have the technical means and funds necessary to pack the merchandise back. The way containers are currently inspected is limited to taking samples from randomly chosen spots.

The critically minded customs officers claimed that cigarettes smuggling is a well-developed trafficking scheme at the Port of Varna. The management also confirmed that smugglers are fully aware of the obstacles to a thorough inspection of an export cargo (of timber for example). Thus, the absence of an x-ray unit that may be used for inspection was defined as a serious risk at Varna customs.

Another problem, both at Varna West and Varna East, is the lack of indoor sheds to carry out inspections in adverse weather conditions. There are no freezer sheds in which to inspect meat products either, although the latter are quite frequently used in customs violations.

Table 14. Cargo Traffic at Port of Varna (1998-2002)

Year	Tons
1998	4 508 000
1999	4 652 000
2000	5 560 000
2001	5 820 000
2002	6 509 000
2003	6 576 000

Source: Port of Varna Plc.

Table 15. Traffic at Port of Varna by Cargo Type (1996–2002)

Type of cargo	1996	1997	1998	1999	2000	2001	2002
liquid cargo	278 612	197 446	341 817	813 728	765 862	620 287	424 916
crude oil	–	–	0	403 371	–	12 473	–
oil products	112 612	52 259	191 726	102 357	214 668	138 206	64 424
other liquid	166 000	145 187	150 091	308 000	551 194	469 608	360 492
bulk cargo	4 536 070	4 863 425	4 510 120	4 193 594	4 812 627	5 664 754	6 589 284
Ore	4 000	10 000	72 000	111 000	394 000	40 122	251 267
Coal	1 293 458	1 194 744	1 644 805	1 035 479	1 363 833	1 978 203	1 201 894
agricultural products	89 902	236 552	772 013	969 648	655 723	546 966	209 615
Coke	111 000	123 000	116 000	219 000	228 000	309 069	–
Gravel	553 000	839 000	544 000	347 000	72 000	19 379	–
Other	2 484 710	2 460 129	1 361 302	1 511 467	2 099 071	2 771 015	4 926 508
Containers	302 000	372 000	416 000	395 000	415 000	533 037	674 394
Ro-ro	760 846	468 662	295 338	253 787	235 729	418 900	356 757
general cargo	934 531	846 834	697 315	432 601	623 630	633 625	447 924
Wood	38 889	35 544	12 867	1 761	11 764	38 269	–
Metals	70 000	80 922	51 803	31 728	67 975	34 713	–
other general	825 642	730 368	632 645	399 112	543 891	560 643	447 924
total sum	6 812 059	6 748 367	6 260 590	6 088 710	6 852 848	7 870 603	8 493 275

Source: Port of Varna Plc.

Table 16. Thorough Inspections 2002-2003

	2002	2003
Total thorough inspections	1 782	1 648
Proven violations	153	160

Source: Bulgarian Customs Agency

The contraband moving through Varna has provoked huge discussions, mostly in the second half of the 1990s. They focused primarily on smuggling channels for stolen cars, alcohol, cigarettes, electronic household appliances, and certain items used in construction or interior design. According to Mol information, a trafficking channel for motorcars stolen from European countries transported to Asia (Russia, the Trans-Caucasian, and Middle Eastern countries) and Africa was operational through the Port

of Varna between 1996 and 1998. In the period 1998-2001, importers of international alcohol brands frequently announced Varna and Kulata as entry points for illegal import of their products. Later, in 2000-2001, customs violations involving oil products became one of the most profitable smuggling schemes for gray businesses: the delivery of propane-butane by freight trains using the Varna-Ilichevsk ferry line, for instance, could yield a profit of up to 200%. The highest-value deals, however, are those with export cigarettes. A variety of patterns are employed here: containers are unloaded from ships onto trailer-trucks and transported to Italy via the Macedonia-Kosovo-Albania route, especially after the war in Yugoslavia ended in 1999. Customs officers commented that most documents for such contraband operations are genuine. Another profit-making destination for smuggled cigarettes is the UK. In such contraband schemes cigarettes, either legally imported or smuggled in, are exported in trailer-trucks, concealed by a declared cargo placed and at the back of the container or covered up in other ways.

According to MoI officials, despite the closure of the most widely used smuggling channels, e.g. those for stolen cars and propane-butane, gray and black business players would not discard the good income earned by them in the 1990s. They claim that the existing criminal infrastructure has been preserved; moreover, it is better developed in Varna than in Sofia. The only proof of this, however, albeit indirect, are certain well-know Bulgarian underworld bosses who continue to live in Varna, as well as the multitude of Russian, Ukrainian, Chechen, Georgian, Armenian, or other former Soviet citizens prosecuted for crimes in their own countries who have permanently settled in Varna. Apart from the criminal network, numerous charges have been leveled at the law-enforcement and judicial bodies in Varna.

Both the critically-minded and the supporters of the customs' performance thought that the changes that took place between 2001 and 2003 were for the better. They testified that a shift from raw contraband to customs frauds was noticeable.

Cigarettes and Alcohol

There are **two main contraband and fraud schemes related to cigarettes**. The first one is a trend established in the 1990s—international brands of cigarettes were illegally imported. In 2001, for instance, the illegal import of Marlboros from Malta through Piraeus, Greece to Varna was registered. In March 2003, after a signal by Philip Morris International, customs officers from Varna West and officers from the National Service for Combating Organized Crime conducted a joint inspection. They took samples from three different containers with Marlboro cigarettes unloaded at the port and sent them for analysis in Switzerland. The analysis revealed that the cigarettes were fakes, i.e. produced by an unauthorized manufacture of unknown origin.

Cigarettes going to Serbia and Montenegro are also concealed in containers and illegally imported through the container terminal: these are usually loaded at ports in Asia and are headed for Serbia.

In the last few years, the basic customs frauds involving cigarettes have been changing. Cases of *transit* are ever more frequent. It involves reloading of the freight from the Port of Varna to a number of other, mainly Black Sea ports, in order to conceal the actual cargo being carried. There are two examples that illustrate this scheme. In the first case, a plane loaded with cigarettes, initially carried to Bulgaria by ship, landed at Sofia Airport where it was declared that they were to be exported to Greece. The plane next returned to Plovdiv Airport and was declared empty. The cigarettes were smuggled out of the airport and loaded on a truck to Western Europe. Compared to reloading done beyond the territorial sea, planes are less frequently involved in smuggling operations. The other variation of the scheme uses the shuttle traders who are mainly British tourists going back and forth from the UK to Bulgaria with their luggage full of cigarettes. This pattern is employed mainly in the summer when the traffic of low-cost charter flights from smaller British airports is really heavy.

Customs officers commented that while multinational companies were extremely willing to cooperate in cases of fake cigarettes smuggling, it is much harder to ensure such cooperation in cases of contraband of original cigarettes. Some of the interviewees even claimed that "tobacco manufacturers assist smugglers with logistic information."

Between 1999 and 2002, the Varna customs has been accused of tolerating "parallel import" on numerous occasions. Customs officials affirmed that this was a legal dispute relating to trademark law, which should be resolved in court. Corporate officials representing famous trademarks accused the BCA that such import was conducted exclusively through Varna Port, since the local customs tended to "interpret the law nonjudgmentally pressured by gray importers." The official importers brought forward cases in which spirits were illegally imported from the UK and Germany by presenting invoices of smaller

amounts and by replacement of the actual tariff numbers to eschew the payment of due customs duties and other state receivables. According to them, however, the situation improved considerably in 2003, when most gray actors were ousted from the market. Smaller offenders are also having a hard time—in 2003 one report for the **smuggling** of 9,937 bottles of strong alcoholic beverages (from Greece to Bulgaria) and five reports for **customs fraud** with spirits amounting to € 298,000 were drawn.

Drugs

In April 2003, customs officials at the port captured 5 tons of the drug precursor anthranilic acid (200 25-kilo bags), a raw material for the production of narcotic and psychotropic substances. The cargo had entered in a container through the Port of Varna East and was declared as chemicals. It was temporarily stored at the port's facilities and reloaded in a different container that was declared for re-export.

In the autumn of 2003, 103 kilograms of hashish were discovered. The customs' drug enforcement department interpreted this as a test case of whether a trafficking channel might be set up. CSD's interviews showed that this particular capture was rather by chance. The officers that took part shared that their attention was initially drawn by a reefer container with apples from Lebanon because of its unusual itinerary. The local recipient company's odd behavior further raised their suspicions, and encouraged them to conduct a thorough inspection. The inspection would not have been made, had not some officers from the Sofia drug department been there by coincidence. The drug enforcement officers helped their customs counterparts open a hard to access cache in the reefer container. From this perspective, one cannot help but ponder how many containers of frozen meat have actually been inspected in the last few years. Hundreds of similar containers from Latin American countries of concern enter the country every year. With no x-ray equipment or reefer stacks at the port, they cannot practically be examined. This fact is well-known at the BCA. There is a relevant fact worth mentioning here that is not known to the wide public. The national record-breaking haul of 600 kilos of drugs captured by customs authorities was set due to a chance coincidence when a group of port workers decided to bust a container labeled "jeans."

Methods for Oil Smuggling

The Port of Petrol JSCo., Varna is the oil terminal run by Naphtecs. Oil and oil products are imported through this terminal, which however has no permanent border crossing station or a customs bureau. The border police and customs officials are informed whenever an import operation has to be conducted and they visit the site to control the import procedures. A check made by the BCA found that supplementary pipes had been built to unload oil tankers, which, however, were not marked on the port's plan that was in use. It is thus hard to identify into which tanks the fuel goes when being unloaded. The products with their customs duty paid, and those for which it has not been paid, go to the same tanks. When tank trucks are loaded, there is no way of discerning between the taxed and untaxed fuel. The lack of a permanent border crossing makes control over the products leaving the port nearly impossible.

The exact amount of fuel is also hard to follow since tanks at the port are not calibrated, and even a slight slant might produce an error in its measurement. The port's guards do not keep an exact record of incoming and outgoing trucks. Moreover, the fencing has holes in places and no effective control over the movement of people through them can be applied. No security equipment—either surveillance cameras or alarm devices, are available. In addition, the port's property status has remained unresolved for years;¹¹⁵ hence, the BCA could not lodge an official claim that the above issues be addressed.

There are two major types of customs violations with oil products:

- The importer deceives customs officers, declaring a different amount from that actually imported. Since customs officers cannot establish the exact amount by just looking at it, an *ullage survey* has to be done at a price ranging between €500 and €1500. This is a special method for measuring the quantity of oil by an independent expert. The whole procedure takes between two and three hours. There are a great number of external *ullage survey* experts in Varna, yet it is uncertain whether they are really independent or are bribed by the importer. Such a survey has to be paid for by the customs. In 2003, only three such surveys were carried out.

¹¹⁵ A dispute between the private company Petrol JSCo and Port of Varna JSCo run by the Port Administration Agency of the Ministry of Transport and Communications.

- The other type of fraud is to declare the imported oil products as oil products levied by a lower customs duty than the product actually imported. Since visual examination would hardly produce authentic results, the only way to inspect the product would be a laboratory test. However, the BCA's laboratory is not licensed to analyze all oil products. The agency has lost two lawsuits disputing its competence on account of this. Such analyses may be done in laboratories in Sofia, as well as in the laboratory of the company Prista Oil in Pleven. The closest facility where such expertise might be carried out is that of Lukoil in Bourgas, but its independence and objectivity are highly questionable.

One of the most acute smuggling issues is related to the **ship fuel supply companies**. There are around 15-20 of them in Varna, supplying the ships with fuel, most of them while the crafts are docked, while four of the companies have their own fuelling vessels delivering to ships in roadstead. In a typical smuggling pattern, the captain of a ship orders the needed 60 tons of fuel. The need is of course non-existent, but no one is aware of that, and will not check the amount of fuel available. The fuelling tank or vessel makes a false refill of the ship supposedly needing the fuel and finally the tank carrier leaves the port full. Afterwards, the fuel supply company lodges a request that the excise duty and VAT paid by them be reimbursed and the fuel itself is sold again to another client.

This type of smuggling is difficult to prevent since hardly any physical control over the process can be exercised. No regulation exists that would oblige fuel supply companies to inform the BCA about the exact hour and place of the filling (when the crafts are not in berth). Even if a customs officer attends the fuelling in person, s/he would not be able to measure the amount of fuel delivered, while the reliable ullage survey is too expensive, as explained above.

Apart from this, some ship captains often declare a smaller amount of fuel received and in turn sell the surplus to the supply companies or to smugglers. In some cases, smaller vessels quickly unload a couple of tons of fuel and drive it off port in motor cars or minivans.

Propane-Butane

Propane-butane has usually been transited in freight trains along the Varna-Ilichevsk ferry line. There used to be a regularly running ferryboat between the two cities, but now it runs on demand, provided there is enough cargo to be carried, and even then the ferries are often half empty. There are no weighbridges for railway cars at the port, so the quantities of propane-butane imported in the country cannot be assessed. The only way a tank car could be weighed, and respectively the authenticity of the declared amount of gas verified, is for the train to be driven 6 kilometers off the port to the Bulgarian State Railways facilities. This procedure involves too much bureaucracy, which was cited by customs officers as the main reason why weighing is not regularly done. No effective measures against illicit propane-butane import are as yet been implemented, but the sheer cut of the amount imported through Varna in recent years has diminished the problem itself. Nowadays, the amounts of propane-butane are mainly intended for the regional market.

Chinese Goods

The illicit import of Chinese goods is considered in detail in Chapter Five of this report. Varna customs authorities certainly encounter problems much similar to those of their colleagues at other customs bureaus. First of all, the actual value of the goods is hard to ascertain, since no cooperation with Chinese customs is possible. Bulgaria has signed no customs agreement with China and there is no information exchange between the two services.

3. KULATA

Kulata Border Crossing Point is the main transport corridor through which not only trade with Greece, but also worldwide trade through the second biggest Greek port Thessaloniki is carried out. Since the mid-1990s, the port has been competing with the Bulgarian ports of Varna and Bourgas, and has even ousted them in trade with certain groups of commodities. The Port of Thessaloniki has become a trading alternative because of lower transportation costs and the shorter time (about one week) needed to transport cargo to the largest market in Bulgaria—Sofia. Kulata is also on Bulgaria's border with the European Union, which makes it a focus for human trafficking.

Transport

The average weekly number of motor cars with Bulgarian and foreign registration crossing the border is 3,885, the number of buses is 307, and that of trucks and other freight vehicles is 2,963. Depending on how heavy the traffic is, the total of vehicles going in and out of the country per day varies from 950 to 1,022. Other estimates show that an average of 600 to 700 motorcars is released daily.

The average weekly number of persons crossing in both directions is about 22,814,¹¹⁶ including those crossing on foot; the daily average of people registered crossing the border is thus 3,259. Around 14 passenger and 28 freight trains pass through the border point in both directions each week.

Most trade with Greece is conducted through this border crossing that is exceedingly busy due to the slow release of cargo and passenger traffic. Sometimes carriers have to wait for two days to cross over. The several-kilometer-long lines of freight vehicles are customary during the Christmas and Easter holidays.

Infrastructure

There are eight main entry and eight exit lanes at Kulata. The adjacent Greek border crossing point is Promahonas. There is also a railway passage. A new weighbridge and several new administrative buildings, cold storage for inspections, an x-ray machine, and a shed for inspections have been in operation since February 2004. These improvements significantly lower some of the risks caused by lack of suitable inspection infrastructure.

The border police are probably to be supplied with additional equipment, too. The gear presently in use is insufficient. For instance, the quality of surveillance cameras makes their usage meaningless. The CSD team could not differentiate cars from trucks on the border police monitors. The sixteen digital cameras and recording devices needed at Kulata are already so cheap that even small private Bulgarian companies can afford them. The fences and lighting at the border crossing are in poor condition and need improvement as well.

Trade outlets such as cafes, stores and casinos concentrated immediately outside the NBPS' first gate present another problem not only to security, but also to the fast and effective clearance of goods. This mass of buildings narrows the access to the border crossing to a two-lane road. The eight control lanes in one direction do not make much of a difference to traffic as there is no waiting plaza and there is only a two-lane road leading to the border crossing. This road is often jammed not only by trucks awaiting clearance, but also by local taxis and other vehicles densely parked in front of the cafes or stores. One occasion in 2003 is telling of the disorder in the border area, especially in the busiest periods: a trailer-truck attempted to cross into Greece without clearing customs at all and was detained by chance.

The premises of the border crossing are not air-conditioned, which further impairs border officers' performance. In summer, temperatures often stay over 40°C for days on end. Electricity supply is not stable either. In December 2003, a power failure caused a six-hour blackout at the Kulata border crossing. The damage was not repaired by the emergency service of the national electricity supplier, but by a private repair company alerted by the NBPS.

Risk Profile

There are three specific groups of risks at the Kulata border crossing.

- The main risk is related to imports from China, since in the last few years the values of commodities coming from Western Europe are easy to check. The declared prices of Chinese products based on customs calculated duty are way lower than the real purchase price. The real price is hard to prove, which provides the opportunity most frequently used for customs frauds in which customs officials participate.

¹¹⁶ This figure does not reveal last year's growth of the so-called commercial tourism, that is, the growing number of Greek citizens crossing back and forth several times a week to do their shopping in Bulgaria, where prices are lower.

- Kulata is still an entrance preferred by importers of Western European goods, and although frauds have been significantly curbed due to cooperation with EU countries, there is still a serious risk present. This is so because of fast-growing trade and the opportunities to secure documents proving a value lower than the actual price of the commodities.
- Smuggling people through the Bulgarian-Greek border is still a grave risk. Despite the fact that pressure on border police was alleviated after Shengen states lifted their visa requirements for Bulgarian and Romanian nationals, the Greek border continues to attract emigrants from the former Soviet Union, the Middle East, Central Asia, and Africa. The biggest trafficking channels lead across the green border. However, some of the illegal immigrants rely on a combination of document fraud and border officers that secure their passage. Until Bulgaria's expected accession to the European Union in 2007, this border crossing will most probably remain one of the most risk-laden in the country in this respect.

The established criminal infrastructure in the Kulata area further complicates the situation. According to Mol specialized services' analyses, the organized crime structures that emerged and flourished during the Yugoslav embargo and the surge of smuggling throughout the 1990s in the southwest of Bulgaria still exert considerable pressure over customs and border officials. The BCA further analyses that the scale of customs violations may be deduced if the taxes paid in different years are compared. As a result of the rise in the average price per kilogram of imported Chinese goods in the period 2000-2003, in 2003 gray channels incurred losses amounting to approximately €150 million more compared to the year 2000.¹¹⁷ Any traveler on their way to the border can observe that criminal infrastructure by its landmarks, such as numerous roadside hotels with huge parking lots hosting trailer-trucks of nameless companies. The hotels, as well as the surrounding warehouses and buildings, are in most cases owned by notorious local gray-economy businessmen.

Specific Characteristics of the Kulata Border Crossing Point

The rapid growth in trade, combined with insufficient equipment, impedes the customs in making the necessary number of thorough inspections. In contrast to other Bulgarian border crossings, data about thorough checks carried out at Kulata is available only for the last year and a half (See Table 17).

Local customs officers pointed out that the important thing was the number of uncovered violations and not the total number of inspections made. Their other argument concerned the generality of categories under which inspections are recorded, which cannot capture the very specific details and the extent to which regulations are violated.

From a sociological point of view, Kulata is an interesting phenomenon. Until the autumn of 2001, the officers serving at the border crossing were local citizens from the nearby town of Petrich, which was dubbed the "city of millionaires." It was probably such ill fame that made the then customs director Emil Dimitrov¹¹⁸ lay off most customs officers then in service. Next, he commissioned officers from the crossing point with Yugoslavia, Kalotina, to replace them. Since then, some of the former officers have been reinstated by the court, but have no access to positions related to commodity control (they can't use customs seals, passwords for access to BICIS, etc.). The customs officers from Kalotina live in Sofia and have to travel to their jobs at Kulata. In this odd situation, the tension between the Kalotina officers who are "in power" and those "out of power" is apparent. Both parties claim to be in the right. The custom post's director argues that the locals used to follow orders from the crime bosses, so he had reasons to dismiss such officers for breaking the discipline at work. The officers "in isolation from power" also made some curious comments about their colleagues who were vested with responsibilities. They argued that the same smuggling players continued to do their business across the Kulata border point. There were several disclosures made in 2003 in support of this argument, the strongest among them being the dismissal of six officers and their shift supervisor for gross violations. It was proven that, in 2003, they had illegally cleared about 400 trucks with Chinese cargo declared as construction materials. Some critically-minded employees maintain that this is a system of many participants, and the dismissal of several minor officers is not a solution to the problem. This view is supported by the latest frauds uncovered by chance, in which the perpetrators would not have attempted a violation, had they not expected inside assistance.

¹¹⁷ The calculation is based on operational data of the customs for the period 2000-2003.

¹¹⁸ He was head of the BCA between August 2001 and February 2002.

Table 17. Customs Inspections at Kulata

	2002		2003	
	Thorough Inspections	Uncovered Violations	Thorough Inspections	Uncovered Violations
January			55	4
February			41	–
March			99	1
April			128	3
May			95	9
June	60	4	123	5
July	106	–	138	4
August	96	–	102	1
September	119	3	123	1
October	86	2	194	1
November	77	2	207	4
December	105	6	248	1
Total	649	17	1 553	30

Source: Bulgarian Customs Agency

Border police officers also commented on “the burdens of the past.” According to some high-ranking officers, some of their subordinates have participated in certain unsanctioned or even criminal activities but are still in service since current legislation does not provide for their discharge.

Mode of Operation and Interaction between Institutions

The Kulata customs office employs 140 staff working in four shifts. The border police work in four shifts as well, by the same working hours as the customs.

Bilateral cooperation with Greece

Cooperation with the Greek **customs authorities** is considerably better than that with other neighboring countries. The Bulgarian and Greek customs exchange information by fax about arriving excise goods on a daily basis. The Greek authorities provide regular and speedy data upon request from the Bulgarian customs to compare information contained in invoices. The interviewed customs officers think that this exchange has nearly obliterated one of the most frequent types of customs fraud: the fake invoices presented to Bulgarian authorities that state prices lower than the actual ones. This popular fraudulent scheme is already considered nearly impossible by the interviewed drivers as well.

Although thus far automatic information exchange has been limited to excise goods such as oil, gas, alcohol, and cigarettes, the Bulgarian and Greek customs authorities have been negotiating a full real-time electronic exchange. Both sides, however, are anxious that stricter control might diminish the export level of their country. Bulgaria has a positive trade balance with Greece, and its exports for the first 11 months of 2003 amounted to USD 703.9 million, while Greek imports were USD 639.8 million. If the two information systems are connected, all discrepancies between goods values declared at both sides of the border will be detected. If the project is put into practice, “this will be the end and they will have to go home,” as one Bulgarian customs officer formulated it during the interview. The experience gained after the launch of the Bulgarian Integrated Customs Information System shows that developments rarely go at such speed. The supposition that Bulgarian and Greek customs officers might conspire to secure an illicit passage channel was refuted by the argument that this would substantially raise the bribes which would thus exceed the regular border crossing costs.

Interviewees claimed that cooperation with the **Greek border police** was satisfactory. Occasional tensions arise when Greek border police try to expel emigrants that have not entered Greece through the Bulgarian border. The Bulgarians assess the organization at the adjacent border crossing as very good.

Cooperation Between Border Police and Customs

Interviewed customs officers defined their relations with the border police as normal and declared they cooperate whenever the situation requires it. The CSD team observed a constant communication between the two services. Nevertheless, the opinion of border policemen was generally negative. They think that customs officers are still engaged in various violations, even though the times have passed when "Kossyo Samokovetza drew a list of the trucks that must be let cross the Kulata border without inspections and presented it to the head of customs". The Bulgarian border officers agreed that the situation has improved considerably since cooperation with the Greek customs officials was put on a regular basis. At the same time, they cited numerous examples from the previous year of violations committed by customs officers, which border policemen had uncovered by accident. Customs officers retorted that, "border policemen give themselves undeserved credit." The other explanation was that since border policemen are locals, they make up stories against the custom officers that replaced the laid-off locals in 2001.

To all questions concerning the possible information exchange on a shared information system basis, both the customs and border police officers gave skeptical answers. No clear reasoning was offered as to why passport and vehicle details should not be registered only once by either of the services.

Other Services

The interviewed customs and border officers attested that while the influence of the phyto-sanitary and veterinary control services on clearance was insignificant, the road tolls service exerted considerable corruption pressure over motor vehicles' drivers. The most typical pressure pattern is "the solution of problems" arising from truck or axes overload (see below). The road tolls service is in charge of the weighbridge which allows some level of control over crossing vehicles to be applied without engaging in thorough checks (by comparing the weight of declared goods with actual weight). However, the CSD team was not given any clue as to what extent suspicious vehicle weight deviations were conducive to the disclosure of violations.

Smuggling and Customs Frauds

Smuggling and customs fraud have been widespread at Kulata, more than at most border crossings in Bulgaria. A large number of violations with a variety of products have been uncovered, ranging from Chinese goods, through petroleum, citrus fruits, meat and meat products, household appliances, to cigarettes, alcohol, and other consumer goods.

The interviewees were unanimous that Kulata border crossing was the juncture of all basic smuggling and customs fraud channels for import of **Chinese goods**. This is a group of commodities that inflict the greatest loss of revenues. The strategy followed by the customs post complies with the model of gradual increase of the dutiable value adopted by the BCA. The mobile customs teams are also especially watchful to that same set of goods. Customs officers are quite aware of what might imperil their position and what would pass unnoticed. Critical customs officers claimed that Chinese cargo illicit clearance has not ceased, but goes on through utilizing the control system's weak points. The case with Chinese goods declared to be construction materials is a manifestation of the criminals' excellent expertise in the border security system and the confidence that such blatant contraband will go unnoticed.

Regular import violations are also associated with oil products transported from Greece in tank trucks and tank railway cars. A great number of violations during the import of **gasoline and gas oil** have been uncovered in recent years, including the use of double sets of documentation to break the transit regime. Alternatively, fuel import involved **low value invoices** and documents for oil product varieties charged with lower duties and taxes. These types of frauds, however, are considered to have shrunk in number with the new regulations mandating control over the importation of all oil products. Some loopholes allowing for customs frauds with fuel remain, the interviewees argued, but these are kept down to 4-5% of merchandise value. For instance, between one and two tons of propane-butane may be concealed if a lower pressure of the gas is declared at import.

Violations of the meat importation procedures are periodically registered, especially with the import of **chicken (chicken thighs, etc.)**. This involves false data in documentation as well as violations of the transit procedure and failure to register the goods at the recipient customs office.

An illicit channel for importing automobiles was foiled in 2003, which reportedly had been assisted by customs and MoI officials. Expensive cars were declared to be car bodies, engines, and other parts. Thus, impossible duties and other receivables were not fully charged, making it possible to further validate stolen cars whose number plates had been replaced. Later on, various MoI agencies and Transport Police departments assisted the registration of these illicitly imported vehicles as locally assembled from imported parts.

Another stolen car channel used the following smuggling method: the import documents of the stolen vehicle were counterfeited, and replaced with the registration data of an automobile legally registered in the EU. The customs declaration included misleading data about the car's power and model to partially avoid duties. After importation, the cars were registered at the Transport Police with counterfeit customs papers without paying the chargeable duties.

One of the rather costly schemes has to do with the duty-free shops in the border area. Apart from the sizeable quantities of cigarettes and alcohol sold to Greek citizens visiting Bulgaria for shopping, these involve much greater amounts being marketed inside the country. During the field visit, the CSD team observed a taxi driver stuffing the trunk of his car with spirits bought from one of the four duty-free shops in the vicinity. Four hours later, the operation was repeated as cigarettes were added to the alcohol. In the next day and a half the team witnessed two more cars and a minivan engage in the same violation. This was all the more odd, considering that two mobile customs teams were present at the border crossing at that time.

Other violations that have been registered relate to the illicit import of textiles or refined cotton oil. Some cigarette smuggling channels operate along the Sofia–Thessaloniki railway line, smuggling them into Greece on board international passenger trains. Frequent violations concerning the import of electronic devices, spare parts, and components shipped in containers have also been registered.

Corruption Practices

Customs officers at Kulata are without doubt the object of very strong corruption pressure. The fees charged by corrupt officers could roughly be divided into three types: "passage fees," "client fees," and "channel fees." The **passage** fee charged for the processing of documents is €5 (or a bottle of expensive alcohol) per trailer-truck in order to cut the time spent waiting at the border. If a carrier's documents (such as the international consignment notes, invoices, etc.) are not in perfect order, a driver can be held at the station until he sets them right or, as some drivers interviewed testified, pay the €20-30 charge customary at Kulata, and be let through.

The corruption scheme involving "clients" usually includes a truck driver (who may be a small company owner), a small trader, and a customs officer at the border crossing. The passage of the vehicle is planned for a certain time coinciding with the customs officer's shift. This may involve waiting long hours for the officer to take his shift anew. In order to minimize the risk, the driver is duly instructed about the exact quantities and type of cargo he should declare. As a rule, the cargo is legal, but lower amount and value are declared so that the client can benefit from the difference. This pattern may also be applied without conspiring with a particular customs officer, since the officers side with each other relying on similar favors from colleagues to their own clients. The fee varies between €100 and €250 per truck. The scheme should also involve a customs officer serving at the inland customs bureau (where an additional bribe is given). The channels (as in the case with the 400 trucks with Chinese cargo), on the other hand, are reputed to bring a participating low-ranking customs officer roughly €2,000 per month.

During the interviews, one particular corruption pattern in the **road tolls** service stood out. The average value of bribes demanded in cases of excess weight is €25, and could vary with smaller or higher overloads. A regularly crossing driver could discount the bribe down to €10-15. In case a driver refuses to pay his dues, he is made to unload part of the cargo or pay the legally determined fine for overload. Bribes are usually half the amount of a fine. Drivers claimed that the border police set the fewest obstructions to their passage.

