3. MONITORING OF ILLEGAL TRAFFICKING

The attempted systematization, analysis and description of the typical trafficking schemes, channels, and practices in the chapters above logically leads up to the present situation and the possibilities of assessing the developments.

Discretion and non-transparency are inherent characteristics of both illegal trafficking in general and the acts of corruption. The very fact that trafficking in general, and trafficking accompanied by corruption in particular, is an illegal and covert activity means that it cannot be measured with the traditional methods of socio-economic statistics.

What may serve as the basis for estimating the scope of smuggling are the studies of the shadow economy, which has been subject to serious empirical and theoretical research.

On the other hand, a considerable part of this parallel economy in Bulgaria is sustained through, and because of, the various trafficking mechanisms. In this sense, the assessment of the proportions of the shadow economy also outlines the framework of the study of illegal trafficking.

3.1. METHODS OF MEASURING THE SHADOW ECONOMY

International assessments of the share of the shadow economy in the countries of Eastern Europe constitute an important point of reference when considering the national dimensions of this type of economy (See Table 3.1.).

A somewhat different assessment of the size of the shadow economy in this country has been made by the National Statistical Institute (National Accounts Department). By the estimates of the Institute, in 1998 the shadow economy amounted to 22% of GDP. However, a number of experts monitoring different sectors of this economy believe the international comparative studies are closer to the actual share of the shadow economy.

Converting the percentages into real figures gives a better idea of the losses sustained by the national economy in the past years. According to international estimates, in 1994-95 the shadow economy constituted between 32-35% of the country's GDP, which amounted to **USD 3.6-3.9 billion**. On the other hand, according to the considerably lower NSI estimate, in 1998 the shadow economy was worth **USD 2.24 billion.**

Assessing the scope of illegal trafficking calls for a detailed analysis. It should above all be established to what extent these 2.24 billion are directly or indirectly related to smuggling practices. No doubt in the shadow economy there are a number of activities that are not immediately connected with illegal trafficking, such as the hiring of workers, the trade in Bulgarian goods, various services, etc.

TABLE 3.1. Size of the gray economy (per cent of GDP)

		Physical Input (Electricity) Method Using Values from; Johnson, Shleifer (1997) and values in "/ */" from Lacko (1999)					
		Average 1989-1990		Average 1990-1993		Average 1994-1995	
	Former Soviet Union states						
1	Azerbaijan	21.9	(-)	33.8	(41.0)	59.3	(49.1)
2	Belarus	15.4	(-)	14.0	(31.7)	19.1	(45.4)
3	Estonia	19.9	(19.5)	23.9	(35.9)	18.5	(37.0)
4	Georgia	24.9	(-)	43.6	(50.8)	63.0	(62.1)
5	Kazakhstan	17.0	(13.0)	22.2	(29.8)	34.2	(38.2)
6	Kyrgyzstan	-	(13.9)	-	(27.1)	-	(35.7)
7	Latvia	12.8	(18.4)	24.3	(32.2)	34.8	(43.4)
8	Lithuania	11.3	(19.0)	26.0	(38.1)	25.2	(47.0)
9	Moldavia	18.1	(-)	29.1	(-)	37.7	(-)
10	Russia	14.7	(-)	27.0	(36.9)	41.0	(39.2)
11	Ukraine	16.3	(-)	28.4	(37.5)	47.3	(53.7)
12	Uzbekistan	11.4	(13.9)	10.3	(23.3)	8.0	(29.5)
	Average: former Soviet Union states	16.7	(16.2)	25.7	(34.9)	35.3	(43.6)
	CENTRAL AND EASTERN EUROPE						
1	Bulgaria	24.0	(26.1)	26.3	(32.7)	32.7	(35.0)
2	Croatia	22.8	(-)	23.5	(39.0)	28.5	(39.0)
3	Czech Republic	6.4	(23.0)	13.4	(28.7)	14.5	23.2
4	Hungary	27.5	(25.1)	30.7	-30.9	28.4	(30.5)
5	Macedonia	-	(-)	-	-40.4	(-)	(46.5)
6	Poland	17.7	-27.2	20.3	-31.8	13.9	(25.9)
7	Romania	18.0	-20.9	16.0	-29.0	18.3	(31.3)
8	Slovakia	6.9	-23.0	14.2	-30.6	10.2	(30.2)
9	Slovenia	-	-26.8	-	-28.5	-	(24.0)
	Average: Central and Eastern Europe	17.6	(17.6)	20.6	(32.4)	20.9	(31.6)

Source: *Shadow Economies: Size, Causes, and Consequences, Journal of Economic Literature, March, 2000*

In order to identify the share of smuggling in the shadow economy, it is necessary to combine different methods of evaluation. The instruments used could provisionally be divided into *two basic kinds* [20]:

■ **Direct methods,** using sample surveys of the economic agents presumably involved in undeclared economic activity. On this basis, it is possible to establish the scope of the activities connected directly to smuggling. For example, measuring what part of the value of the product originates from smuggled raw materials and semi-finished products.

■ **Indirect methods,** using official information about the structure and dynamics of economic parameters for the purpose of assessing the size and share of the shadow economy output. It is also possible to explore existing correlation between smuggling and the other sectors of this economy. One such example is the analysis of market segments comparing Bulgarian statistics with international statistics on a bilateral and multilateral statistical basis (see item 3.2. below).

3.2. METHODS OF MEASURING ILLEGAL TRAFFICKING

The so-called "mirror statistics" method is used to identify possible differences in the reporting of foreign trade between partner countries. The method is suitable for the analysis of the merchandise trade between EU countries (EU as a whole and individual EU member countries) and the economies in transition [21]. It compares foreign trade information from partner countries collected for on common international database (i.e., according to a uniform methodology). In our case, the information about Bulgarian exports to the EU (or one of its member states) provided by Bulgaria is compared with the information about European imports provided by the EU. Similarly, the Bulgarian information about EU imports is compared to the European information about exports to Bulgaria [22].

The review of the aggregate information from the different sources shows a serious discrepancy between the information from COMEXT and COMTRADE-HS. The divergence observed between COMEXT and the IMF database and COMTRADE-STIC is smaller.

According to EU information (COMEXT-EEC Special Trade), **Bulgarian exports** in 1998 amounted to USD 2,510 m, and **imports**, to USD 2,730 m (Figure 3.2.).

CHART 2.1. Structure of the import and export of Bulgaria by coutries in 1998
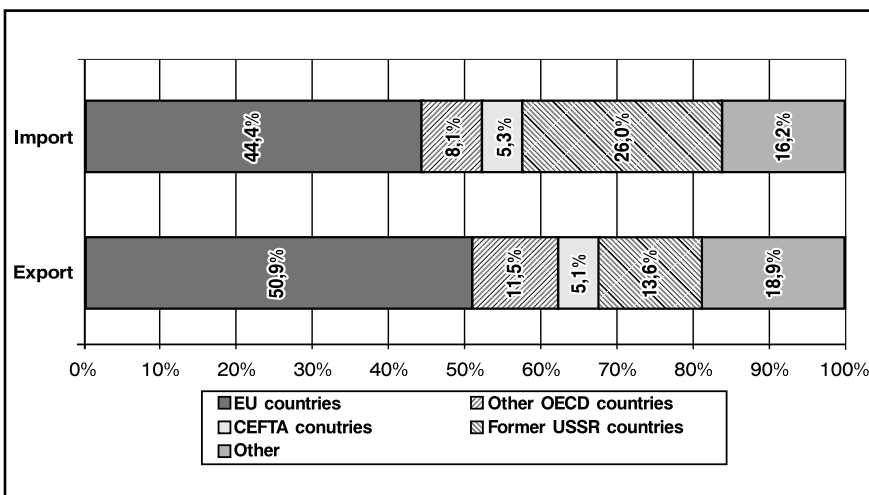
A comparison between NSI data about **Bulgarian export** to the European Union (EU) with Eurostat data about EU import from Bulgaria indicates a difference of **USD 375 million**, i.e., that is the amount of import to the EU that was never reported as export in Bulgaria. In turn, when comparing NSI data about **Bulgarian import** from the EU with the respective Eurostat data about EU export to Bulgaria, the resulting difference is even greater - **USD 483 million**, i.e., goods to that amount were not reported as imports in Bulgaria.

In sum, the difference established by mirror statistics as regards Bulgarian export in 1998 is of 15 %, while in the case of import, it is at the level of 18%. The significant differences between Bulgarian and European foreign trade statistics date back to 1994 (which is consistent with some of the conclusions drawn in Chapter One above). In the period 1994-1998, the observed differences compared to European records maintained levels of 15-20%.

In a tentative estimate, setting the **total difference of USD 858 million** against GDP in 1998 could give a general idea of the size of the shadow economy generated by merchandise trade with the EU and of the scope of illegal trafficking, as well as the various forms of semi-legal import and export.

It should be noted, however, that the data used in the present analysis are the result of the first attempt to date in this country in the sphere of mirror statistics (a method also referred to by statisticians as "the mirror exercise"). A close examination of the categories used in comparing Bulgarian and European statistical records reveals notable differences [23]. A typical example is the **import of cars**, where the widest gap occurs between the Bulgarian and European data. While the European export registers the value of the vehicle (used cars are subject to a detailed appraisal model), the Bulgarian import records only include the year the car was made and the power of the engine* (cf. 2.2. above). Such examples are also to be found with household appliances and audio-visual equipment.**

The analysis should also take into account the level of concentration of the **merchandise trade between Bulgaria and the EU by member country and product category.** By Eurostat data - COMEXT EEC Special Trade (i.e. based on the records of EU import from Bulgaria), in 1998 **63% of Bulgaria's export to the EU was intended for three countries:** Italy - 25%, Germany - 22%, and Greece - 16%. Italy has been the preferred market for Bulgarian goods since 1995 (the year of enforcement of the Accession Agreement). The same applies to import - 61% of Bulgarian imports from the EU originated in the same three countries - 29% came from Germany, and Italy and Greece accounted for 16% each.

Another important characteristic is the **concentration by product category.** It also appears to be significant [24].

The greatest divergences in absolute terms between the Bulgarian and West-European records of Bulgarian export are observed precisely with respect to Bulgaria's chief trade partners. As regards Germany the difference amounted to USD 113m in 1998, and with Italy it was USD 72m. Substantial divergences are also observed between the records of exports to France, Belgium, Luxembourg, Holland, Austria, etc. In percentage terms, in 1998, as well as in 1997, the biggest differences occurred with respect to Bulgarian exports to Ireland (234%), Austria (30%), the Netherlands, etc. High rates are also observed under export to Germany and Italy.

Regarding Bulgarian import records in 1998, significant differences are observed with the reported imports from Greece - USD 150 m. The discrepancy between reported imports from Germany was also significant - USD 108 m,

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* When the state is not concerned with the price at which a vehicle was purchased that means the money paid for this vehicle remain abroad. In some countries of Latin America this is referred to as "legalization of the smuggling of second-hand cars". In Eastern Europe there is no other country that failed to compel one of the big car makers to invest in the production of cars through a restrictive import policy. According to Eurostat data, in terms of value second-hand cars make up the biggest share in Bulgarian import. It is important to note that this kind of used car import policy is creating an enormous shadow sector for spare parts. There is reason to claim that the present import regime also sustains the trafficking in stolen cars, with which Bulgaria has become notorious.

** It is not the purpose of the present analysis to discuss national priority and national policy issues. The substantial differences, however, between the Bulgarian import and export recording instruments and the European ones logically bring up the question of the ability of the state, for instance, to protect its exporters, should they be threatened by anti-dumping procedures (the export of metals and chemicals being the most typical example). Measurement imprecision further raises doubts about such macroeconomic indicators as the trade deficit, which are of key importance in determining the situation of the country. The differences amounting to nearly one billion dollars, moreover with Western Europe alone, in fact challenge the creditability of all evaluations of the country's development.

Austria - USD 64 m, Italy - USD 61 m, etc. In percentages, the discrepancy was largest with the reported Bulgarian imports from Greece (34%), Austria (31%), the Netherlands (27%). The level also remained high as regards Germany, the largest EU exporter to Bulgaria.

What do these differences mean? The detected difference of USD 113m between the records of Bulgarian exports to Germany means that in 1998 goods to that amount were reported as import from Bulgaria to Germany, but are absent from the foreign trade records supplied by Bulgaria. Similarly, regarding export to Italy and Austria, where the differences in absolute figures amounted to USD 100m, goods to this amount were reported as imports from Bulgaria in both of these countries, but they are not to be found in any Bulgarian records.

With import, the systematically occurring differences with Greece throughout the period under consideration (1993-1998) reached record high rates - 52% and 44% - in 1994 and 1995 respectively. The USD 150m difference observed in 1998 means that in that year goods to that amount were reported as exports to Bulgaria in Greece, whereas such information is absent from the Bulgarian records. Those differences were largely made up by goods under three tariff categories (HS 2-digit): 84 (Nuclear reactors, boilers and machinery), with USD 20m; 61 (Apparel and clothing accessories), USD 13m; 87 (Vehicles), USD 10m. Various possible explanations may be advanced in this context but without analysis on the importing company level there can hardly be any conclusive answers.

In Germany, the 1998 records indicate that vehicles worth over USD 40m were exported to Bulgaria, whereas Bulgarian import statistics have not made any record of them. Assuming that those were used cars at an average price of up to USD 2,000, in fact 20,000 vehicles were reported as export to Bulgaria in Germany in the course of that year but failed to show up in the Bulgarian records. Concerning the import of domestic appliances and apparel the difference accrues mainly under the trade with Italy and Greece (a total of USD 70 m under these two categories), and in the case of the import of alcohol, it is most important between the respective records of imports from the United Kingdom (USD 11m). The problem with the reporting of alcohol import from the UK is a long-standing one. Between 1993-1998, alcohol worth between USD 11 m (1998) and USD 21m (1993) was reported as export to Bulgaria without the corresponding records in Bulgaria.

In the case of at least three of the tariff categories displaying the greatest differences (87, 85 and 61), the so-called suitcase trade accounts for a large part of the import. It certainly predominates in apparel import (61).

An interesting possibility to be explored further is that the observed differences might be generated by the Bulgarians illegally residing and working in Greece. By data of the Greek Ministry of Labor, they number between 50,000 and 80,000. In the opinion of experts, , they send both money and merchandise to their friends and family in Bulgaria using informal networks and channels. This applies not only to cash but also to the very same categories of products: **household appliances** (code 84), **apparel** (61), etc.* The difference in the reported Bulgarian imports from Germany and Austria accumulates mainly under the **vehicles** category (87).

The differences concerning raw materials are also of particular interest. The data show that about 56% of the differences in the import records concern raw materials. Thus, according to experts on the shadow economy, the number of

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* They are motivated to declare the goods leaving the country because they will thus be entitled to VAT refund.

Bulgarian manufacturing companies which start up in the shadow economy - thus with opportunities to add value only unlawfully - is not insignificant.

Concerning the export of Bulgaria to the EU countries, the accumulating differences in the information provided to Eurostat come from different sources. In the export of apparel (62) more than half of the difference comes from the Bulgarian export to Germany, and under category 61 (another type of clothing), the difference accrues from export to Greece. The differences in the export of ferrous metals (72) and fertilizers (31) come mainly from Bulgarian export to Italy, while the differences in the export of copper come from the export to Germany.

The great discrepancies in apparel and clothing accessories records (categories 61 and 62), which together represent almost 50% of the export difference, could be due to purely methodological problems in reporting the export of articles made to order for Western companies. The next "items": ferrous (72) and non-ferrous (74 - copper) metallurgy, together account for about 17% of the difference accumulated in 1998.

As evident from the summary of the findings of the comparative analysis of Bulgarian and West-European statistics, the shadow zones of illegal import/export emerge quite clearly. Only a comparison using mirror statistics can begin to reveal the scale of smuggling channels for emblematic luxury items such as domestic appliances, household electronics, car spare parts, alcohol, cigarettes, and other goods.

In conclusion, the method of mirror statistics could be a very efficient instrument in counteracting smuggling. If the specialized agencies start making more active use of the opportunities provided by modern technologies and focus the control efforts wherever there appear conspicuous discrepancies, the pressure on the traditional smuggling channels would increase.

There is a substantial potential in multi-level research projects - from identifying the specific companies that are the possible source of the discrepancies observed (and provoking official audits) to facilitating electronic data exchange between customs administrations in the EU and the accession countries.

3.3. MECHANISM FOR ASSESSING SMUGGLING BY SAMPLE SURVEY METHODS

(ILLUSTRATED BY AN ANALYSIS OF THE CIGARETTE AND ALCOHOL MARKETS IN BULGARIA)

This method allows the combined use of **sample surveys used in marketing research* of consumer market segments and official data, or customs statistics in this case.**

Such an approach is in fact readily applicable because of the available extensive marketing research done since the early 1990s on virtually every market of mass consumer goods. By now certain stable year-long trends have been established and there is reliable information about the size and structure of the major markets in this country. The comparison between the declared value of the goods in official customs statistics and the results of marketing studies provides a good basis for determining the size and structure (brands, packaging sizes, etc.) of the smuggled goods market. As illustration, we shall consider two of the most controversial markets - those of **cigarettes and alcohol.**

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* In the present analysis "marketing research" refers to surveys based on representative samples, regardless of whether they are end-consumer or outlet samples.

There is every reason to claim that the **imported alcohol market** constitutes the most positive example in terms of curbing smuggling and transborder crime. A look at the facts shows that in the period 1989-1998 the quantities of imported vodka ranged about 1.3-1.4m liters, and those of the various brands of whisky varied between 2.2 - 2.5m liters a year (see the chart below). A relatively stable imported alcohol market can generally be said to exist in this country*, estimated at about 50-60m levs**.

CHART 3.1 Vodka and whisky consumption in Bulgaria (thousands of cases)
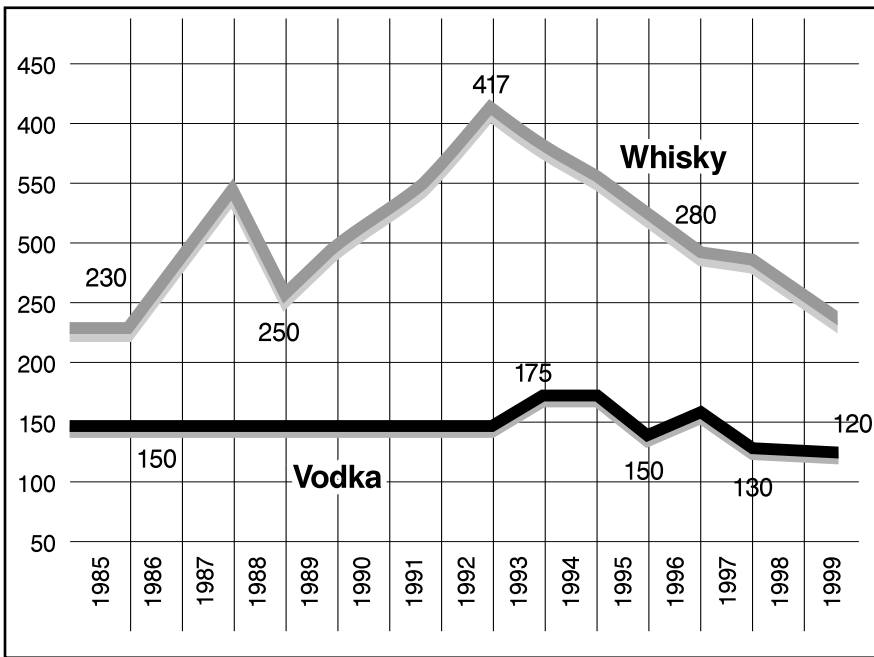
While in 1998 almost the entire import of high-quality spirits was done illegally or semi-legally, **by mid-2000, by data from importers, the illegal import had dropped to 20-30 %, depending on the brand** (See Figure 3.1.).

The analysis reveals three major preconditions that have helped bring about this change. First, the amendments to the Law on Excise Duties of December 1998. Thereafter excise duty on spirits was determined on the basis of alcohol content, while it used to be based on the declared value. Thus excise duty no longer depended on the declared import price and this rendered pointless the value-related fraudulent schemes (there is still the possibility to report false quantities.) Under the new situation the correlation between profit and risk to the importer drastically shifted in favor of legal activity. There was no longer any need for bribery in order to avoid payment of, or to reduce customs duties.

The second precondition was the wish of the leading importers, mainly the major transnational companies, to conduct legal business in this country. By early 2000 almost all of the major producers of distilled spirits had established their own offices in Bulgaria or had designated official importers. The first ones to start working "in the open" were the representatives of Jim Beam Brands - Intco Brands Ltd. Seagrams designated Asko as their official importer and distributor in early 1999. In July 1999, United Distillers & Vintners (UDV) also opened their branch office with Makkar being their official distributor. As of November 1999, Allied Domecq started importing independently and in the end of the year registered its own distribution company, Allied Domecq Agencies. Grants and Bacardi also appointed authorized importers.

The third precondition is the improved work of customs authorities, which managed to enhance control at the major points of entry for the import of distilled spirits.

The proposed approach comparing data from marketing research with official statistics highlights the positive changes. A comparison between the operative cus-

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* Experts attribute the large quantities in 1992-1995 to the fact that in that period Bulgaria was used as a re-exportation base to neighboring Balkan states.
** These figures concern the total sales to end consumers.

toms statistics and the available surveys indicates that the legally imported quantities of alcohol in 1998 amounted to 4.1m levs, or about 6-8% of the estimated market. In 1999, however, there occurred a drastic change. That year alcohol worth BGN 12.3m had been declared at customs by October, which is four times the value recorded in 1998, without any significant changes in consumption rates. This tendency was maintained in 2000. The legal imports of alcohol doubled in the first five months of the year, reaching BGN 9.4 m. By contrast, in the same period in 1999 declared imports amounted to BGN 5.8 m.*

The positive tendencies in the import of high-quality brands of alcohol should not be overestimated and do not mean that all of the problems are resolved. In the opinion of both experts and importers, lately there has been a certain reorientation towards "parallel imports", typically of a semi-legal nature**. What is

TABLE 3.2 Breakdown of the losses in government revenues and importers' losses caused by the parallel import of spirits

Imported spirits 1999 г.	Exports to Bulgaria reported by producers		30% parallel import	Government revenue losses because of unpaid customs duties	Government revenue losses because of unpaid VAT	Government revenue losses because of unpaid profit tax	Government revenue losses because of unpaid tax on profit from advertising activity	TOTAL government revenue losses	Importers' losses
	(thousands of 9L cases)	(bottles)	(bottles)	(BGN)	(BGN)	(BGN)	(BGN)	**(BGN)**	(BGN)
Whisky	242,5	2910000	873000	1257120	1047600	654750	32737,5	**2992207,5**	2182500
Vodka	125	1500000	450000	315000	189000	67500	16875	**588375**	225000
Gin	13,5	162000	48600	37422	46170	29160	1822,5	**114574,5**	97200
Brandy	16	192000	57600	79662	48080	17280	2160	**147182**	57600
Liqueur	11,3	135600	40680	157430	48816	24408	1525,5	**232179,5**	81360
Mastika	15	180000	54000	37800	27000	8100		**72900**	27000
Tekila	4,8	57600	17280	39225	19008	5184		**63417**	17280
Total	428,1	5137200	541160	1923659	1425674	806382	55120,5	**4210835,5**	2687940

Notes:

1. The estimates of the exports to Bulgaria are based on studies by independent international expert companies - IWSR and Canadean Ltd.
2. In general, parallel importers import at lower invoice value than authorized importers and the resulting government revenue losses from unpaid customs duties amount to BGN 1.45 per bottle of whisky, BGN 0.70/bottle of vodka, and on average BGN 1.70/bottle of the other spirits.
3. After import taxes, VAT losses along the entire distribution chain amount to more than BGN 1.20 per bottle of whisky, BGN 0.60/bottle of vodka, and on average BGN 0.90/bottle of the other alcoholic beverages.
4. Average rate of net profit of authorised importers: BGN 2.50/bottle of whisky, BGN 2/bottle of gin and liqueur, BGN 0.50/bottle of vodka and anisette, BGN 1/bottle of the other products.

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* The largest volumes are typically registered in the second half of the year.
** There is continuing importation of counterfeit products of the major brands. Bulgaria has the "advantage" of proximity to the countries with the most active makers of counterfeit products - Turkey and the Middle East countries.

declared in this case is the type of beverage, rather than the brand. In addition, the invoice value tends to be underestimated and under fixed customs and excise duty rates the state is losing the VAT due. In the estimates of the largest distilled spirits importer - UDV - under the market situation in 1999 and the presumed 30% illegal imports, the national budget has lost BGN 4.210 m from unpaid VAT, excise and customs duties, profit tax, and tax on advertising activity, while the losses of authorized importers amount to BGN 2.687 m (See table)

The comparative examination of marketing research data and customs statistics indicates that with **imported cigarettes** the game is still played by the old rules and in some respects the situation has become even worse. According to the most conservative estimates, the annual sales volumes in Bulgaria are about BGN 260m. [25] The analysis of the data suggests that 85% of the cigarette sales volumes in this country come from Bulgarian-made cigarettes. The imported cigarette sales therefore amount to 15% or BGN 40 m a year*. This logically raises the question as to what part of these cigarettes have been imported legally. The answer is that in 1998 the value of the legally imported cigarettes was approximately BGN 5.5m, meaning only 14.1% of the imported cigarettes have been registered with the relevant authorities. A comparison with the 1999 figures shows that the duties paid by October 1999 had dropped by about 35% compared to 1998.

3.4. ASSESSMENT OF ILLEGAL TRAFFICKING THROUGH EXPERT SURVEYS
(AN ATTEMPT TO ESTIMATE THE VOLUME OF "UNREGULATED PAYMENTS")

Owing to the size of the country and the purchasing power of the population, the major consumer goods markets are assessed as very modest in terms of value. The entire consumption in Bulgaria could be compared to the consumption in a mid-sized West-European city. It is for this reason that the participants in the various Bulgarian markets of consumer goods are quite familiar with their own market niches, the potential of the various products, the competition, but likewise with the major channels for illegal or semi-legal supply of goods. In this sense, using expert estimates to determine the size and structure of smuggling and the various forms of illegal importation proved extremely effective. Such an approach, unlike quantitative methods, involves a high risk of subjective distortion, yet allows almost complete coverage of the markets in this country. Importers' intimate knowledge of the sales structure and volumes by chief imported goods in this country is reason to try and obtain an additional estimate, which is of highest relevance to the subject of the present analysis, namely - an estimate of the proportions of bribery by product category. Here are some of the figures obtained in a pilot survey based on expert estimates.

Citrus fruit imports (oranges, tangerines, lemons, grapefruit) largely originate in Greece, Turkey, and Syria. Customs clearance takes place at the customs offices in Bourgas, Sliven, Nova Zagora, Varna, Shumen, Dobrich, Plovdiv, Dimitrovgrad, Kapitan Andreevo, Kulata, Blagoevgrad, Doupnitsa, Pernik, Sofia, Rousse, Razgrad, Gorna Oryahovitsa, Pleven. Bananas are shipped from countries such as Panama, Columbia, Costa Rica, Equador, Mexico, and Italy. Customs clearance takes place at the customs offices in Sofia, Samokov, Petrich, Bourgas, and Plovdiv. The main violations in the import of fruits and vegetables involve misreporting of quantities, understating the value, and concealing the true origin of the goods. As a result, in the course of one year there accumulate **unregulated payments to the amount of**

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* It should be noted that in terms of actual consumption rates, imported cigarettes account for about 5-6 % of consumption in this country. In other words, unlike alcohol, the fight against the smuggling of cigarettes is very complicated owing to the smaller volumes involved.

CHART 3.2 Types of smuggling schemes and parallel import
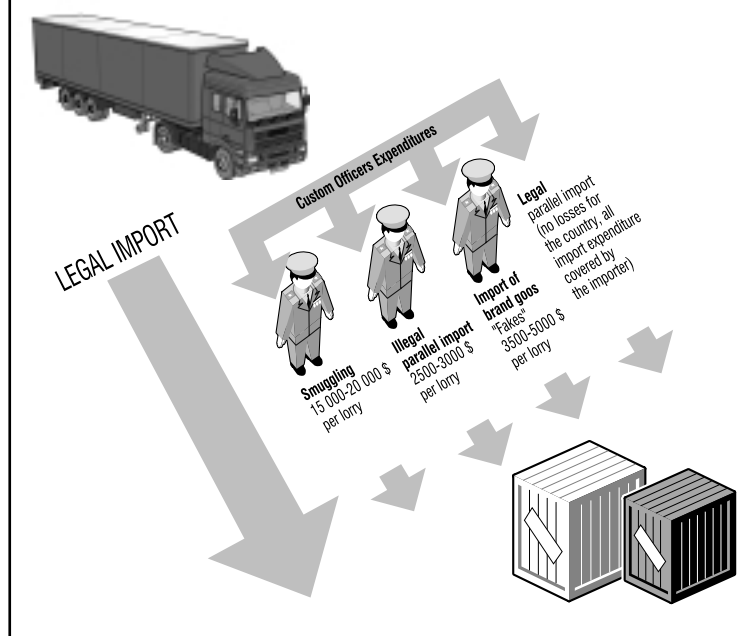
a**bout BGN 1.5 m.** Hiding the actual quantities shipped is done by understating the number of boxes in the declaration. Understating the value involves providing a false invoice, and concealing the actual origin is done by presenting a false certificate.

Meat and offal imports (beef, pork, chicken, turkey) originate in Argentina, Australia, Belgium, Denmark, Germany, Italy, the Netherlands, Norway, UK, Spain, Austria, France, Hungary, Lithuania, Ukraine, Moldova, Poland, Greece, Canada, and USA. The import typically involves offshore companies in Cyprus where the invoices are tampered with in order to declare a lower value at customs. The imports largely pass through customs offices in the territory of Sofia, Varna, Plovdiv, Rousse, Petrich, Pernik. Meat imports display the whole range of illegal trafficking and fraud schemes. Concealing the actual quantities shipped by understating the actual gross and net weight of the goods; understating the taxable value; providing an incorrect description and wrong tariff numbers for the purpose of avoiding payment of the proper customs duties and taking advantage of a lower rate. Preference rates are used unlawfully by stating untrue origin of the goods. A common fraud scheme involves declaring offal at customs while actually shipping other products. This facilitates the declaration of lower taxable value, evasion of specific customs duties, unlawful use of preference rates based on false certificates of origin. These unlawful practices entail losses of due import taxes and other fees and **in a year generate unregulated payments amounting to about BGN 1.5 m.**

Raw coffee beans imports originate in Indonesia, USA, Italy, Vietnam, Costa Rica, Cameroon, Ethiopia, and for the most part pass through Greece and Cyprus, using offshore companies based in Cyprus. Roasted coffee beans are imported from Poland, Germany, Belgium, and Italy. Raw coffee beans imports are mainly cleared at the customs offices in Kulata, Pernik, Sofia, Varna. The main problems with coffee imports, involve clearance of understated value. As a result of the unlawful practices in the course of a year there accumulate **unregulated payments to the amount of about BGN 2 m.**

Rice imports originate in Turkey, Greece, Spain, Argentina, China, and Egypt, with customs clearance largely taking place at the customs offices in Bourgas, Sliven, Varna, Pazardzhik, Sofia. Violations mainly involve understated value and origin-related fraud for the purpose of securing application of more favorable rates. As a result of the unlawful practices in the course of a year there accumulate **unregulated payments to the amount of about half a million BGN.**

Chocolate and confectionery imports mainly originate in Turkey, as well as Germany, France, Netherlands, Italy, Austria, Greece, Hungary, Poland, and Belgium. Customs clearance mainly takes place at the offices in Bourgas, Plovdiv, Kapitan Andreevo, Sofia. The violations chiefly involve understated value on the invoices, understated weight and number of boxes. As a result of the unlawful practices in the course of a year there accumulate **unregulated payments to the amount of about BGN 1.5 m.**

Perfume, cosmetics, toiletries, and detergent imports mainly originate in France, Belgium, Greece, Turkey, Germany, Italy, UK, Austria, the Czech Republic, USA, Slovenia, Poland, and the Netherlands. Customs clearance mainly takes place at the offices in Sofia, Pernik, Bourgas, Varna, Plovdiv, Gabrovo. The violations typically involve understated value and unreported quantities, as a result of which the **unregulated payments in one year amount to approximately BGN 3m.**

Domestic appliances and electrical equipment imports originate in Greece, Italy, Poland, Korea, Germany, Sweden, Lithuania, Hungary, Bellarus, UK, Slovenia, France, Turkey. Refrigerators, freezers, washing machines, and dishwashers are predominantly imported from Italy, while smaller appliances come from Singapore and China through Austria. Radio and cassette players, TV sets, and hi-fi systems originate in USA, Japan, China, Malaysia, Germany, Turkey, Hungary, Slovakia. Characteristically, products from Poland, the Czech Republic, and China pass through Austria, while products made in Thailand and China pass through Germany, Slovakia, Greece, and certain Arab countries. Imports are mainly cleared at offices in Sofia, Plovdiv, Rousse, Shoumen, Varna. The typical violations concern understated value, misreported origin and quantities. **The unregulated payments amount to about BGN 2.5 m per year.**

Computer equipment imports mainly originate in countries such as USA, Japan, UK, Germany, and Austria. It is interesting to note that the products originating in Singapore, Japan, and Taiwan pass through Germany and Austria. Customs clearance mainly takes place in Sofia and Plovdiv. The most frequent violations involve understating the value and concealing the actual quantities imported. As a result of the unlawful practices in the course of a year there accumulate **unregulated payments to the amount of about BGN 1 m.**

Oil product and liquid fuel imports originate in countries such as Russia, Ukraine, Romania, Greece, and Turkey. Customs clearance mainly takes place at the customs offices in Sofia, Varna, Bourgas, Petrich, and others. The main violations involve value understatement, improper description, misreporting the actual weight, as well as counterfeiting of payment documents, presenting inaccurate quality and analysis certificates, and fraud schemes of evading payment of the due customs duties and other fees by concluding fictitious contracts with ghost companies. According to some sources, the annual imports of such products amount to about 230,000 metric tons at the approximate value of BGN 54m. As a result of the unlawful practices in the course of a year there accumulate **unregulated payments to the amount of about BGN 10 m.**

Cigarettes typically arrive in this country from Switzerland, USA, Cuba, Austria, UK, Germany, Spain, the Netherlands, Belgium, Macedonia, Turkey, Greece, and Cyprus, with customs clearance concentrated in the offices in Svilengrad, Kulata, Sofia, Varna, Bourgas, Plovdiv, and Kalotina. Cigarette import often involves the most flagrant forms of illegal trafficking, with entire shipments smuggled into the country, document authentication with false customs seals, use of ghost companies, fictitious export, etc. **With cigarettes the unregulated payments amount to about BGN 8 m.**

Spirits are typically imported into the country from the EU, USA, and Canada, with clearance taking place at the customs offices in Bourgas, Varna, Sofia, Kulata. The violations involve mainly understating the invoice amount and Cyprus-based offshore companies are used for the purpose. As a result of the unlawful practices **unregulated payments to the amount of approximately BGN 3.2 m accumulate over one year.**

3.5. DEVELOPMENT OF INSTITUTIONAL FORMS OF COUNTERACTING ILLEGAL TRAFFICKING AND CORRUPTION

In themselves the above outlined methods of assessing trafficking are measurement instruments. If they are to become effective means of counteracting trafficking they need to be combined with the typical law-enforcement methods used by the government. Furthermore, the analysis of smuggling practices has established that the competent authorities tend to concentrate their efforts largely on an operational level. According to a number of experts, at present the state institutions do not make use of the modern methods of social and economic statistics.

It was established in the meetings with representatives of various government institutions engaged in the fight against illegal trafficking and transborder crime that there was a conspicuous lack of comparative analysis of the information collected by the various agencies. Data and analyses offered by private organizations and individuals are often completely ignored.

In the process of their research the authors of the present analysis found that all too often the response of the institutions in charge to signals and indications of transborder crimes had been slow. This is an additional argument in favor of the establishment of an integrated institution to coordinate and aid the institutions already in place in the fight against this type of crime. Such an idea has also been advanced by foreign experts in this area.

There are different approaches to institutionalizing and making effective use of the proposed smuggling assessment mechanisms. The creation of a research center within the frames of the Ministry of Finance or the Ministry of the Interior, or with the Council of Ministers, could be an appropriate first step. This center would collect and analyze data collected from various sources such as customs and tax administration, international comparative studies, NSI statistics, and marketing research by private organizations. It is important to stress that this department should not deal with confidential information from secret sources and criminal investigations. Such a condition is also imposed by the indispensable transparency and public access to an institution of this kind, which should regularly publish its findings.

The chief task of this institution should be the assessment and monitoring of the smuggling channels and their markets. Through the above outlined methods of mirror statistics, sample surveys, and expert estimates, it is possible to identify the most seriously affected sectors of the Bulgarian market. This would in turn facilitate the formulation of the main objectives in counteracting smuggling practices.

Below is an outline of two possible practical approaches to disrupting the trafficking mechanisms:

■ *Institutional control and pressure on a macro-level*
This approach implies control and pressure exerted by government institutions over representatives of organizations suspected of committing violations.

In illustration could be provided by the market of imported cigarettes. A closer look at the ten-year evolution of this market will find that despite the significant volumes in some years the representatives of the big tobacco companies in Bulgaria have not demonstrated any concern with possibilities to curb smuggling. What is more, throughout these years the tobacco companies have been among the biggest advertisers in Bulgaria. How is such spending justified? The recent public debate on the implication in international smuggling of the largest transna-

tional corporations partly answers this question*. Experts believe that through their advertising campaigns some corporations deliberately promote the sale of cigarettes that they have in fact already sold to Bulgarian smugglers. And this is hardly surprising - should these corporations pay the lawful customs duties and taxes their brands would become unaffordable to the Bulgarian consumers.

Let us recall that the situation used to be very similar with respect to the international corporations importing high-quality brands of alcohol to this country, but as already mentioned, since 1999 they have reviewed their policy, to the apparent benefit of both sides.

In another example, while in the case of high-quality imported alcohol the problem seems to have been almost fully addressed, with "low end" distilled spirits the legalization process is only just beginning. A comparison between the figures from mirror statistics and customs data easily establishes the considerable discrepancy between the customs duties actually paid and the quantities of imported ethyl alcohol necessary to meet the enormous consumption of cheap distilled spirits. The next step would be the identification of the respective companies and the quantities of alcohol using the potential of modern information technologies. A key function of the proposed institution should therefore be to devise appropriate forms of pressuring the companies that intentionally or unintentionally assist smuggling in this country.

- ***Control (pressure) over wholesale trade.***

    In the event of considerable discrepancies between the data from operative customs statistics and those from marketing research, there should be express inspections of the warehouses from which the respective products are distributed. With the information accumulated in the course of almost ten years of trade statistics and marketing research it is possible to determine with a great degree of accuracy the specifics seasonal fluctuations of Bulgarian consumption. In the opinion of experts, the warehouses at which goods from particular product categories are stored rarely number more than 50 for the whole country. In other words, the express inspections referred to above could be carried out in a single day. The information obtained from such inspections ought to provoke subsequent checks at the customs offices through which such goods may have been cleared.

    To sum up, the proposed mechanism for assessment of smuggling by product category and specific brands could serve as an effective instrument for curbing and preventing smuggling and could further the process of market legalization.

- ***Control and pressure over the retail trade in smuggled goods***

    Control agencies should have the authority to carry out checks in the retail network. It is important to introduce a consistent system in conducting such checks. By way of example in this respect we can cite the sale of imported distilled spirits (cf. 3.2.). According to marketing research data, about 70-90% of the sales of luxury goods are concentrated in the four largest cities in this country (Sofia, Plovdiv, Varna, and Bourgas). By importers' estimates, there are about 3,000 outlets selling this type of alcohol (it is possible to draw up a relatively precise distribution map for each category of luxury or mass consumer goods). There are several possibilities for maximizing efficiency under the

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* Financial Times, August 23, 2000; Newsweek, July 31, 2000; Wall Street Journal, July 21, 2000.

available financial and human resources. One approach is to only launch checks of the brands of alcohol for which customs duties have not been paid*. Those could be monthly sample-based inspections. For instance randomly checking 10% of the stores each month, clearly stating what brands of alcohol and cigarettes are subject to inspection.

Few shop owners are likely to choose the risk of selling the brands already declared as illegally imported. In this way, the "illegal brands" would be cut off from retail distribution and in the longer run, in view of the fiercely competitive imported alcohol market, this would prove fatal for the bulk smugglers. Once the paid customs duties on one of the brands monitored reach levels corresponding to its average sales volumes, a procedure would be initiated for removing the respective brand from the supervised list. A sample of greater size (e.g. 20 - 30 % and more) for brands characterized by more flagrant violations, and a smaller one (2 - 5%) for brands with minor violations, could be used as part of the proposed impersonal technology.

The purpose of such a technology is to encourage traders to pay the lawful customs duties and taxes on the respective goods. Another advantage of this approach is that the large-scale smugglers cannot influence specific officials conducting the inquiries. The method is impersonal and automatic and thus relatively invulnerable.

3.6. CREATING A SPECIALIZED SMUGGLING INDEX

It is widely believed that the fight against trafficking and corruption should only be conducted using different types of classified information and sources. The methods presented in this study do not exclude the use of such instruments. On the contrary, the combined application of "covert" and "open" methods creates new opportunities for prevention and interception of transborder crime. But if an anti-smuggling institution is to operate efficiently, its activity needs to be subject to public scrutiny and objective evaluation. Otherwise this activity would be susceptible to covert agreements between smugglers, state officials and politicians. The experience of the Western democracies shows that the lack of information about institutions charged with such functions often gives rise to popular suspicions and undermines public trust in them.

In this sense, it would be worthwhile to create an authoritative Smuggling Index that is to register any changes in the scope and the structure of this type of crimes. It should be published on a regular basis (for example twice a year). Such an index could be created on the basis of the estimated losses of the state from unpaid taxes and excise duties. It may comprise a certain number of smuggled product categories (selected according to their total value) and compare the customs duties and taxes paid and their market share in terms of value; it could also monitor goods that account for the biggest differences between Bulgarian statistics and the statistics of the OECD countries.

The above outlined methods of mirror statistics and sample surveys provide a good basis for further discussion. The development of such an index may also draw on the experience of the "victimization survey" conducted within the Early Warning System project of the UN Development Program, as well as the

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* Such a step would require certain changes in the regulatory framework of the operation of customs authorities. According to the major importers, the obligation to declare the brand of the product would greatly facilitate the fight against semi-legal import (the "parallel importers").

Corruption Indexes of *Coalition 2000.** The parameters of the Corruption Monitoring System of *Coalition 2000*, for instance, were set as a result of public discussion and input from state institutions, NGOs, and research institutes.

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* See www.online.bg/coalition2000