

## 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 1990<sup>1</sup> 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.<sup>2</sup>

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

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

<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup> 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 statistics<sup>5</sup> (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

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

<sup>4</sup> Ibid.

<sup>5</sup> 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**

<b>Structure of Imports into Bulgaria (%)</b>							
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
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
<b>Structure of Exports from Bulgaria (%)</b>							
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
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.<sup>6</sup> The trade of Turkish goods is analyzed in more detail in Chapter Five of the present report.

<sup>6</sup> 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.<sup>7</sup> 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.<sup>8</sup>

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.<sup>9</sup>

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

<sup>8</sup> Ibid.

<sup>9</sup> “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.<sup>10</sup> 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.”<sup>11</sup>

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

<sup>10</sup> 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.

<sup>11</sup> 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,<sup>12</sup> 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 institutions<sup>13</sup> 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.<sup>14</sup> 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.

<sup>12</sup> 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).

<sup>13</sup> Ibid. Art. 22.

<sup>14</sup> 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.