

### 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 €60 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.<sup>15</sup>

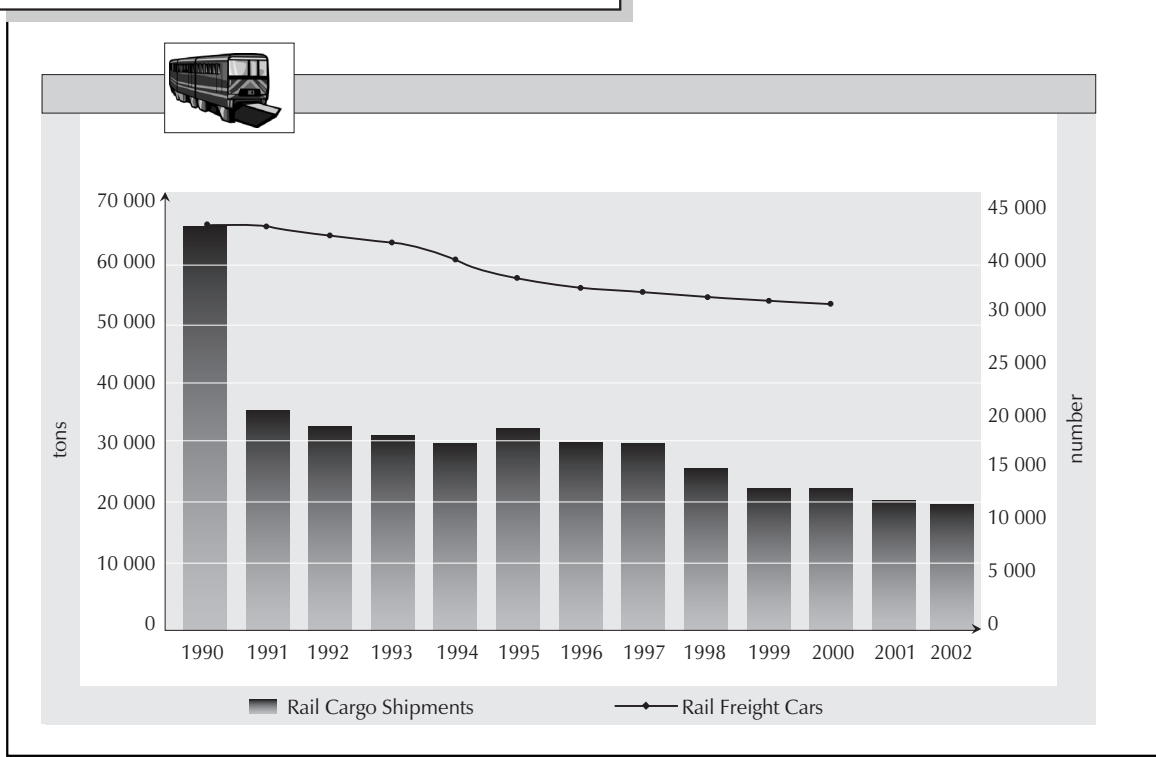
In the 1990s, tank cars loaded with oil or propane–butane were illegally imported via the Varna–Ilichevsk (Ukraine) ferry. Those channels continued to operate during the government of the Union of Democratic Forces when the representative of the Bulgarian State Railways in Ilichevsk allegedly participated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

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

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

<sup>16</sup> "The Mol 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).

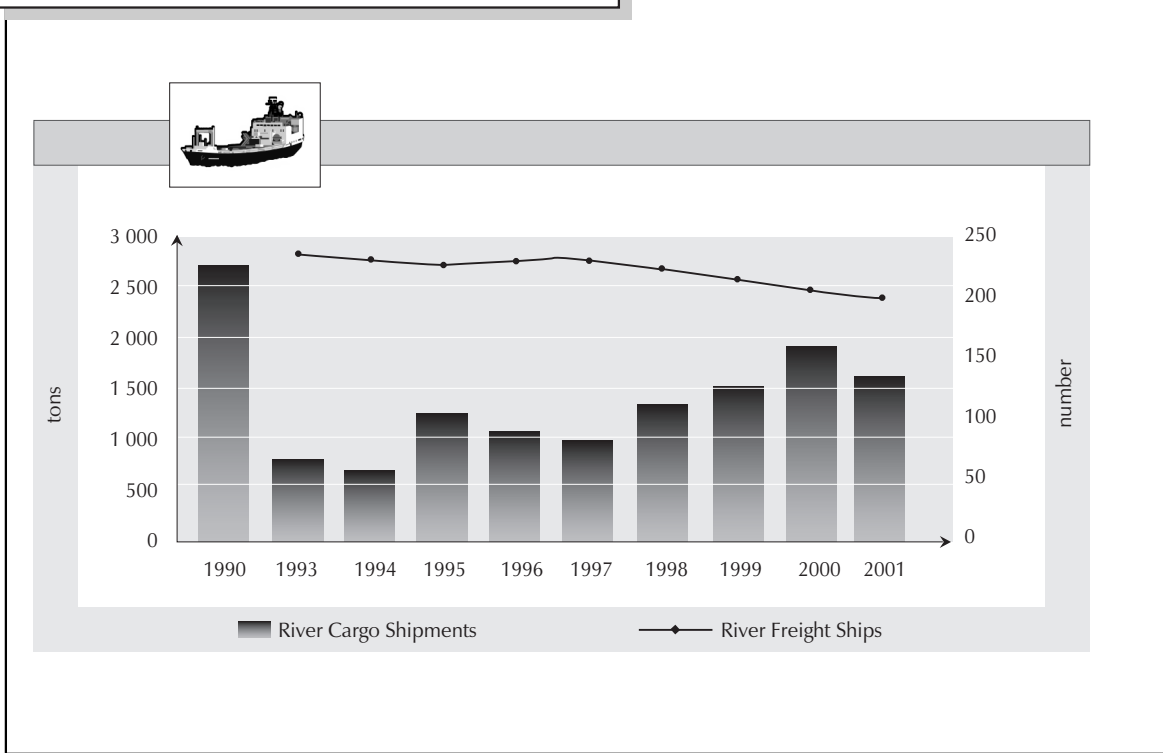
### 3.2. RIVER TRANSPORTATION

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,<sup>17</sup> 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.

<sup>17</sup> 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.<sup>18</sup>

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.<sup>19</sup>

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

<sup>19</sup> "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).<sup>20</sup> About 20 (those that are newer) of those vessels sail under flags of convenience.<sup>21</sup> There are 2,800 maritime vessels registered only at the northern Black Sea coast (including yachts, fishing boats, motor boats and small ships).<sup>22</sup> 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.<sup>23</sup> 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,

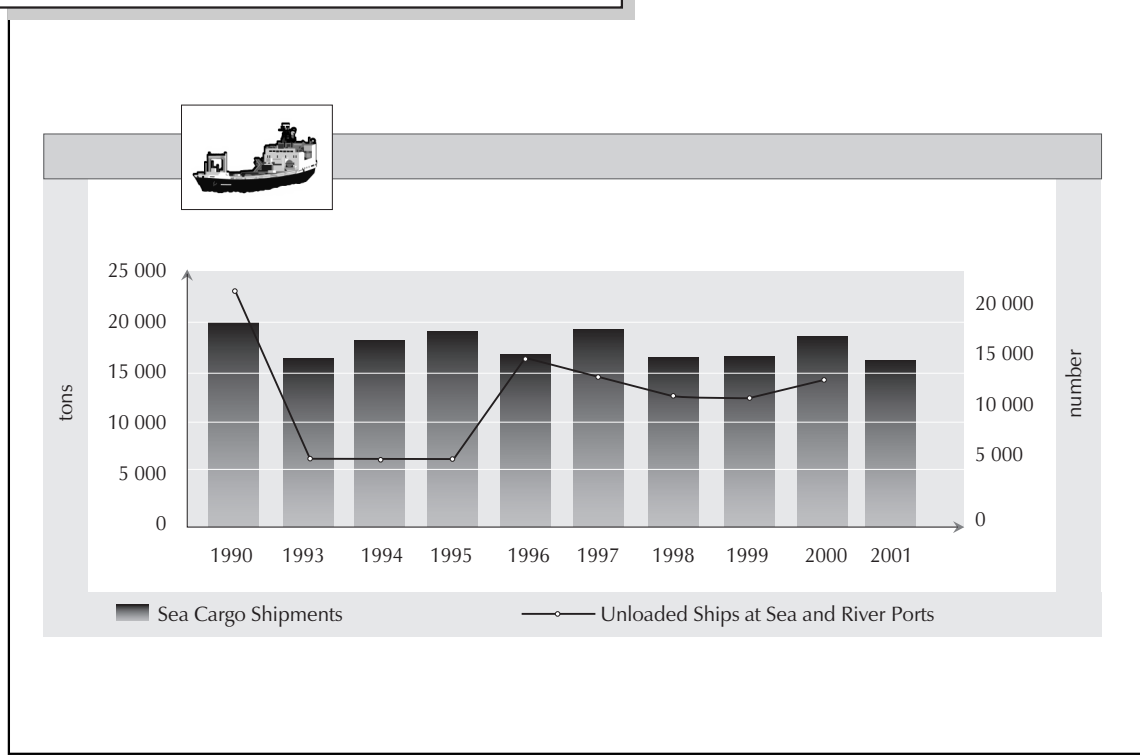
<sup>20</sup> Ibid.

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

<sup>22</sup> Source: Maritime Administration, Varna.

<sup>23</sup> 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.

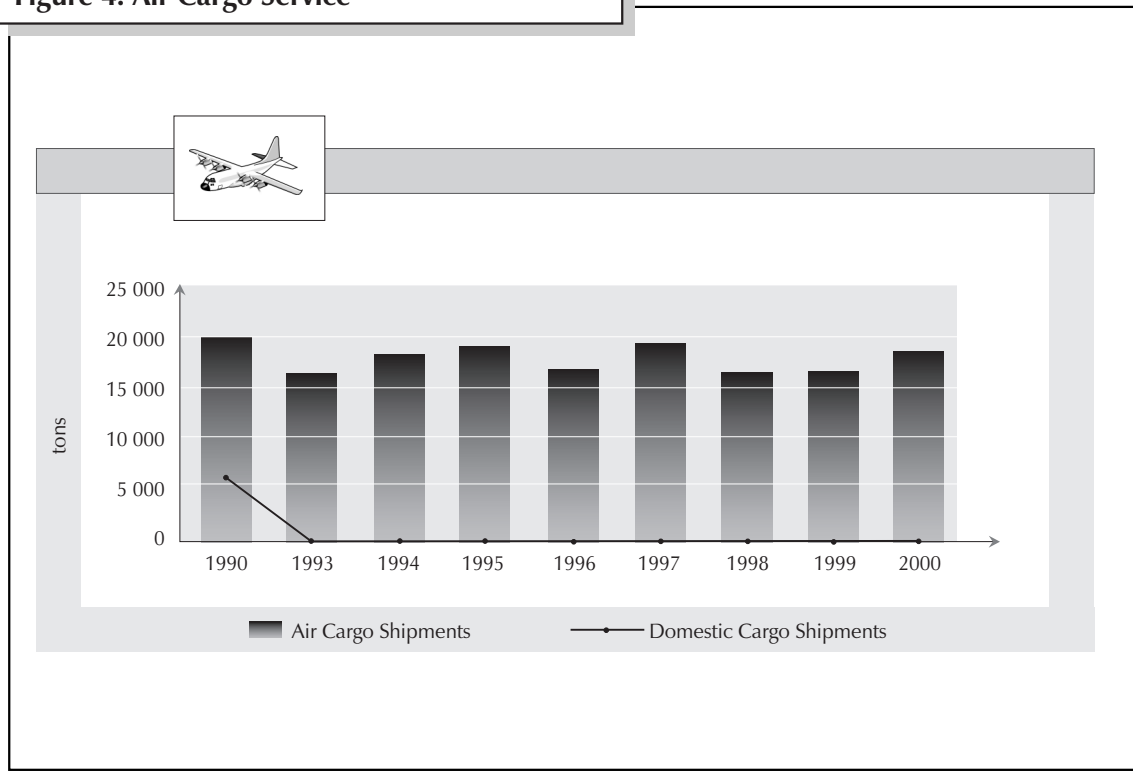
The most frequently smuggled goods are cigarettes, oil products, Chinese goods, and drugs. Related issues are reviewed in more detail in the risk profiles of Chinese goods (Chapter Five), and of cigarettes and oil products (Chapter Six), as well as in the risk profile of the Port of Varna (Appendix).

### 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.<sup>24</sup> 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

<sup>24</sup> 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.<sup>25</sup>

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.<sup>26</sup>

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.

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

<sup>26</sup> Interview with former BCA and MTC officials, Sofia, March 2004.



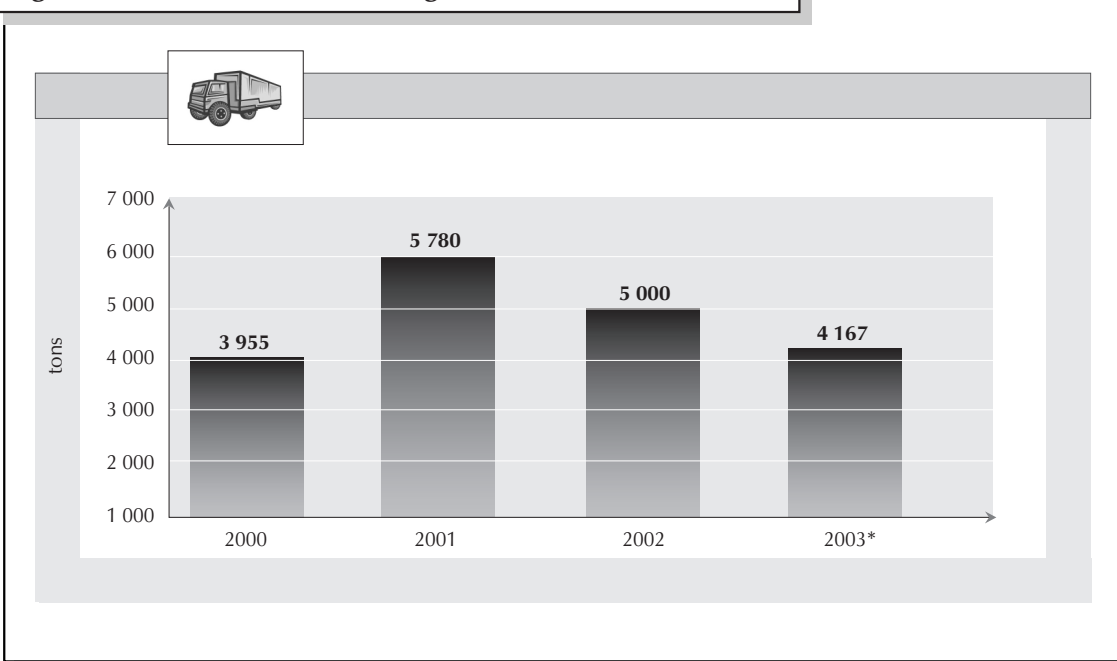
On the other hand, aircraft crews do not undergo such a rigid and thorough inspection as passengers. When utilizing an airplane for the purposes of smuggling, it also involves the participation of ground personnel, who could agree for money to transport illegal cargo and to load and unload it.

### 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.<sup>27</sup>

**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

<sup>27</sup> "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.<sup>28</sup>
- 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

<sup>28</sup> "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.<sup>29</sup> 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.<sup>30</sup> 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.<sup>31</sup>

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**

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

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

<sup>31</sup> 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.<sup>32</sup>

The National Border Police Service keeps a close watch of international bus companies involved in the transportation of illegal migrants to the EU.<sup>33</sup> 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.<sup>34</sup>

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

<sup>32</sup> "France Investigates Bulgarian Pimps," *RFI*, 24 April, 2004.

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

<sup>34</sup> "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.<sup>35</sup> 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.

<sup>35</sup> "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.<sup>36</sup> 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.<sup>37</sup>

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

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

<sup>37</sup> “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.<sup>38</sup>
- 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.<sup>39</sup>

<sup>38</sup> "An Ordinary Smuggling Scheme," *Capital*, 24 May 2003.

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