

## 1.2. CLASSIFICATION OF SMUGGLING ACCORDING TO THE TYPES OF GOODS

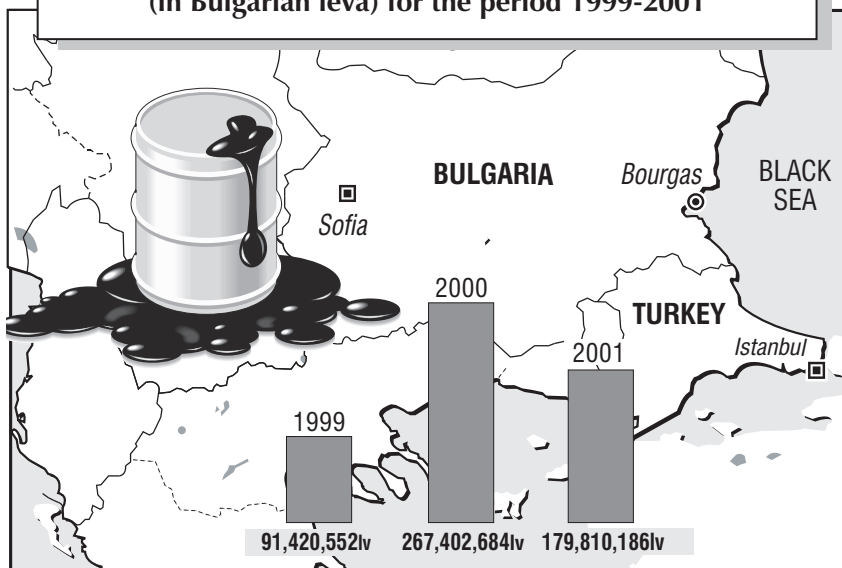
What follows is a classification according to the types of smuggled goods, including the information on their origin and routes on which they are transported, the range of bribes paid to officials involved in the illegal import, the quantities and values of the smuggled goods, and the type of fraud used for the illegal import.

**Table 2: Smuggling according to the types of goods**

Type of goods	Origin, route	Bribes	Quantity/value of smuggled goods	Type of fraud
1. Petrol products	Romania – Ruse. Varna – Lesport Neftohim	100,000 leva per barge (3,000 – 5,000 tons)	30-35% of general consumption	Export declarations from Romania;  Part of the cargo is hidden
2. Household appliances	Thessaloniki – Kulata – internal customs bureaus	Roughly 10,000 leva per truck	20 trucks per month	They are taxed as different goods
3. Electronics (chips, plates, etc)	USA, EU – airport Sofia	30% of unpaid VAT	\$ 3-5 million	Shipping agents are involved in smuggling
4. Airplane cargo	China, Dubai – airport Sofia	1.5 leva / kg	40-100 tons monthly	
5. Turkish goods (not counting food products)	Turkey (Istanbul) – Kapitan Andreevo – internal customs bureaus; Istanbul – free zones – internal customs bureaus – Plovdiv, Haskovo	Kapitan Andreevo – 500 leva;  internal customs bureau – 1,000 leva	150 trucks per month	Untrue weight is declared; false receipts; false origin certificates; free zone Svilengrad; precise quantity and type of goods is not specified in documents, but only the number of boxes
6. Chinese and other Asian goods	China, Vietnam, India, etc.  Thessaloniki – Kulata – internal customs bureaus; Thessaloniki – Novo Selo – Plovdiv – Kazanluk; Varna	Border crossing – 500 leva;  Internal customs bureau – 1,500 leva for trucks with canvas coverage; 2,000 leva for 3 containers (2 trucks)	200 containers per month on average	Considerable discrepancies in weight quoted in documents and in reality. False origin certificates (Turkish)
7. Consumer goods from Dubai	Dubai – customs free zone Syria – Svilengrad – internal bureaus Sofia, Plovdiv	Border crossings – 500 leva;  Internal customs bureaus – 1,500 leva	200 trucks per month	False origin certificates (mostly Turkish); transported in trucks with canvas coverage

8. Fruits and vegetables	Turkey, Syria, Macedonia – clearance in Svilengrad, Zlatarevo, Sofia	1,000 leva on average, divided among customs, sanitary control, police, traffic police, hygiene-epidemiology institute, regional bureau for combating organized crime	240 trucks between October and May and 20 trucks from Syria	Transportation of poultry and meat instead of vegetables in some trucks
9. Meat and poultry	Thessaloniki – Kulata – Sofia; EU – Vidin – Sofia; EU – Kalotina – Sofia; Black Sea ports	Border crossings + veterinary controls – 800-1000 leva; Internal bureau – 2500-3000 leva for customs officials + 500-1000 leva for veterinary control	250 refrigerator trucks per month	Producer is not indicated on the trucks; false certificates, false EU export declarations
10. Milk powder	Ukraine, Russia – Ruse, Kardam	4,000 leva per truck		False certificates from Poland; pure profit \$10-12,000 per truck
11. Rice, beans, lentils	Varna 10-20,000- ton ships	\$19-20,000 per ship	2 ships loaded with rice per month	Part of cargo is hidden; concealed origin

**Chart 1: Comparison of value of imported petrol products (in Bulgarian leva) for the period 1999-2001**



Source: Customs Agency

### 1.2.1. PETROL PRODUCTS, LIQUID FUELS, NATURAL GAS, OILS

The market for petrol products is the largest in the country with a value of 1-1.4 billion leva. According to official data of the Customs Agency, 350 tons of liquid fuel enters the country every day. The smuggling of petrol products, as well as the number of various forms of customs violations and fiscal offences, connected to it, has substantially decreased in the last three-four years. Yet, experts analyzing the current situation believe that 30 to 35 percent of general consumption in Bulgaria is still "gray" or even "black."<sup>3</sup>

<sup>3</sup> According to independent sources within the customs administration, budget losses come to around 500,000 leva daily as a consequence of that.

**Illegal import of petrol products, fuels and oils<sup>4</sup> therefore generates the largest losses to the stage budget.** If we compare data for legally imported petrol products for the last three years, substantial differences can be observed (see chart 1).

According to the operative data from the customs statistics, there was an unprecedented drop in the petrol import in the first six months of 2002, although there was no registered drop in the consumption on the internal market in this same period (see table 3)

**Table 3: Comparison of the value of imported petrol products (in Bulgarian leva) by quarter**

	1999	2000	2001	2002
Petrol products – first quarter	27,217,097	34,183,808	58,311,141	16,018,630
Petrol products – second quarter	24,481,056	81,991,287	52,973,198	25,541,868
<b>Petrol products – half-year period</b>	<b>51,698,153</b>	<b>116,175,095</b>	<b>111,284,339</b>	<b>41,560,498</b>

Source: Customs Agency

The official explanation offered was that the drop was the result of the fall of the value of US dollar (the value of fuels is measured in dollars, unlike the value of other goods, which is measured in euros). The second reason given was that Naftex has suspended its imports.

In the meantime, new facilitated procedures for customs control of import of liquid petrol products were introduced. The demand for a thorough laboratory analysis of all imported fuels was abolished. According to the new customs management, such demand created preconditions for corruption, since it delayed the customs clearance of imported fuel. The importers, who wished to deliver the fuel to the market as soon as possible, were often ready to speed up the procedure through bribery. The new regulations require analysis only in cases where the abuse of the tariff number would be profitable. Analysis is conducted also if there is reliable intelligence information for a possible fraud, when dealing with a company, which has violated the law in the past, if the importer is a new name in the business, if unusual transport route was used, etc.

<sup>4</sup> Smuggling and customs fraud with petrol products have a long history. Petrol products have become the most popular objects of smuggling at the beginning of the 1990s. Preconditions for such development were created by the lifting of the state monopoly on import, export and retail trade of petrol products (during the period 1991-1993, the number of petrol stations has doubled). An additional catalyst for smuggling of fuel was the introduction of embargo on import of petrol products to Serbia and Montenegro. This has increased profits from trade in petrol products three or four times as compared to the previous petrol consumption in the country. Both the ordinary citizens living in border areas and the economic groups, patronized by politicians, got engaged in fuel smuggling. Embargo on Yugoslavia was one of the most important factors, influencing the growth of organized crime in the country. After the end of the embargo regime, the established channels continued to operate under new conditions. This was possible because of the subsequent political and economic crisis, privatization chaos and different prices of petrol products in various Balkan countries. As a consequence, from mid-1990s until present, the market with petrol products, fuels and oils remained a suitable environment for realization of illegal import, in which criminal groups and companies, operating within the different "shades of gray" are involved.

According to the data from the customs, in the first six months of 2002, the revenues from fuel import were 320 million leva. The largest part of this sum comes from VAT (290 million leva), followed by the excise tax (20.8 million). Most of the fuels are imported from the countries to which Bulgaria applies no tariffs for import of petrol products. Revenues from this item are therefore less than 2 million leva. Six million leva were received by the State Road Network Fund and 646,848 leva by the Preservation of Natural Environment Fund. Among all fuels, listed in Chapter 27 of the customs tariff, propane-butane is of primary importance for the budget. The state collects on average between 3.5 and 5.5 million leva monthly from its import. Diesel fuel is on the second place with one to three million leva monthly, followed by the unleaded gasoline A-95 and the low-weighted oils.

The customs analyses show that statistical value of imported propane-butane fell from 0.56 leva per kilogram in January 2002 to 0.42 leva per kilogram in June 2002. This anomaly is explained by the fact that propane-butane currently imported is of inferior quality, which is a result of the market demand for cheaper fuel. The most typical customs fraud regarding illegal import of propane-butane is the falsely declared weight, since it is practically impossible to determine it accurately. The customs duties can be reduced also by declaring a wrong proportion of propane and butane.

The most common customs violations involving diesel fuel are linked to the tariff number. The difference in customs duty rate makes it very profitable to declare diesel as heavy fuel. Heavy fuels are cheaper and the excise tax is almost five times lower – for diesel fuel it is 110 leva per ton, while for heavy fuels it is only 25 leva per ton. The two types of fuel can be distinguished only by laboratory analysis (diesel contains 0.2 percent of sulfur, while heavy fuels contain between 1 and 2.8 percent). In cases of such violations, false documents are usually used – most often false quality certificates.

Customs experts have concluded that violators often declare the imported diesel fuel as industrial gas oil. Gas oil has the same excise rate as diesel, but is cheaper and no road tax is levied on it. For diesel, the road tax is 180 leva per ton. It is difficult to distinguish between both types of fuel, the only difference being the sulfur percentage in their composition.

Ecology taxes are also highly differentiated, but they are relatively low and do not lead to abuses.

Most types of gasoline are levied with the same (most often zero) import duties. It is not possible to import leaded gasoline and to declare it as unleaded (which has a lower excise tax), since the two types can be easily distinguished from each other with a simple litmus test. The most common frauds therefore involve false documents.<sup>5</sup>

The biggest problem with widespread cases of frauds with documents is that the customs authorities can follow only those duties and taxes paid on their accounts. Revenues from VAT and excise taxes are under jurisdiction of tax authorities, ecological tax is collected by the Ministry of Environment and Water, and road tax by the Ministry of Regional Development and Public Works. Customs authorities cannot check whether certain taxes have indeed been paid to the respective accounts (so far, the tax authorities have refused to share the information, claiming to be legally bound not to disclose it). **The Customs Agency has therefore suggested that a general transit account be established, so they could follow which state claims have been actually paid.**

Another priority task is the termination of another practice, harming the budget – the petrol stations on the border crossings and in the free zones. The most typical case is the petrol station Shipka in the Free Zone Svilengrad.<sup>6</sup>

Another problem is the large number of illegal or unlawfully operating petrol stations. According to information from Petrol, there are over 2,500 sites for retail trade with fuel in the country. About 440 petrol stations are owned by Petrol, sixty by LUKoil, and Shell and OMV own another sixty each. The share of small petrol stations

<sup>5</sup> Three cases were discovered in 2002. A scheme for import of fuel with false payment orders for VAT, excise tax, ecological tax and road tax in the value of 1.6 million leva was uncovered in the customs department Ruse in May. In March, an attempt to import nine cisterns of A-95 gasoline with false customs declarations, supposedly issued by the customs department Gorublyane, was prevented on the railway station Gara Iskar. The cisterns contained 450 tons of gasoline, and should have been levied with 300,000 leva of duties and taxes. Around 20 truck-cisterns were waiting near Sofia to reload the fuel and disappear with it somewhere in the country. In a separate incident in June in Stara Zagora, importers of another nine cisterns of A-95 gasoline submitted payment orders to the customs bureau, but annulled them in the midst of the procedure.

The highest taxes are levied on gasoline A-98, but since this type is imported in limited quantities, most frauds involve A-95. Nevertheless there have been cases with smuggling of A-98. In some of them, the following tricks were used: a cistern with A-98 was sunk into cheaper industrial oil, or the fuel was smuggled in hidden additional reservoirs on the trucks, transporting other goods.

<sup>6</sup> According to information from sources linked to the petrol business, the budget loses 3.8 million leva monthly because of this petrol station due to unpaid VAT, excise tax, road tax and ecological tax. This sum equals the revenues from the overall monthly import of propane-butane for the entire country. The petrol station is legal, since refuelling on petrol stations located on border crossings and in free zones is considered export. The excise tax is therefore refunded and no VAT is charged. Because of the presumption that the fuel is sold "abroad," ecological and road tax are also not levied. As a result, Shipka sells the diesel fuel for 0.70 leva per liter. The price at the petrol stations in the interior of the country is 1.20 leva per liter. The state therefore loses around 500 leva (170 leva VAT, 110 leva excise tax, 180 leva road and ecological tax) from every ton of diesel, sold in the free zone. Free market competition also suffers. According to information from the petrol business, Shipka sells the impressive 350 tons or more daily (the owner claims that they sell around 200 tons). Most of the clients are Bulgarian drivers, who do not exit the country after refuelling. Truck drivers are also taking advantage of the lower price and often resell the fuel in Bulgaria, Turkey or Greece. Most trucks have additional reservoirs and can carry hundreds of litres of diesel. A Turkish businessman owns similar petrol stations on the border crossings Kalotina and Vidin.

has already reached 35 percent. On some of these, fuel is sold directly from the cisterns, and in most cases, less than 10,000 leva were invested in their construction. Lately, numerous makeshift "petrol stations" have appeared, run by people who are most likely members of "power groups". Fuel is pumped with hoses straight from the cisterns and sold at prices lower than those on the near-by petrol stations. Some of the clients even have special "membership" cards.

Such sites do not require much investment (unlike the real petrol stations into which around one million leva has to be invested), and no taxes are paid to the state. Most often, the fuel sold at such sites has been illegally imported. As a result, it can be sold at much lower price. In Sofia, for example, there are three or four such places, where diesel is sold for 0.95 to 1.00 leva per liter, and gasoline for 1.15 to 1.20 leva per liter. This phenomenon is widespread in northern Bulgaria due to the illegal import from Romania. In Ruse, for example, in some places propane-butane is sold for 500 leva for a ton, as compared to 625-685 leva for a ton of the regularly imported gas with all duties and taxes being paid. According to estimates of official traders, if only 10 percent of the small traders (representing 35 percent of the petrol market) do not play by the rules, budget loses about 100 million leva per year from unpaid VAT, excise and other taxes.

The existence of small illegal petrol stations is possible because the European technical and ecological standards and norms have still not been introduced and the construction of petrol stations is allowed on all possible places. There are too many players on the petrol market. In order to survive, they have to lower their prices, which they do by using illegal means. The weak fiscal control is assisting them in this respect. All this creates problems to the companies operating legally, decreases their capabilities for investment into new infrastructure, as well as for expanding and improving their services. It also brings their profits down, according to some claims, almost to zero.

Currently, petrol products and liquid fuels are imported from Russia, Ukraine, Romania, Greece, Turkey, etc. The customs clearance of these goods is centered at the customs departments in Ruse, Kulata, Stara Zagora, Sofia and Burgas. The main violations include declarations of lower values, incorrect description, citation of an incorrect tariff number, concealment of actual weight, falsification of payment documents, falsification of laboratory examination protocols. The most flagrant form of smuggling – the so-called "outright smuggling" is also conducted, as can be judged from the information regarding the illegal import of three to five tons of fuel in the vicinity of the port Lesport - Varna. **Sums, offered as bribes, are very different, due to the various extents of the illegal imports, but can reach as high as 100,000 leva for a ship in the case of outright smuggling. The bribes are divided between various officers, engaged in the concealment of the illegal import.**

Smuggling of petrol products through Kulata has started again. Truck-cisterns, which are not registered at all when entering the country, are involved in the scheme – this therefore is another case of outright smuggling. A bribe of 15,000 leva is paid for each cistern. There is no information regarding the precise number of cisterns imported in such a way. The channels through Ruse and Varna also continue to operate.



## 1.2.2. AUTOMOBILES

When making an assessment of the gray and black market with automobiles in the country, a specific feature of the Bulgarian car market should be kept in mind. Unlike most of the other Eastern European countries, Bulgaria does not have its own car production and is completely dependent on import. According to statistical data, the import could conditionally be divided into two categories – import of new and import of used cars. Data from operative customs statistics show that the market with used cars valued 250-300 million leva in 2001. The value of the annual market of new cars ranges from 200 to 250 million leva. **The overall car market in the country therefore reaches around 500 million leva annually and is one of the largest in Bulgaria.**

**Table 4: Comparison of the value of import of used and new automobiles (in Bulgarian leva) for the period 1991-2001**

Type of motor vehicle	1999	2000	2001
Number of imported used cars	91,501	85,116	103,968
Number of imported new cars	11,958	13,069	13,365
Value of imported private cars and other motor vehicles for transport of passengers	386,733,786	404,539,599	518,672,584

Source: Customs Agency

The new cars represent only 10 percent of the overall number of cars sold in Bulgaria in the last 12 years (between 12,000 and 14,000 automobiles are sold annually). There are almost no customs violations involving the import of new cars. One reason for this is the control, exercised by large car companies over their distributors' networks and logistics, and the second is the control the Bulgarian companies, involved in import of new cars, practice over their competitors. Due to the small size of the market, such companies can follow every sale made by the competition.<sup>7</sup>

The situation regarding the import of used cars is very different. The data shows that in the last 10 years, more than one million cars were imported, with the average annual import being about 100,000 cars in the last three years. Used cars therefore occupy the central place on the Bulgarian car market.<sup>8</sup> The used cars market is well developed, with companies specialized in particular types and classes of cars, with permanent partners all over the world, with specialized transport facilities, with numerous service-stations and with an "exclusive right" on a particular part of the country. Despite the lack of systemized information, it is obvious that the market is large enough for the big importers (100-300 cars annually), medium-sized importers (30-40 cars) and for private persons, importing 2-3 cars a year.<sup>9</sup> According to the official customs statistics, the market for used cars in 2001 can be estimated at roughly

<sup>7</sup> Although customs violations are rare with the import of new cars, some of the large distributors expressed fear that some of the smaller distributors might try to avoid paying the necessary taxes.

<sup>8</sup> Unlike other states, where new cars represent one of the main indicators of the state of the economy, in Bulgaria this role is played by used cars.

<sup>9</sup> According to the critics, the Bulgarian market is one of those, serving the important economic function in the EU countries – it is "opening" space for new consumption and is "cleaning away" the aged cars.

250-300 million leva. This sum, however, represents only 40-50 percent of the real value of cars.

Although the system for import of old cars functions since 1990, there have been no substantial changes in its operation since 1993-94. Due to the specific nature of the car trade, the concentration and monopoly of the large companies is impossible. This creates conditions for the existence of one of the largest "gray markets" in the country.<sup>10</sup>

As we can see in table 5, the profits from the sales of used cars are constantly increasing (if we consider that no change has occurred in the market with new cars, the revenues from the sale of used cars have been increasing by 25 percent annually on average since 1999).

**Table 5: Comparison of the value of car imports (in Bulgarian leva) by quarter**

Type of MV	1999	2000	2001	2002
Private cars and other motor vehicles for transport of passengers – <b>first quarter</b>	51,018,084	86,768,916	95,472,505	138,500,690
Private cars and other motor vehicles for transport of passengers – <b>second quarter</b>	83,651,025	101,408,443	126,138,123	122,135,389
<b>First half-year</b>	<b>134,669,109</b>	<b>188,177,359</b>	<b>221,610,628</b>	<b>260,636,079</b>

Source: Customs Agency

**One of the most important factors regarding the Bulgarian gray market is the exceptionally liberal law on import of old automobiles.** One of the simplest systems for imposing customs duties on used cars is used - the duty is not calculated according to price of the car, but according to power of its engine.<sup>11</sup> This in principle should not stimulate the "gray import." Yet, in practice this market generates huge losses to the state.

There are numerous ways to conceal the real information about the imported car in order to reduce the due payments. Such scams are used both by individual importers and by companies. Usually powerful and luxurious cars are imported by taking advantage of the right of disabled persons to the reduction of customs duties.

<sup>10</sup> "Gray schemes" start in Western Europe, where used cars are considered to be inferior goods. They are therefore of no interest either to large trans-national companies, or to the state administration. As a result, used cars can easily fall into the shadow channels in which the real value of the car is transformed into the value, presented to the customs and tax authorities of the country where these "inferior goods" are imported.

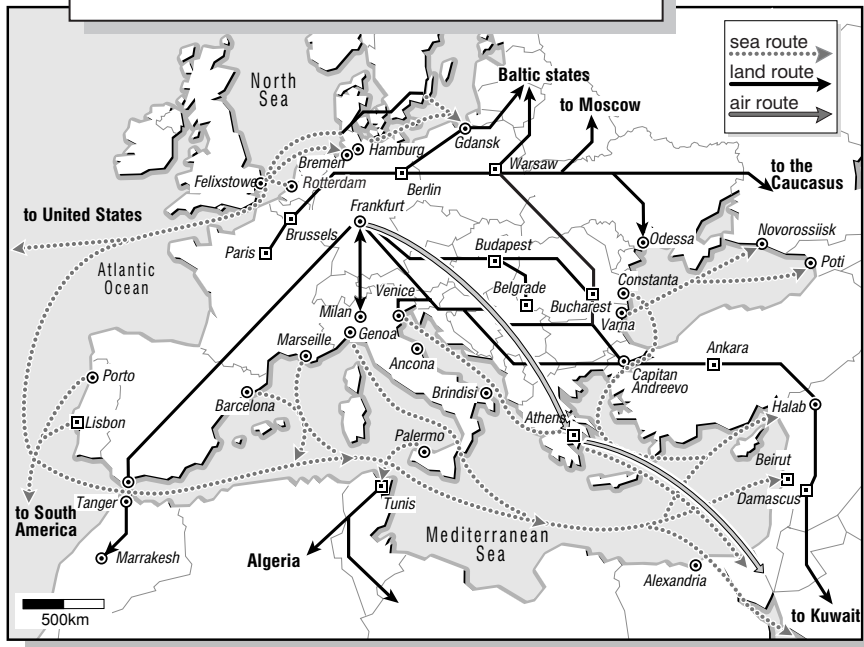
<sup>11</sup> When the state is not interested in the price of the imported car, the money spent for the purchase remains abroad. As a consequence, the limitations for the import of used cars to Bulgaria are only symbolic. In South America, for instance, a similar policy is usually considered a "legalization of smuggling of used cars."



According to some estimates, around 15,000 cars are imported in such way every year.<sup>12</sup>

Liberalization of the import of used cars has created a gigantic gray market for spare parts and accessories for the cars (it represents 70-80 percent of the overall market). With 100,000 used cars imported annually and with the enormous gray import of spare parts, it is not a problem for a specialized criminal group to conceal up to 20,000 cars, stolen within the country or in some other European state.<sup>13</sup>

**Chart 2: International channels for trade in stolen cars**



Source: Reuters

**The transit of stolen cars (stolen outside, but sometimes also inside Bulgaria) through Bulgaria to third countries also continues to take place.** Most of these cars end up in Russia, other former Soviet republics, and the Arab countries. The main such channel runs through Kapitan Andreevo, Turkey and Georgia. In Georgia, cars are redistributed towards Russia and other countries. Direct export for Russia is conducted through other, smaller border crossings, which, unlike Kapitan Andreevo, are not equipped with electronic information systems, directly connecting Bulgarian and Russian insurance companies. This connection makes it possible to instantly exchange information regarding stolen vehicles (in most cases, insurance fraud is involved, with the owner of the vehicle being involved in the alleged "theft").

The bribes between 2,500 and 3,000 leva (depending on the type of the car) are paid to customs and border police officials in Kapitan Andreevo. Usually, the person driving the stolen car is registered as a passenger, transiting the border on foot or in some other transport vehicle, and the car itself is not registered at all.

In the fall of 2002, corrupt officials at the border crossing Zlatarevo were caught after letting a stolen jeep to pass the border unregistered. The investigation revealed that the two corrupt border policemen have taken part in similar activities in the past, taking bribes between 2,000 and 5,000 leva, depending on the type and price of a particular car.<sup>14</sup>

<sup>12</sup> Such practice has been recently terminated with stricter regulation of the described privilege, which can now be applied only for cars with engine volume below 1600 cubic centimetres.

<sup>13</sup> Police statistics show that between 600 and 800 cars are stolen in Bulgaria every month. This number should be increased by 30 to 40 percent to include cars, which were stolen, but the theft was not reported to the police, because owners preferred to pay the ransom in order to get the car back.

<sup>14</sup> The two border policemen usually noted in the documentation that drivers of the cars entered the country on foot. On the Macedonian side, however, the same persons were registered as traveling in a car. Furthermore, on every crossing, a different car was registered. Some of the stolen cars have passed directly through the VIP section of the border crossing. The policemen knew in advance the type and the registration number of the car and let it pass without even checking the documents of the driver. (See *168 chasa*, September 6-12, 2002.)

**Every month, more than 1,000 car insurance frauds are conducted in the country. Unfortunately, there are no accurate statistics how many of these cars have left the country in such a way.**

### 1.2.3. HOUSEHOLD APPLIANCES<sup>15</sup>

Data from market research show that from 1991 to 1994, profits from the sales of household appliances were larger than profits from sales of any other group of goods. An average Bulgarian household could not afford to buy a car in the first years of the 1990s. In contrast, almost 50 percent of Bulgarian families took advantage of the flood of cheap imitations of various well-known brands of household appliances, but also of the import of genuine high-quality products. The subsequent economic and political crisis and the period of stagnation led to a large contraction of the market for such goods.

The gray as well as the illegal import of household appliances should also be viewed in the context of economic stagnation. As a consequence of the reduced demand, such import is currently 60 to 70 percent smaller than it was 5 or 6 years ago. Additional reasons for such development are the appearance of hyper-market chains, the establishment of the specialized technical markets, and the tendency of large producers to create their own distribution networks. The market for household appliances is highly fragmented. It is shared by large companies, importing on regular basis and owning developed trading networks, and by medium and small companies, importing periodically (depending on the situation). In contrast to the early 1990s, participation of suitcase traders is negligible.

Despite the reduction in consumption, the large profits realized with this type of goods continue to attract traders. Experts estimate that around 20 trucks of household appliances are illegally imported every month. The most frequently used fraud is the declaration of entirely different goods (spare parts, motor cutters, etc) with lower customs duties, VAT and excise tax. The most typical route used is from Thessaloniki through Kulata to Sofia. The budget loss is around 10,000 leva from each truck. Analyses show that both small companies and large market chains are involved in such channels.

One of the popular "explanations" offered to conceal import frauds is that the declared price is low because the goods are second-hand. At the end of 1990s, the market for second-hand household appliances sharply increased. As a consequence, it became very difficult to disclose the illegal import of the new household appliances, and the import of the counterfeits, imitating the quality brands, especially if the importers were smaller companies.

Considering the stated above, it becomes clear why it is very difficult to make an assessment of the gray sector for household appliances. If the operative customs data for import and data on annual sales, registered by marketing research, is compared,

<sup>15</sup> The customs officials divide household appliances into four groups, using special jargon names. "Small white" appliances include irons, hair-dryers, mixers, electric shavers and other small electric devices. "Large white" appliances include washing machines, refrigerators, dishwashers, water-heaters and other large household appliances. "Small black" appliances include transistors, walkmans, headphones, etc. "Large black" appliances are TV sets, stereos, video-recorders and video-players, cameras, DVD and CD players, etc.

approximate estimations can be made. According to marketing research, the value of the "white" household appliances market is between 140 and 170 million leva. As it can be seen in Table 6, customs duties have been levied only on 50-60 percent of the imported "white" household appliances. Although the customs data show that customs revenues have increased, this tendency does not have a constantly rising character.

**Table 6: Comparison of the value of import of "white" household appliances (in Bulgarian leva) for the period 1999-2001<sup>16</sup>**

Type of household appliances	1999	2000	2001
<b>"Large white" appliances</b> Household refrigerators, cooking ovens, microwave ovens, water-heaters, etc.	46,326,026	44,646,056	57,308,028
<b>"Small white" appliances</b> Electric irons, toasters, electric barbecues, deep fryers, coffee machines, etc.	11,433,984	10,549,589	12,981,184

Source: Customs Agency

The annual sales of the "black" household appliances are estimated to be between 60 and 80 million leva. It is believed that gray imports represent 40-50 percent.

#### 1.2.4. COMPUTER AND ELECTRONICS EQUIPMENT

Operative customs statistics show the annual increase of 12-15 percent in the collection of revenues from the legal import of this type of goods (see table 7).<sup>17</sup> Another point of view is given by the Bulgarian and the international market estimates, which show that the Bulgarian market for computer and electronics equipment is expanding with a much slower pace.

**Table 7: Comparison of the value of import of computer and electronics equipment (in Bulgarian leva) for the period 1999-2001**

	1999	2000	2001
Printers and other equipment and accessories for computers and other data processing machines, etc.	78,886,154	91,249,752	103,059,491

Source: Customs Agency

A special attention should be given to goods imported with the air transport. These mostly include various electronic parts (like chips and plates). The monthly value of imports is between 3 and 5 million USD. The most frequently used fraud is the declaration of the lower customs rate, with bribes comprising roughly 30 percent of the

<sup>16</sup> The household appliances included in this measurement do not include all appliances, which could be considered "small" or "large white" household appliances. Despite this, the data is representative enough, since around 90 percent of such goods are included. Due to the lack of appropriate data, there is no similar table for the "black" household appliances.

<sup>17</sup> Data in the table covers only part of goods, falling in this category. It nevertheless offers insight into the developments, concerning the import of computer and electronics components.

unpaid duties. Most of such imports travel from the EU and the USA to the airport Sofia. The shipping agents, owning warehouses on the airport Sofia, are involved in the illegal import.

The large international companies are trying to limit the "gray imports." The main violators are found in the so-called SOHO (Small Office / Home Office) market, since most consumers prefer distributors, who do not add VAT to the price of the product.

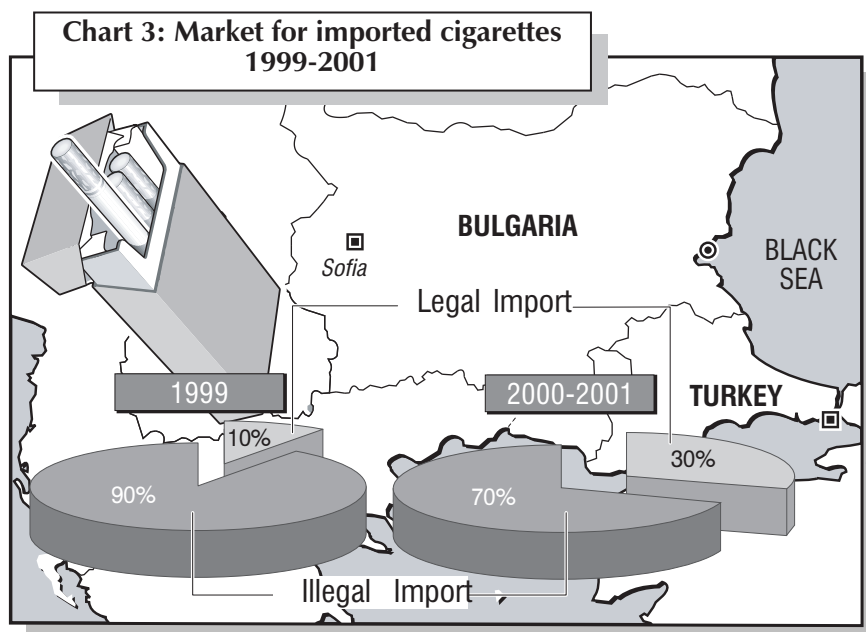
### 1.2.5. CIGARETTES

Due to their specific features (small size, high price, very large consumption), **cigarettes are the most popular item for smuggling not only in Bulgaria, but also in most of the world.** The profits made by the cigarette smugglers are close to those, made by the drug smugglers. The volume of cigarette smuggling in Bulgaria can be most accurately determined if the data from customs statistics are compared with the data from marketing research on the sales of imported cigarettes in the country. According to the latter, the annual cigarette market in the country can be estimated at 500-560 million leva.<sup>18</sup> The imported cigarettes represent 12-15 percent of all cigarettes sold (60-80 million leva).

**Table 8: Comparison of the value of cigarette import (in Bulgarian leva) for the period 1999-2001**

	1999	2000	2001
Cigarettes	1,647,554	3,927,872	5,040,808

Source: Customs Agency



Source: Customs Agency

Based on these estimates, the experts of *Coalition 2000* calculated that in 1999, less than 10 percent of imported cigarettes, sold in Bulgaria, were imported legally. In the period 2000-2001, the share of legally imported cigarettes<sup>19</sup> sharply increased (see Table 8), although the consumption remained unchanged.

However, the legally imported cigarettes still represent only 30 percent of foreign cigarettes, sold in the country (see chart 3).

Several factors have influenced this development. Among the most important is the new approach of the large multinational companies. Few of them planned to participate in the privatization of the Bulgarian tobacco giant Bulgartabak and as a consequence, they tried to legalize

<sup>18</sup> The estimate of the National Statistics Institute is lower – 260-280 million leva annually.

<sup>19</sup> The problems involving cigarettes produced in Bulgaria are not going to be discussed here. They include import of raw materials and sub-products, fictive export involving VAT frauds, and illegal export to third countries, without duties and taxes being paid there.

their products, sold in the country. The change in the behavior is also a result of many international law suits against them on charges that the multinationals assist the smuggling of their products. Equally important is that the Bulgarian law-enforcing agencies intensified their efforts in countering cigarette smuggling.

A new situation occurred in the early 2002. A clearly visible drop in revenues from cigarette imports has occurred as compared with the same period in the previous two years (see table 9).

**Table 9: Comparison of the value of cigarette imports (in Bulgarian leva) by quarter**

	1999	2000	2001	2002
Cigarettes – first quarter	47,579	92,723	350,535	424,575
Cigarettes – second quarter	653,212	1,187,044	1,350,195	577,065
Cigarettes – first half-year	700,791	1,279,767	1,700,730	1,001,640

Source: Customs Agency

These changes could be connected with the retreat of the multi-national companies from privatization of Bulgartabak, as well as to the increase of the excise tax in the beginning of the year. The fact that the situation within the customs has "calmed down" has also enabled corrupt officials to reactivate the traditional smuggling channels. Certain part of the increase of the share of smuggled foreign brands on the market is also a result of the higher price of Bulgarian cigarettes. Similar reasons are also behind the fictive export of Bulgarian cigarettes through Kapitan Andreevo, where bribes of about 15,000 USD are paid for every truck, carrying 900-960 boxes of cigarettes.

Cigarettes are imported from countries like Switzerland, USA, Cuba, Austria, Great Britain, Germany, Spain, Holland, Belgium, Macedonia, Turkey, Greece and Cyprus. They enter Bulgaria through customs departments Svilengrad, Kulata, Sofia, Varna, Burgas, Plovdiv and Kalotina. Most often, the so-called method "seal," involving the concealment of the entire shipments, is used.<sup>20</sup> This method is used both for illegal import and illegal export of cigarettes. After 2000, some of the people involved in the old channels for illegal import of cigarettes started to use the traditional "Balkan channel" for export to Western Europe. According to the experts, this is because the Bulgarian market for imported cigarettes is very small, and opportunities for enrichment are much higher in countries like Great Britain, Germany and Italy. Documentation is often "legalized" with false customs stamps. Usually, a ghost company is involved in such export.

Along with the traditional "political channels" and the outright smuggling involving unregistered passage of trucks and various types of "seal" method, the impact of small importers is also important. They frequently pass the border as suitcase traders, bringing few stacks of cigarettes into the country each time. Not rarely, with the aid of a

<sup>20</sup> The smuggled goods are placed in the difficultly approachable inner part of the truck, while the declared goods are used to conceal them.



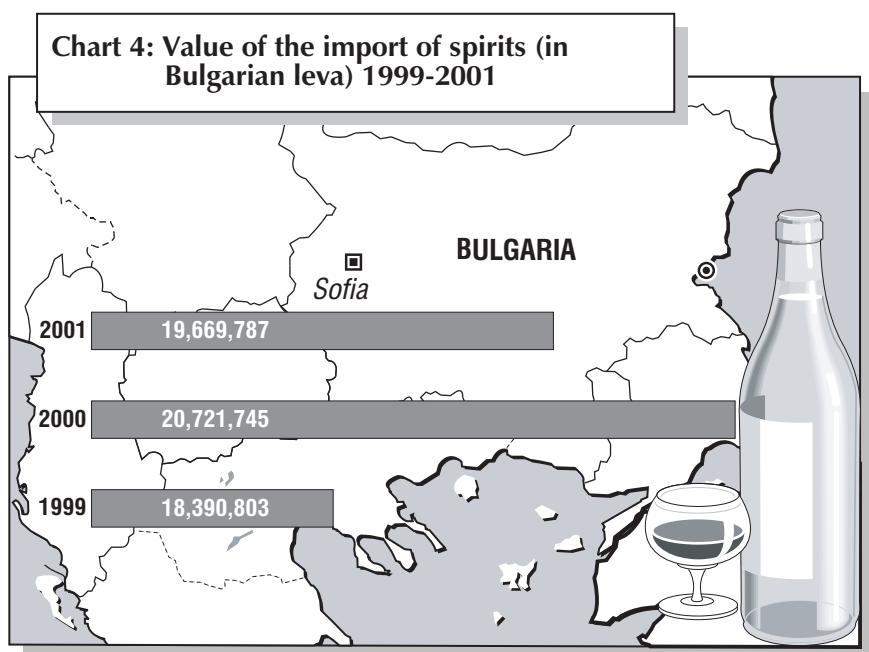
customs official they are acquainted to, such suitcase traders import several master-boxes of cigarettes and later sell them to retail traders.

One of the best established schemes involves duty-free shops. According to the customs data, these magazines have paid around 60 million leva of excise taxes in 2001. This means that for 8 to 9 times more foreign cigarettes have been sold in duty-free shops than within the country. Experts estimate that around two thirds of cigarettes, sold in duty-free shops, are subsequently "re-exported" to Western Europe, while the remaining third ends up on the Bulgarian market.

Unfortunately, the assessment of the fictive export of cigarettes cannot be conducted at this point, due to the lack of data and the lack of proper method.

#### 1.2.6. ALCOHOL

**The market for imported alcohol beverages is one of the examples of a successful limitation of illegal import in the last three years.** In the first years of transition, the alcohol market was generating one of the highest profit rates. Before 1998, between 80 and 100 million leva were made annually from the sales of the imported quality spirits (in 1993, this sum was even 160 million leva). Of these, 90 percent represented either "black" (smuggling) or "gray imports" (with highly reduced declared value).



Source: Customs Agency

The precondition for such a development was the liberalization of imports in 1991. Enormous number of companies, seeking quick accumulation of capital entered the market for goods with fast circulation. As usually, the most "effective" method used was the outright smuggling. If the operative customs statistics are compared with the results of marketing research, it becomes clear that only 8-10 percent of foreign spirits, sold in the country, were imported legally. In 1999, however, a sharp change occurred – the value of the legally imported alcohol was 18.39 million leva, or 4.5 times more than the previous year, without any visible change in consumption. This tendency continued in 2000, when despite the registered drop in consumption, the revenues from imported spirits increased by 12 percent (see chart 4).



Three major preconditions have helped bring about this change:

First, **the Law on Excise Duties was amended in December 1998**. Thereafter excise duty on spirits was determined on the basis of alcohol content, and not on the declared value as it used to be until then. Thus excise duty no longer depended on the declared import price and this rendered pointless the value-related fraudulent schemes (the possibility to present false quantities remained). 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 multi-national companies**, to conduct legal business in this country. In mid-1998, these companies concluded that the market in Bulgaria is less risky and that they could enter it legally. As a consequence, they **started to "clean away" numerous gray distributors of their products by ceasing to supply them**. At the beginning of 2000, almost all of the major producers of spirits had established their own offices in Bulgaria or had designated official importers. The largest (United Distillers & Vintners – UDV, Diageo, Allied Domecq and Seagram) began to invest into the development of the national distribution networks.

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 quality spirits. According to importers, smuggling of spirits became too risky and is likely to cease completely.

The positive tendencies in the import of high-quality brands of alcohol should not be overestimated. According to both experts and importers, lately **there has been a certain reorientation towards "parallel importers," which are most often of a semi-legal nature**.<sup>21</sup> What is 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. In the estimates of the largest spirits importer – UDV – under the market situation in 2000 and the presumed 30 percent illegal imports, the national budget has lost 4.2 million leva from unpaid VAT, excise and customs duties, profit tax, and tax on advertising activity, while the losses of authorized importers amount to 2.7 million leva.

According to the large importers, **the situation began to deteriorate since the early 2001**. After reaching almost 80 percent in 2000, the legal import again started to give way to "parallel imports."

There are several reasons for this. First, as most market researches have shown, the sales of imported quality spirits have decreased. The main reason for this development is the reduced consumption power of the Bulgarian population.

Second, the structure of sales has changed after the appearance of huge hypermarket chains like Metro and Billa, and supermarkets like Fantastiko and Oasis. They destroyed the previously existing structure, including large importers (UDV, Allied Domecq, Seagram), huge warehouses and retail traders. After 2000, roughly 20 per-

<sup>21</sup> Import of counterfeit products of the major brands continues. Bulgaria has the "advantage" of proximity to the countries, which are the most active producers of the counterfeit products – Turkey and the Middle East.

cent of sales were conducted in hyper-markets, where both retail traders and consumers are buying. Pressured by the reduced consumption and by the competition of the hyper-markets, wholesale traders started to look for cheaper goods and some of them started to develop parallel import on their own.<sup>22</sup>

Third, the importers blame the customs. Unlike the previous years, **in 2001 several old channels were reactivated. This was directly linked to the parliamentary elections in June 2001.** Unlike the summer of 2000, when Kulata was the only channel for illegal import of alcohol, in 2001 channels through Varna, Burgas and Kapitan Andreevo were also used.

**In 2002**, two types of violations involving import of spirits can be indicated. The first type is realized mainly through schemes for illegal import of small quantities, exported through duty-free warehouses of official distributors and involving their employees or people connected to them. Apart from small violators, a number of large companies also use duty-free warehouses as the main source for deliveries, which seriously harms the budget. **The Coalition 2000 estimates that about 30 per cent of imported alcohol passed through duty-free warehouses.**

The second type of violations involves the so-called **parallel import on reduced prices.** Apart from owners of large warehouses (see above), owners of night-bars, discotheques, etc, are also involved.

**The share of the legally imported alcohol beverages has continued to increase in 2002, despite the continued drop in consumption** (see table 10). There are two preconditions for this positive development. First, the concussions involving large importers have ended and now the chain import – wholesale trade – retail trade operates smoothly again. Second, after months of political insecurity in a large number of customs bureaus, the "parallel import" at reduced prices is no longer tolerated.<sup>23</sup>

**Table 10: Comparison of the value of alcohol import (in Bulgarian leva) for the period 1999-2001**

	1999	2000	2001	2002
Ethyl alcohol – brandy, vodka, whisky – first quarter	3,222,759	4,855,733	4,001,538	5,304,149
Ethyl alcohol – brandy, vodka, whisky – second quarter	3,916,591	5,053,342	3,416,730	5,567,961
First half-year	7,139,350	9,909,075	7,418,268	10,872,110

Source: Customs Agency

<sup>22</sup> Gray imports were stimulated by the crisis of the UDV's distributor Makkar. The change of the distributor and the ensuing legal proceedings facilitated gray imports of brands like Johnnie Walker, J&B, and Smirnoff.

<sup>23</sup> It became very difficult to trace the violations. Until 2000, the comparison of customs statistics and marketing researches could show the size of the "gray market." Now, this is almost impossible. The "parallel importers" follow the prices of large importers, but later conceal part of the due VAT. At the same time, small importers accuse multi-national companies to be importing at very low prices (and consequently paying lower customs duties), and later concealing part of their profits. To reduce the budget losses, a stricter control should be introduced along the entire chain from import to retail trade for all importers.

### 1.2.7. COFFEE

An average Bulgarian consumes 2.4 kilograms of coffee a year. Between 1,000 and 1,100 tons are consumed in the country per month,<sup>24</sup> or 12,500 to 13,000 tons per year. Given the average price of 10 leva for a kilogram of coffee, the annual market can be estimated at 130 million leva (65 million USD).

The customs data shows that 19,000 tons of coffee was imported in 2001. Of this quantity, between 15,600 and 18,000 tons were the raw coffee, and between 1,000 and 1,300 tons were packaged coffee. Some of the differences between the imported and sold quantities can be explained by the losses incurred during the roasting of coffee. (Some importers note that there are no accurate data for the so-called "off premise market" – bars, cafes and restaurants, which also causes some distortions.) Another explanation is that in the last three months of 2001, more coffee than usual was imported, because it became known that the excise tax on coffee would be raised. The large difference in coffee imports in 2000 and 2001, visible from the data of customs statistics, confirms the thesis that importers oversupplied themselves before the tax increase. In 2000, 14,000 tons were imported, and in 2001 19,000 tons (see table 11).<sup>25</sup>

**Table 11: Comparison of the value of coffee import (in Bulgarian leva) for the period 1999-2001**

	1999		2000		2001	
	Statistical value (leva)	Net weight (kg)	Statistical value (leva)	Net weight (kg)	Statistical value (leva)	Net weight (kg)
Coffee, including roasted coffee and coffee without caffeine; coffee shells	19,397,619	19,765,461	27,236,687	14,679,534	29,708,184	19,326,838
Value with added VAT and excise tax of 1.35 leva/kg	56,218,809		57,405,951		68,075,287	

Source: Customs Agency

The prevailing opinion is that the largest customs and tax frauds in the coffee business occur in the import of non-packaged coffee (around 25 percent of the market according to the June 2002 data). The market for packaged coffee is covered by well-known international companies like Kraft Foods and Elite, which operate legally. Together with other similar companies, they hold around 70 percent of the market. The remaining five percent covers soluble coffee. The leader in this sector is Nestle Bulgaria with Nescafe, also operating legally. In the end of 2001, when new ways for increasing budget revenues had to be found, the Ministry of Finance proclaimed that it would curb the smuggling of non-packaged coffee and reduce it by 10 to 15 percent by prohibiting the retail trade with such coffee, by changing the base on which the excise tax is determined and by introducing excise banderoles. (Since 2001, the

<sup>24</sup> June 2002, *BBSS Gallup* (TNS)

<sup>25</sup> The two largest importers of raw coffee are Kraft Foods, which in 2001 bought the former and the current market champion Nova Brasilia (45 percent of coffee sold in Bulgaria in June 2002) from its previous Lebanese owners, and Elite Bulgaria (Israeli owned), producer of brand Elite (22 percent of the market). The third large importer of coffee is Balkancam, which was in business since the early 1990s. At the beginning, their brand was Santos Royal, but now they are marketing the brand Spetema. The company is involved mostly in the wholesale trade and in its own production. Apart from these three, there are also several smaller companies.

customs duties for import of coffee have a zero rate. Until then, they came to 30 percent of the dutiable value.)

Subsequently, the Ministry of Finance set the excise tax as a fixed sum per kilogram. Since the beginning of 2002, the excise tax for raw coffee is 1 lev per kilogram, and for roasted coffee (regardless whether it is packaged or not) 1.3 leva per kilogram. For coffee extracts, excise tax is 3.5 leva per kilogram and for granulated mixtures, containing over 10 percent of coffee, tax is 1.3 leva per kilogram. After numerous protests by owners of shops for non-packaged coffee and after lobbying by importers of such coffee, the decision to prohibit retail trade with non-packaged coffee was not adopted.

Tax experts claim that main violations in coffee trade occur during its import. Due to the new way of taxing, two main types of customs frauds are especially attractive – false declaration of quantity and abuse of the incorrect tariff position. Roasted coffee is therefore declared as raw coffee, since it carries a lower excise tax. In the last six months, only one case of customs fraud involving coffee became publicly known – the import of 24 trucks of coffee, for which the importer paid 24 leva instead of 24,000 leva due to a dot he put instead of a comma between 24 and 000 (information is from the newspaper *Struma dnes* and was not officially confirmed by the customs). In our opinion, the lack of registered attempts of such frauds shows that this practice is well concealed and can be disclosed only through further cooperation between customs and tax authorities.

Tax experts do not rule out cases of outright smuggling of coffee. This was practiced in the past and now, with excise tax being linked to the quantity, it is even more attractive.<sup>26</sup> The last officially disclosed case is from 30 September 2001. Two trucks, which have left the country through Kulata and returned loaded with coffee without this being registered, were discovered then. In the end of 2001 it also became clear that there are significant differences between Greek and Bulgarian customs statistics regarding the import through Kulata and Promakon. In two months (October and November 2001), 5,500 tons of coffee were exported from Greece, but only 2,700 tons entered Bulgaria.<sup>27</sup>

The statistical value of imported coffee is 30 million leva. When VAT and the 1.35 leva per kilogram excise tax are added, this sum reaches 68 million leva. The coffee traders do not wish to talk about how the profits are divided. According to the available information, importers of the raw coffee take 3-5 percent, producers 7-8 percent, wholesale traders 5-7 percent and retail traders 15-20 percent of the price. For packaged coffee, the division is as follows: importers around 15 percent, wholesale traders 3-5 percent, and retail traders 15-20 percent.

<sup>26</sup> An indirect proof that outright smuggling of coffee exists is the fact that the market prices of coffee remained unchanged after the introduction of the new way of tax setting. The expectation was that the price of expensive brands would fall, and the price of the cheap ones would rise. Nova Brasilia and Elite raised prices for 6 to 7 percent, but the price of non-packaged coffee remained the same. The traders' explanation was first that they were still selling the coffee imported under the previous tax regime, and later that they have covered the difference from their profits. The coffee business obviously offers relatively large profits, as can be concluded from the increasing number of coffee traders, despite the general stagnation on the market.

<sup>27</sup> Customs representatives explain that this does not mean that the imports were not taxed. It is possible that the trucks entered through Kulata and were later cleared at some of the internal customs bureaus.

**The main channels for shadow import are based on the shops for non-packaged coffee and the off premise sector – restaurants, cafes and hotels.** The sales made there are not always registered, it is not clear how much coffee was actually used for each serving, and in establishments of lower category a non-packaged surrogate is served instead of the advertised quality brand.

**The representatives of companies for trade with non-packaged coffee claim that the coffee business is already one of the most legal and competitive in the country.** When customs duties (previously 25 percent of the value) were dropped, coffee became less attractive for the shadow economy. According to one importer, customs duties for one container are only 6,000 leva now. Furthermore, since 1997 the gray sector has been subject to persistent control.<sup>28</sup>

**Another precondition for the legalization of business was the appearance of large international companies on the market.** The purchase of company and trademark Nova Brasilia<sup>29</sup> by Kraft Foods in 2001 can be considered as a turning point in this process. It is interesting to note that customs statistics show a sharp increase in the officially declared value of coffee imports in that year.<sup>30</sup>

In conclusion: the Bulgarian coffee market started a gradual legalization as a result of reduced duties and taxes levied on coffee (dropping of customs duties), increased control and appearance of international companies on the Bulgarian market. **Coalition 2000 estimates that gray sector now represents 15-20 percent.** Main violations are conducted during the import, with roasted coffee being declared as raw, or with part of the weight being concealed. Outright smuggling is also possible.<sup>31</sup> Most often, the non-packaged coffee is smuggled. The channels for consumption of gray imports are most often linked with hotels, restaurants and cafes. Even though the more expensive, packaged coffee should be more attractive to violators, the frauds involving such coffee in practice represent a small part of the gray market and do not significantly harm the budget. The Ministry of Finance pays more attention to fuel and cigarettes, and lists coffee under "other" excise goods.

#### 1.2.8. TURKISH AND CHINESE CHANNELS

Analyzing the gray and black market, the terms "Turkish" and "Chinese" channels appear quite often. These terms are not so much linked to any specific goods, but

<sup>28</sup> The question of coffee has been somewhat politicized, because the former Minister of the Interior, general Bogomil Bonev used to be a lawyer of the Lebanese owners of Nova Brasilia at the beginning of his career. At that time, market share of this brand was around 90 percent. The question of the so-called "political umbrella over the coffee smuggling" was raised in the Parliament after Bonev began to threaten particular economic interests, connected with sugar. Following the demand from the General Prosecutor, the National Service for Combating Organized Crime has investigated the coffee imports, made during the last four years.

<sup>29</sup> Kraft Foods bought Nova Brasilia in May 2001. But the owners of Nova Brasilia began to seek an international buyer using the services of Pricewaterhouse Coopers already in 2000, when they completely orientated towards legal business.

<sup>30</sup> At the same time when trademark Nova Brasilia became the property of Kraft Foods and it was clear that this brand would be sold only legally, its market share started to decline even further. From 62 percent in June 2001, it fell to 45 percent in June 2002. It can be presumed that the company is less competitive when operating legally.

<sup>31</sup> Some experts believe that outright smuggling is continuing at the Kulata checkpoint. They believe that in the first half of 2002, numerous containers were smuggled into the country, with bribes of 8,000 to 10,000 leva paid per container.



rather to their origin. Enormous quantities of cheap, low-quality goods, produced in these two countries enter Bulgaria. Since customs duties are rarely paid, these goods acquire additional market advantage. Apart from hurting the budget (it is estimated that only between 10 and 15 percent of necessary customs duties are paid for these goods), such import is destroying the domestic textile, leather and shoe production. Few years ago, the illegal imports from Turkey were more popular, but in recent years imports from China took over. Customs duties for various Chinese goods range from 7-8 percent to 25-40 percent. In case of a container with customs value of 100,000 leva, such duties exceed 40 percent. In contrast, due to the free trade agreement between Bulgaria and Turkey, no customs duties, but only VAT is levied on industrial imports from Turkey.

One of the characteristic features of Chinese and Turkish imports is that in one truck, goods for several recipient companies are transported. The import is conducted by special intermediaries, which arrange all customs formalities. Transport vehicles are often overloaded. Sometimes more than 200 different articles, ranging from shoes to hair-clasps are transported in them. This makes it difficult to levy customs duties accurately. A thorough inspection of such truck can last up to 24 hours. This tempts the customs officials to levy duties "per kilogram."

Consequently, numerous frauds with quantities and customs values are possible. Domestic textile and shoe producers claim that in some cases, the customs duties of imported goods were lowered 20 to 30 times.<sup>32</sup>

The Customs Agency confirmed that the new customs authorities found out that very low customs duties have been indeed levied on this type of imports. In the discussed period, one 40-foot container transporting a mixed cargo of Chinese goods was estimated at 20,000 to 25,000 leva of customs value. In the summer of 2002, the declared value of the same container was already 100,000 to 120,000 leva.<sup>33</sup> According to the information of the Customs Agency, in the first half of 2002, 300 containers of mixed Chinese goods, in addition to 60 tons of air cargo, entered the country each month. Turkish goods are imported with trucks, carrying from 2.5 to 12 tons. In the last months, the customs value of such trucks was increased from 10,000 to 30,000 leva. A large part of the Turkish imports through Kapitan Andreevo is declared "transit goods" and channeled to the Free Zone Svilengrad, from where it is distributed to the former Soviet republics. The distribution point for countries to the west of Bulgaria is in Ilianci (Sofia). The customs claim that they managed to increase customs values through stricter control.

The official claim is also that since spring 2002, the outright smuggling of such goods was rooted out. The domestic producers partly agree with this claim, explaining that in August and September 2001, the smugglers were confused not knowing "who to bribe." After learning that the British company Crown Agents will "take over" the customs, the smugglers reactivated their channels between October and early

<sup>32</sup> They claim that such channels reached their peak in 1999-2000. In that period, around 90 percent of shoes sold in Bulgaria were either smuggled or imported through customs frauds. The Union of Leather, Shoe and Haberdashery Industry informed (relying on the data from the National Statistics Institute) that in 2000, over 8 million pairs of shoes were sold in Bulgaria. When the officially imported and domestically produced shoes are deducted, it turns out that 7.8 million pairs came from "nowhere," that is from Turkey and China.

<sup>33</sup> In 2001, 138,539,000 kilograms of goods were estimated to be worth 216,509,000 leva. In the first six months of 2002, 46,849,000 kilograms were evaluated at 144,379,000 leva.



December. The illegal import was even increased for 200 percent in this period. Another peak was in March – April 2002, when the number of containers with Chinese goods was four times higher than for the previous months. After that, the imports from China received the special attention of the customs administration, and the raising of the customs value also had its impact.

The experts estimate that in August and September 2002, when the shops were stocked, a compromise was made. Part of the goods was imported at a higher price, part was re-exported, and part was nevertheless smuggled, not without the help of corrupt customs officials.<sup>34</sup>

**The main routes of smuggling are:**

- The Asian port – a Mediterranean port (Malta, Sicily), where goods are transferred on a smaller transport vessel – Thessaloniki – Kulata
- Internal customs bureau (mostly Sofia) or Thessaloniki – Novo Selo – internal bureau (Plovdiv, Kazanluk, Haskovo, Dimitrograd)
- A significant part of imports from Far East travels through the ports of Varna and Burgas

The overall volume is around 200 containers monthly, but in certain months it can reach up to 400-450 containers.

**The bribes for state officials participating in smuggling or gray import vary between 500 leva for a container in Kulata or Novo Selo, and 1,500 leva for a container in internal customs bureaus, where the clearance is conducted.**

The most common types of frauds involve concealment of large quantities of goods, and the reduction of value on which duties are levied.<sup>35</sup> Such frauds are easily detectable due to the large difference between the declared and the actual weight of the cargo, and this should be applied in the efforts to end such smuggling. Another way to counter it is to significantly reinforce the post-clearance control according to Article 84 of the Customs Law in close cooperation and coordination with tax authorities.

Apart from the illegal imports from the Far East discussed above, **there is also a channel for import of roughly two hundred 20-ton trucks of similar goods per month from Dubai.** The corruption level is similar to those regarding the Chinese containers. The route is: customs free zone in Syria – Turkey – Kapitan Andreevo – internal customs bureaus.

**Non-foodstuff consumer goods from China and Dubai are smuggled also through the Sofia airport.** The quantities depend on the time of the year and range

<sup>34</sup> A customs official, conducting a fictive inspection of two containers of Chinese goods, was arrested. In a separate incident, four containers of Chinese goods were cleared with only one customs receipt.

<sup>35</sup> Import through the border crossing Novo Selo has a specific feature. Before the goods arrive there, they are transferred from containers onto trucks in the port of Thessaloniki. The cargo from three containers is transferred on two trucks. In this way, opportunity to conceal part of the cargo, its origin and its value is created. In such case, the bribe paid at the internal bureau during the clearance is higher – 2000 leva per truck.

from 40 to 150 tons a month. Bribes in the amount of 1.50 leva per kilogram are divided among different services, involved in the scheme. The main route is via Moscow to Sofia, with cargo departments of passenger planes being used.

#### 1.2.9. FRUITS AND VEGETABLES (TURKEY, MACEDONIA, GREECE)

The high volume of smuggled fruits and vegetables represents a serious problem. Between October and May, around 250 trucks (with a size of 60-70 cubic meters) a month from Turkey, around 20 a month from Syria, and 8-12 smaller trucks a day from Macedonia have entered the country.

As a rule, customs clearance of fruits and vegetables is conducted at Kapitan Andreevo checkpoint immediately after they enter the country. **Around 1,000 leva bribe for each truck is paid during the clearance. The bribes are divided among all services, involved in the clearance of these risk-carrying goods (customs, sanitary control, the hygiene-epidemiology institute, economic police, regional bureau for combating organized crime, traffic police, etc).** The so-called "seal" method is usually used - the goods with lower tariff rate are declared, while in fact goods with higher tariff rate (like onion and tomatoes) are imported. The same channels are used also for poultry and meat.

The weak point of this scheme is the possibility for a thorough customs inspection in the section between the last, third barrier of the Kapitan Andreevo border crossing and the village Kapitan Andreevo (around 3 kilometers), where warehouses of companies-importers are located. These warehouses are used as a cover and for issuing of false transport documents, which make post-clearance control in the interior of the country virtually impossible.

#### 1.2.10. MEAT AND MEAT PRODUCTS

The principal routes for import of meat and poultry are USA – Thessaloniki – Kulata – Sofia; Western Europe – Vidin – Sofia; Western Europe – Kalotina – Sofia; USA – Western Europe – Black Sea ports; Thessaloniki – Novo Selo – Plovdiv. On average, 250 refrigerator trucks enter the country each month. **The bribes range from 800 to 1,000 leva at the border crossing (divided between customs and veterinary authorities) to 2,500-3,000 leva on internal customs bureaus (with additional 500-1,000 leva paid to the veterinary authorities).** Main weaknesses: the producer is not indicated on the boxes; false certificates; it is possible to check the export declarations from the EU and receive the information regarding the real tariff number.

As a result of improved control on the side of customs administration, the declared quantities of meat and meat products significantly increased in 2002 as compared to the same period in 2001 (according to official sources, the increase is 50 percent). **As a direct consequence, the collected VAT was 1.5 higher and the collected customs duties three times higher than in 2001.** It can be concluded that not only smuggling was limited, but also the customs frauds involving false declaration of goods and incorrect tariff number, both leading to reduced payment of necessary customs duties.

### 1.2.11. CHOCOLATE AND OTHER SWEETS

These goods, produced in Turkey, are imported through Kapitan Andreevo, with customs clearance conducted mainly in Plovdiv. Around eighty 10-ton trucks are imported monthly. **Corruption levels are similar to those at the import of non-foodstuff goods from Turkey**, described above. Large part of the goods does not comply with the Bulgarian State Standard and are imported with false certificates.

Among other food products of special interest is the import of milk powder from Ukraine and Russia through Ruse and Kardam. Several thousand tons are imported every month. False certificates of origin from Poland are used. **The bribes are about 4,000 leva per truck**, divided among several services. The pure profit from the sale of one truckload of milk powder in Bulgaria is between 10,000 and 12,000 USD.