

CORRUPTION, TRAFFICKING, AND INSTITUTIONAL REFORM

**Prevention of Trans-Border
Crime in Bulgaria
(2001 – 2002)**

CSD REPORTS:

1. Bulgaria's Participation in EU Structural Funds, Sofia, 1999.
ISBN 954-477-050-8
2. Social Policy Aspects of Bulgaria's EU Accession, Sofia, 1999.
ISBN 954-477-053-4
3. Preparing for EU Accession Negotiations, Sofia, 1999.
ISBN 954-477-055-7
4. The Role of Political Parties in Accession to the EU, Sofia, 1999.
ISBN 954-477-055-0
5. Bulgaria's Capital Markets in the Context of EU Accession: A Status Report, Sofia, 1999.
ISBN 954-477-059-3
6. Corruption and Trafficking: Monitoring and Prevention, Sofia, 2000.
ISBN 954-477-078-X
7. Establishing Corporate Governance in an Emerging Market: Bulgaria, Sofia, 2000.
ISBN 954-477-084-4
9. Corruption and Illegal Trafficking: Monitoring and Prevention, Second, revised and amended edition, Sofia, 2000.
ISBN 954-477-087-9
10. Smuggling in Southeast Europe, Sofia, 2002.
ISBN 954-477-099-2
11. **Corruption, Trafficking and Institutional Reform, Sofia, 2002.**
ISBN 954-477-101-8

Editorial Board:

Boyko Todorov
Ognian Shentov
Alexander Stoyanov

ISBN 954-477-101-8

© **Center for the Study of Democracy**
All rights reserved.

5 Alexander Zhendov Str., 1113 Sofia
phone: (+ 359 2) 971 3000, fax: (+ 359 2) 971 2233
www.csd.bg, csd@online.bg

CONTENTS

INTRODUCTION	4
1.SMUGGLING OF CONSUMER GOODS AND RELATED CORRUPTION	6
1.1.CLASSIFICATION OF SMUGGLING	9
1.2.CLASSIFICATION OF SMUGGLING ACCORDING TO THE TYPES OF GOODS	16
1.2.1.PETROL PRODUCTS, LIQUID FUELS, NATURAL GAS, OILS	17
1.2.2.AUTOMOBILES	22
1.2.3.HOUSEHOLD APPLIANCES	25
1.2.4.COMPUTER AND ELECTRONICS EQUIPMENT	26
1.2.5.CIGARETTES	27
1.2.6.ALCOHOL	29
1.2.7.COFFEE	32
1.2.8.TURKISH AND CHINESE CHANNELS	34
1.2.9.FRUILTS AND VEGETABLES (TURKEY, MACEDONIA, GREECE)	37
1.2.10.MEAT AND MEAT PRODUCTS	37
1.2.11.CHOCOLATE AND OTHER SWEETS	38
2.DRUG SMUGGLING	39
2.1.SOURCES OF INFORMATION	39
2.2.HEROIN SMUGGLING	41
2.3.COCAINE SMUGGLING	42
2.4.SMUGGLING OF CANNABIS, MARIJUANA AND HASHISH	43
2.5.SYNTHETIC DRUGS	44
2.6.MARKET VALUE OF NARCOTICS	44
2.7.DISTRIBUTION AND CONSUMPTION	46
2.8.TRENDS OF DEVELOPMENT	47
3.TRAFFICKING IN HUMAN BEINGS	49
3.1.CHANNELS FOR TRAFFICKING	50
3.2.CLASSIFICATION OF HUMAN TRAFFICKERS	53
3.3.PRICES OF TRAFFICKING SERVICES	54
4.ANTI-CORRUPTION REFORM IN THE CUSTOMS AND IN THE MINISTRY OF INTERIOR	55
4.1.REFORMS IN THE CUSTOMS AGENCY	55
4.1.1.COOPERATION WITH CROWN AGENTS	58
4.1.2.RECOMMENDATIONS FOR ACCELERATION OF THE CUSTOMS REFORM	61
4.2.ACTIVITIES OF THE MINISTRY OF INTERIOR FOR COUNTERING SMUGGLING, TRAFFICKING AND CORRUPTION	62
4.2.1.INSTITUTIONAL STRUCTURE	62
4.2.2.ANTI-CORRUPTION REFORM IN THE MINISTRY OF INTERIOR	64
CONCLUSION	68

INTRODUCTION

The present report is dedicated to one of the most serious problems of the Bulgarian transition to market economy, stable democratic institutions and the rule of law. The explosive growth of trans-border crime in the last 12 years led to the emergence of a criminal infrastructure, developed and maintained by criminal groups and quasi-legal "power groups," which have appeared in the mentioned period. The trans-border crime in Bulgaria is part of the new network of international organized crime, prospering after the end of the Cold War and closely connected to regional channels of smuggling and trafficking. Smuggling (including drug smuggling) and trafficking are in particular the main sources of income for organized crime in the country.

In the macro-economic context, trans-border crime became an important instrument for illegal redistribution of national wealth. Due to the open character of the Bulgarian economy, the legal movement of goods across the borders generates over 40 percent of the Bulgarian budget revenues, and import-export transactions represent two thirds of the gross national product. This means that revenues, generated through trans-border trade, are higher than those, acquired through privatization of state property. Smuggling is also stimulated by the large gray economy sector, which incorporates a diverse system of gray retail and wholesale trade.

An additional factor, contributing extensively to the growth of trans-border crime, was the sequence of military conflicts in the Western Balkans in the 1990s. The processes of violent disintegration of former Yugoslavia were accompanied with smuggling of weapons, oil and other goods on unprecedented scale. Illegal trans-border trade expanded even more after embargo regimes were imposed on our western neighbors. This in its own turn led to the active participation of the Bulgarian criminal underworld in smuggling operations to Macedonia and the Federal Republic of Yugoslavia (Serbia and Montenegro). Bulgaria became a mediator in the illegal flow of smuggled petrol products, weapons and various other goods, including drugs smuggled through the traditional route, as well as through several new ones.

It is impossible to successfully fight trans-border crime in the country without the determined effort to counter systemic corruption within the law-enforcing and law-protecting institutions. An enormous part of criminal acts and irregularities concerning import and export of goods, drugs and weapons, as well as trafficking in human beings, is conducted through unlawful cooperation with customs officers, employees of the National Border Police Service and other state institutions, responsible for border control. Corruption networks are part of the systemic smuggling or of the so-called smuggling channels, and the funds for bribing state employees represent "production costs" for organizers of smuggling.

The mutual inter-dependence between corruption and smuggling was analyzed in the report on trans-border crime, published by the Center for the Study of Democracy

in 2000 *Corruption and Trafficking: Monitoring and Prevention*. This report was an important step towards the introduction of a working methodology for assessment of this phenomenon in the context of countries in transition. Measures for countering trans-border crime were also proposed.

The present report continues the previous effort and summarizes researches and discussions conducted by members of the expert group within the framework of the anti-corruption initiative *Coalition 2000*, established in 1997 (<http://www.online.bg/coalition2000/>). The report's goal is to present the overall picture of systemic smuggling and corruption, which makes this smuggling possible, and to give an assessment of the efforts of anti-corruption reform in state institutions, above all in the Customs Agency and the Ministry of Interior.

Without any doubt, it is difficult to present an accurate assessment of the discussed problems, due to the lack of information about the exact parameters of smuggling, in particular of drug smuggling, and about the real scale of corrupt practices. Hence the importance of indirect indicators like marketing research on particular goods on the market, and methods for comparison of such data with official customs statistics for import and export of these goods. Apart from these methods, of particular importance is the role of export analyses, reporting on informal "price-lists" of corrupt services, as well as of the volume and value of smuggling deals and operations.

This publication summarizes the findings, based on the positions of the experts of *Coalition 2000*: **Boyko Slavchev, Advisor, Cabinet of the Minister of Interior; Georgi Georgiev, Senior Inspector, National Customs Agency; Dr. Dimitar Yotov, Associate Professor and Head of Department, Academy of the Ministry of Interior; Ivaylo Angelov, Expert, Bulgartabak Holding; Ivan Gospodov, Expert; Dr. Emil Tzenkov, Senior Fellow, Center for the Study of Democracy; Zhanet Papazova, Head of Information and Analyses Section, National Service for Combating Organized Crime (NSCOC); Petkan Iliev, Senior Fellow, Center for the Study of Democracy; Roumen Danev, Director of Customs Intelligence and Investigation Directorate, National Customs Agency; Slavcho Mihalkov, Expert, National Border Police Service; Tihomir Bezlov, Senior Fellow, Center for the Study of Democracy; and Chavdar Kanev, State Inspector, National Customs Agency.**

1. SMUGGLING OF CONSUMER GOODS AND RELATED CORRUPTION

The **term smuggling** has three different meanings:

- a general term for illegal activities of importers and exporters in connection with customs legislation;
- a synonym for the term "customs violations and offences";
- it can denote one of the possible customs violations, regulated in Article 233 of the Customs Law – "transporting or carrying of goods through the state border without the knowledge and permission of customs authorities" (this term is used also for violations against the customs regime according to the Penal Code – Article 242).

In popular usage, the outright smuggling is defined as "**black import**" (and the corresponding "black export"), while violations, which for instance are related to frauds with documents, are considered as "**gray import**" ("gray export").

The term smuggling will be used here in its largest meaning – for all illegal activities involving import, export and transit of goods.

Smuggling or illegal transfer of goods, valuables and other items across the state border is international in character, because it involves violation of the laws of more than one country. The present report deals only with the national dimensions of smuggling, since there is still no appropriately accessible and systematic data for this type of criminal activities in the neighboring Balkan countries.

Discussing smuggling and counter-smuggling efforts of customs authorities in Bulgaria, it should be noted that the preconditions for the appearance of customs and currency violations and offences are of economic character.

Customs violations and offenses are a direct consequence of economic environment in the country and are highly influenced by a number of **crime-inciting factors**:

In the first place, the high level of gray economy and the "high liquidity" of smuggled goods stimulate the illegal import in large quantities.

In the second place, the profits from trade with illegally imported goods (compared with the trade with domestically produced or legally imported goods) are still too high and the risks of sanctions too low. It is often more profitable for perpetrators to risk being fined than to pay due taxes to the state.

In the third place, the less strict border control combined with the liberalization of import-export regimes stimulates the illegal import of goods, which do not meet the quality standards or were bought abroad under suspicious circumstances. Some of the neighboring states (for example, Turkey) create favorable conditions, used both by large-scale smugglers and by "suitcase traders" to conduct practically unlimited import of goods, sold on dumping prices and often on the gray market.

Apart from these factors, also displayed in the other countries in transition, a feature **specific to Bulgaria** should be noted, namely that the **import-export transactions represent a large share of the gross domestic product (GDP)**. This circumstance is not being given enough attention when the scale of smuggling activities is assessed or when priorities of state policies are set. The following needs to be considered in this respect:

- The border has turned to be one of **the main mechanisms for illegal redistribution of national wealth and for criminal accumulation of private capital**. The main reason for this is that Bulgaria, like other countries with small markets, has an "open economy." According to official statistics, between 65 and 80 percent of the GDP is transferred through state borders in the form of import and export. According to international estimates, with the almost complete liberalization of foreign trade, the border began to provide between 30 and 50 percent "price advantage" to those importers, who violate the laws, regulating import and export. With the value of annual import and export between \$8 and 10 billion, selective enforcement of the law resulted in redistribution of \$20-30 billion in the last 11 years. In other words, the wealth redistributed "along the border" equals or even exceeds the total value of privatization and restitution in the last 10 years.
- **The border functions as a generator of liquidations and bankruptcies**. The lack of normal border control favors "gray importers" of foreign goods to the detriment of Bulgarian industry. Paying the due taxes and fees, unlike their unscrupulous competitors, hundreds of Bulgarian enterprises and whole traditional branches were destroyed and subsequently disappeared.
- **The illegally acquired price advantage** of "gray importers" during the last decade additionally **deformed the economic rationality**¹ of the emerging market (including the activities of the large multi-national companies). This has additionally delayed the transition of the country to market economy and the integration of its economy into the global market.

Apart from the factors listed above, the following ones also influence the range of smuggling activities: development of the interaction between state institutions in regard with the control over the complete process, which involves the chain "producer – exporter/importer – trader"; the range of jurisdiction of authorities (including customs); the state of criminal and administrative-criminal law and its application with an optimal use of punitive prevention of potential violations; the state of judicial system, etc.

Since smuggling is closely linked to corruption, the paper focuses on those cases of smuggling, which are realized with the knowledge and cooperation of state ser-

¹ Trans-border crime is by far not the only or the main factor, distorting the normal market relations in the country

vants, whose prerogative is to cut illegal practices. This decision is determined by the fact that almost in all cases smuggling channels in Bulgaria function on such principles.

* * *

When analyzing the situation and trends in trans-border crime and related to it corruption, we should note above all that in the end of 1990s, certain **favorable regional processes** have emerged. These have created conditions for normalization of trans-border trade and for limiting smuggling and other forms of customs violations:

- Above all, albeit slowly, the situation along the borders with neighboring countries began to stabilize. After the fall of the Milosevic regime, the new Serbian customs and border institutions started to limit some of the traditional schemes for customs violations.
- Few of the largest smuggling networks were cut after the international peacekeeping forces entered Macedonia and Kosovo.
- Positive development occurred also on Romanian borders, especially on the borders with Moldova and Ukraine.

These developments represent an objective precondition for limiting the smuggling to and through Bulgaria.

Within the country smuggling and related to it gray economy are naturally limited by the ongoing development of market economy relations. More specifically, **with the appearance of huge multi-national companies and well-known international hyper- and super-market chains, many of the traditional gray markets for various types of goods started to shrink.** This led to a substantial decrease of illegal import of certain consumer goods like coffee, milk products, detergents, alcohol, etc.

The change of government, following the June 2001 Parliamentary elections, has also had a positive effect. As a rule, each new government, especially in the beginning of its term, engages in anti-corruption efforts and strives to develop a positive public image together with the imperative need to attract additional revenue for the budget.

Unlike in the recent past, **no signs for political corruption** (that is for distribution of revenues from smuggling on political level) **have been detected in the Customs Agency in the period 2001-2002.** The topic of "briefcases" stuffed with dollars periodically delivered by couriers of smugglers to politicians' offices in Sofia seems to be no longer on the agenda. This in its own turn enlarges the revenues on the lower levels of corruption schemes, but at the same time, since this criminal activity is no longer secured by the political cover, increases the uncertainty and potential risk.

Yet, despite several actions of the law-enforcing institutions, which temporarily disrupted the work of the criminal groups controlling illegal import and trade with goods, **several smuggling channels continued to operate in 2002.** These channels harm the national industry and deprive the state budget of revenues.

This conclusion is confirmed by a number of **indirect indicators**:

- The "division of labor" between big bosses, specialized in illegal import of specific types of goods has been preserved.
- Despite several personnel changes, many of the accomplices within the customs administration, border police and other state law-enforcing and supervising institutions have kept their positions.
- Stable "rates" for illegal import of goods are a public secret, which testifies about the presence of smuggling services on the market.

1.1. CLASSIFICATION OF SMUGGLING

The following types of smuggling operations are the most widely spread:

- **Outright smuggling ("opened barriers")**
In such cases, the imported goods are not registered at all with the customs and other institutions. In the large majority of cases of outright smuggling, criminal complicity of public servants at the border is involved.
- **Abuse of the "time" factor**
Corrupt customs officials often abuse the fact that **time frame for accomplishment of customs service is not prescribed** in order to extract bribes. For example, by deliberately delaying the customs clearance for perishable goods, the owner is forced to pay a bribe in order to speed up the process. Alternatively, a bribe may be given by a third person in order to hold the goods until they get spoiled. Thus the bribe-giver eliminates the market competitor.
The reverse case can be witnessed when a particular importer is given advantage before its competitors by speeding up the process of customs clearance or by getting the clearance after the end of the working day. Then, the importer's expenses are reduced (expenses for storage, those related to contracts for timely delivery of goods, etc.) and the customs officer turns to his benefit the importer's economic interest as a precondition for extracting a bribe.
- **Falsification of the documents accompanying goods**
 - A significant part of violations is linked to **the origin of the goods** and to taking advantage of certain preferences, related to this origin. Practice proved that cases in which false certificates of origin were submitted to and accepted by the customs are abundant. Despite the fact that in many of these cases it was possible to disclose the violation during the customs procedure, this did not take place. Often customs officials themselves instruct the violators which false documents should be presented and how they should be falsified. In such cases, the violator pays a bribe to the customs official for accepting the false document as genuine one. Bribes are not given only inside the customs service, but are paid also to experts in laboratories where untrue expert opinions are produced, to the administrative employees in Ministries and departments for issuing certificates containing false information, and to notaries legalizing apparently false documents.
 - A consequence of customs violations resulting from the use of **incorrect tariff number and description of goods** is that lower or no taxes and fees are paid.

For instance, the goods with high tariff rate are presented to customs institutions, but in the customs declaration tariff number with reduced or zero rate is given. In such cases, customs officials intentionally accept declarations containing untrue data and allow the import of goods after receiving the bribe. It needs mentioning that in some cases, customs officials advise importers to provide the lower tariff number in the declaration, indicate to the importer how much money would be saved and initiate negotiations on how much of the saved money should be given to the official for this "service."

- Violations, related to **the value declared in Uniform Administrative Document (UAD) and accompanying documents**, are based on the declaration of a lower value of goods in the documents. The customs officials are obliged to check the declared value and if there is any suspicion regarding its accuracy, they have to determine the true value according to modes and methods, envisaged in the customs legislation. In such cases of criminal cooperation between the violator and the customs official, the latter does not demand from the importer to present additional documents regarding the price of the goods, but accepts the apparently reduced fictive value. By not carrying out the necessary verification and allowing the customs clearance at obviously lowered value, the customs official assists in the fraud.

- **Violations involving customs regimes**

In some cases, customs officials allow the abuse of the customs regime, which enables the importer to avoid payment (temporary or for a longer period of time) of due customs duties and taxes, for instance, by unjustifiably using preferences and customs concessions. In some cases, fictive destruction of goods, following a fictive confiscation or abandonment is employed. In this case, the violator makes an agreement with the commission in charge of destruction, which prepares a false document, testifying about the destruction of the goods although such has not occurred.

- **Substitution of documents accompanying goods**

Such substitution usually occurs between the dispatching customs office in the country of export and the receiving customs office in Bulgaria and represents another form of criminal cooperation between customs violators and customs officials. Substitution of genuine documents with false ones allows for declaration of smaller quantity of goods or for declaration of goods with lower customs rate, which leads to payment of lower custom duties. Documents can be substituted by the importers themselves without the involvement of customs officials. Yet, this sharply increases the risk of disclosure of the violation. That is why violators prefer to make an arrangement with customs officials, especially in cases of permanently active schemes over a prolonged period of time. In such cases, the customs official knows that the documents have been substituted with the false ones and consciously assists in the violation. The official inspects only the side rows of goods in the transport vehicle and notes in the protocol that the declared corresponds to what has been physically examined. The central part of the vehicle, where the offensive goods are located, is intentionally not inspected.

- **Violations involving customs decrees in free zones**

These include violation of the decrees prohibiting or limiting the presence of certain types of goods on the territory of the zones; illegal transfer of the goods from the territory of the zone and their import into the country; retail trade with the

goods, located in the free zones or in customs warehouses; violations occurring during the re-exporting operations, etc.

- **Violations connected to the destruction of goods**

They involve fictive or partial destruction of goods, which benefits the importer or other persons, including customs and other officials; these cases also involve destruction of goods, which could be used by the state, etc.

- **Sale of the goods in advance**

There are numerous cases of criminal cooperation between customs officials and managers of various companies involving the advanced sale of goods, imported without customs clearance. In such cases, the importer sells the goods before paying the appropriate customs duties and other taxes and in this way receives an illegal credit. After the goods are sold, the importer pays the whole or a part of the duties and taxes to be paid.

CORRUPTION WITHIN THE CUSTOMS ADMINISTRATION

Due to their character, smuggling operations are usually characterized by **a high level of organization**, as customs officials establish corruption-promoting partnership with businessmen-relatives, criminal groups and their companies, trading structures specialized in gray import, transport companies and individual importers. The officials of the Ministry of Interior, securing the smuggling channels also belong to corruption networks, as well as officials of other state institutions controlling the borders and the interior of the state. Thus, long-lasting corrupt relations are created, providing the involved importers with certain privileges.²

Customs officials take bribes **when conducting one-time "services" as well as when involved in long-term cooperation with particular trading or other structures participating in import-export operations**. In some cases, the customs officials make violations under the influence of particular representatives of the central or local governments, influential economic structures and criminal organizations.

The customs officials receiving bribes are aware of the amount of money the persons involved in illegal activities have saved because of their assistance and they know how to receive their percentage. The percentage depends on the level of risk involved, or on the need to coordinate the actions of the corrupt customs officials with the actions of other officials from the customs administration. Usually, **the bribe is around 30 percent of the unpaid customs duties and other fees**. Apart from receiving money for bribes, a part of the customs officials get to buy certain goods at reduced prices, receive long-term loans or are offered free service in restaurants and other similar places.

² For instance, such traders are served faster, they are given the opportunity to postpone their payments, their goods are rarely inspected by the customs, they are often acquitted from responsibility for customs violations they perform, etc. From their side, the trader involved in such scheme sells goods at reduced prices to the customs officials, or employs their relatives and friends. Bribes are paid for general patronage and not for concrete actions, and are paid periodically on weekly or monthly basis.

What is really alarming is **the persistent tendency of officials from almost all levels within the customs administration to be involved in corruption violations:**

■ **Border customs department**

Violations classified as "outright corruption," that is without customs clearance for the imported goods, are performed at the border. They involve respective officials of the border customs department, as well as other state officials at the border.

■ **Border and interior customs bureau**

A larger part of customs violations involves two or more customs departments, for instance a department at the border and another in the interior, or the dispatching and receiving customs department. Thus, preconditions for organizing corruption schemes within customs departments are created, with customs officials in the receiving department covering up for the official in the dispatching department. Conditions for organized corruption are also there, with customs officials performing activities according to a prearranged plan, leading to the evasion of payment of customs duties and other fees at various times and places. For example, the incorrect tariff number is cited, the customs value is reduced, the lower customs rate is calculated or an inspection, which "testifies" about the presence of goods that are in fact not present in the transport vehicle, is conducted.

■ **System of post-clearance control**

In the scope of such control, customs officials establish that a certain violation has occurred, but do not write the obligatory protocol. Depending on the sum benefiting the violator, a bribe is negotiated.

■ **System of internal supervision**

There are cases in which customs officials, participating in administrative-punitive proceedings negotiate with the violators and conduct acts, which lead to the reduction of fines, termination of administrative-punitive proceedings, and unlawful acquittal. In other words, in exchange for an appropriate reward, conditions for termination of administrative-punitive proceedings or preconditions for the issued punitive decree to be revoked by the court are created. For this to happen, the evidence is deliberately omitted from the decree, and procedural violations are made, which leads to the revoking of the decree. For instance, the evidences are not collected or presented, the issuing of the decree is deliberately delayed until the deadlines envisaged by the law expire, the decree is intentionally left incomplete, the investigation itself is not objective and important evidence is hidden.

■ **The role of informers**

Certain corrupt customs officials inform on forthcoming inspections and other actions of the competent institutions in exchange for appropriate bribes. The informer warns the violator, advises that certain goods or documents are hidden and in this way prevents the disclosure of customs violations and offenses.

■ **Abuse of authority**

There are indications that some high-ranking customs officials give illegal verbal directions to their subordinates and force them to act contrary to the law. For instance, they order that particular goods are let go through the customs, determine under which conditions and where this would happen, decide whether inspection should be conducted or not, etc.

Continuous complaints show that **the problem with corruption in the customs is not yet solved**. Numerous factors account for this, and some of them are of subjective character. Unsatisfactorily organized internal supervision and the lack of an information system enabling continuous supervision of activities of all sub-departments of the Agency in the real time are among the most serious failures in the functioning of this institution. Combined with the huge quantity of documentation, the large normative base, as well as the contradictions between particular norms of customs legislation, this enables the corrupt officials to conceal the conducted violations and offences for at least a certain period of time.

On the other hand, **the measures taken by the management to disclose the violations are insufficient**. The efforts to curb violations and offenses are often hampered by the fact that violators and persons involved in the smuggling try to compromise honest and uncorrupted officials of the customs administration, who refuse to participate in criminal acts or work actively for the disclosure and prevention of customs violations and offenses.

Corruption is a problem also in other law-enforcing state institutions involved in countering smuggling. Especially dangerous is the role of corrupt practices within the Ministry of Interior, which has the specific task of fighting corruption in all state institutions.

TYPOLOGY OF CORRUPTION PARTNERSHIPS

The analysis of various types of trans-border crime has outlined the following **most typical smuggling schemes**, listed according to the scope of their destructive impact on economy and security of the country:

1. The large corruption schemes, linked with illegal import, export and transit of goods in large quantities, are characterized by the presence of a **big organized group** of people cooperating with each other. Most of these people do not know each other personally, but they are aware of the existence of the established crime network. The people participating in illegal imports include importers of goods, border and customs officials, and authorities on communal, regional and national level. Someone involved in political life is also necessarily included, since such people secure the administrative comfort to the others and act as the final recipients and redistributors of the collected bribes.

Within such a scheme, the monthly amount of bribes can reach up to several hundred thousand leva and can cause losses to the state budget, amounting to 50 percent of the unpaid state revenues, depending on the particular type of imported goods.

The functioning of such well-organized schemes for smuggling and other customs violations threatens entire branches of the economy and creates substantial social tensions. People at the top of such schemes have numerous means to use their influence, including personnel selection in the law-enforcing and law-protecting structures of the state.

2. In some corruption schemes, groups of people who know each other are involved. Such **small organized groups** operate in particular region or on the territory of one or two regional customs directions. The people involved in the scheme

include an importer, former or present customs officials, and former or present Ministry of Interior officials.

Bribes range between one and ten thousand leva. The functioning of such schemes creates immoral personnel atmosphere and generates losses to the state budget amounting to 30 percent of the sums, which should be paid into the budget.

3. Corruption schemes, involving **individual customs officials, border policemen, sanitary and veterinary workers, officials collecting road taxes and issuing various permits** are created within the customs departments at the borders. In exchange for money, officials involved in such schemes let certain goods pass through the border without registering them. In other words, these are the cases of the so-called outright smuggling, which causes huge losses to the state budget and creates favorable conditions for illegal traffic with banned substances and goods. Bribes range from 3,000 leva for a ten-ton truck to 10,000 leva for a twenty-ton truck.

4. **Individual corruption schemes** function within the customs departments in the interior of the country. In such schemes, a customs officer establishes a relation with one or more companies – importers of goods, and assists them in the customs violations, leading to 10 to 30 percent losses in the customs duties collection. The bribe depends on the location of the customs department and on the position of the customs official, and varies between 1,000 and 5,000 leva. Very often such violations are realized with the knowledge of the direct superior, who receives a share of the bribe as reward for his passive involvement.

5. Some customs officials create individual or group corruption schemes, in which they conduct actions often bordering to extortion. They imitate exaggeratedly strict observation of nonexistent procedures, and then face the importer with demands that cannot be justified by any legislative norms and blackmail the importer on psychological basis, threatening to conduct a thorough physical inspection of the goods. In such cases, the bribes range from 20 to 200 leva and have exceptionally negative impact on the relations between business people and customs administration. On first sight, there are no fiscal consequences for the state budget, but certain investigators believe that about 60 percent of the customs officials are involved in such practices through which they receive undeclared and thus untaxed revenues.

6. The same is true for individual manifestations of corruption, connected with speedy procedures and customs clearances of goods belonging to companies owned by friends and relatives. Bribes reach up to 100 leva. In such cases, mistakes in the procedure are often made and sometimes preconditions are created for unchecked traffic of banned goods like drugs and weapons, without the involved customs official being aware of it.

Table 1: General classification of smuggling and related to it corruption

Main actors	Type of illegal activity	Consequences
<p>1. Large organized groups, operating on national level</p> <p>(Most of the involved do not know each other, but are aware of the organization. Its leaders have the power to influence the personnel selection in law-enforcing institutions.)</p> <p>Bribes: from 10,000 to 50,000 USD per month.</p>	<p>Importer → customs official at the border → representative of border authority → Ministry of Interior officials, securing the transit to the customs bureau in the interior → customs bureau in the interior → representative of the communal authority → representative of the high-level authority → political person (or person with influence on politics), providing administrative comfort to the others and the final recipient and distributor of the bribes.</p> <p>5% of officials</p>	<p>Threatens entire branches of the economy. Creates social tensions. Casts suspicion on the public contract.</p> <p>Losses of the state budget: up to 50% depending on the type of the goods.</p>
<p>2. Small organized groups</p> <p>Operate in particular region or in one or two regional customs bureaus.</p> <p>Bribes: up to 5,000 USD per month.</p>	<p>Importer → former or present high-ranking customs official → head of customs department → former or present Ministry of Interior official (neutralizes the inconvenient officials or informs on inspections) → operative inspector.</p> <p>10% of officials</p>	<p>Creates immoral personnel atmosphere. Causes corrupt behavior among business people. Has a negative impact on foreign investors.</p> <p>Losses of the state budget: five million leva and more (up to 30%)</p>
<p>3. Type "Tandem" (Customs official and another employee at the border crossing).</p> <p>Bribes: 1,500 USD for a ten-ton truck and 5,000 USD for a twenty-ton truck.</p>	<p>So-called "wild smuggling" → goods pass without being registered by the customs → "opened barriers."</p> <p>10% of officials</p>	<p>Creates conditions for smuggling of banned goods (drugs, weapons).</p>
<p>4. Individual operations: officials from any operative department. In most cases involves customs inspectors.</p> <p>Bribes: depends on the type of the customs department and the position of the official; up to 2,500 USD monthly.</p>	<p>Importer → customs official (in many cases with the passive involvement of the superior).</p> <p>20% of officials</p>	<p>One to ten companies-importers pay 10 to 30% lower taxes. Due to some changes in the tax legislation (VAT, profit tax), the practice is diminishing.</p>
<p>5. Individual operations: customs inspector or superior on the lower level.</p> <p>Bribes: 20 to 200 leva per month.</p>	<p>Too strict observation of non-existing procedures, demands without foundation in the Law, threat of thorough inspection of the goods, blackmailing on psychological basis.</p> <p>60% of officials.</p>	<p>No fiscal consequences for the budget. Exceptionally negative consequences on the business people. Creates negative image of the administration.</p>

1.2. CLASSIFICATION OF SMUGGLING ACCORDING TO THE TYPES OF GOODS

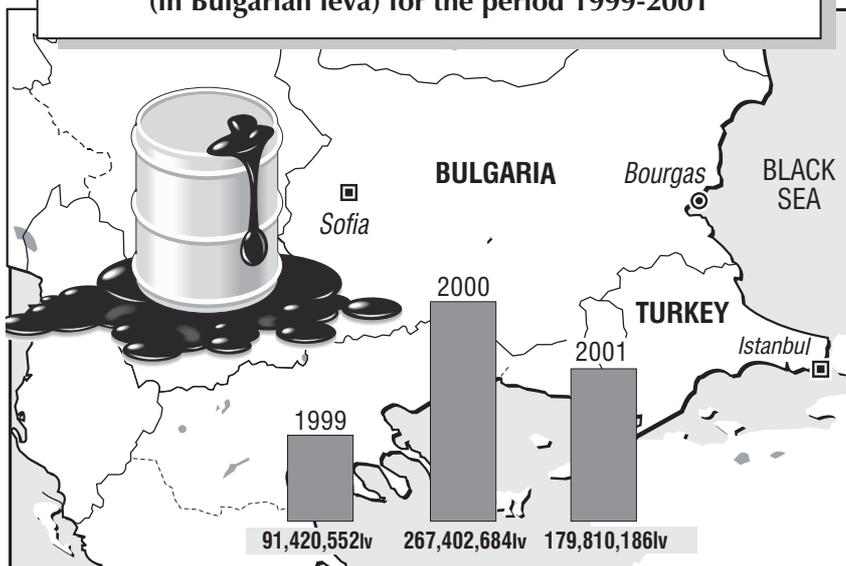
What follows is a classification according to the types of smuggled goods, including the information on their origin and routes on which they are transported, the range of bribes paid to officials involved in the illegal import, the quantities and values of the smuggled goods, and the type of fraud used 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."³

³ 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 oils⁴ 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
Petrol products – half-year period	51,698,153	116,175,095	111,284,339	41,560,498

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.

⁴ 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.⁵

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.⁶

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

⁵ 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.

⁶ 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.⁷

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.⁸ 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.⁹ According to the official customs statistics, the market for used cars in 2001 can be estimated at roughly

⁷ 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.

⁸ 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.

⁹ 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.¹⁰

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

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.¹¹ 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.

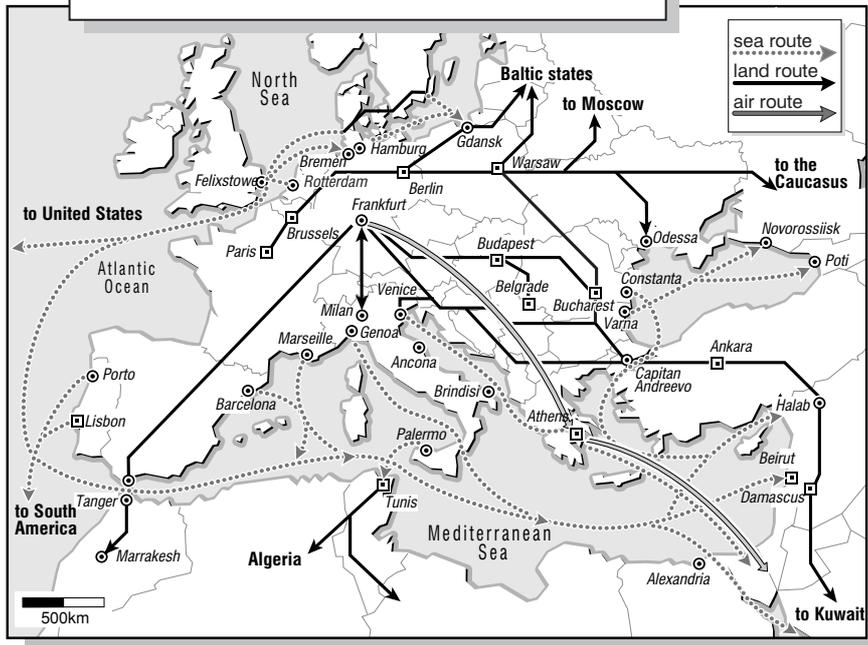
¹⁰ "Gray schemes" start in Western Europe, where used cars are considered to be inferior goods. They are therefore of no interest either to large trans-national companies, or to the state administration. As a result, used cars can easily fall into the shadow channels in which the real value of the car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

¹¹ 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.¹²

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.¹³

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.¹⁴

¹² 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.

¹³ 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.

¹⁴ 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 APPLIANCES¹⁵

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,

¹⁵ 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 1999-2001¹⁶

Type of household appliances	1999	2000	2001
"Large white" appliances Household refrigerators, cooking ovens, microwave ovens, water-heaters, etc.	46,326,026	44,646,056	57,308,028
"Small white" appliances 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).¹⁷ 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

¹⁶ 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.

¹⁷ 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.

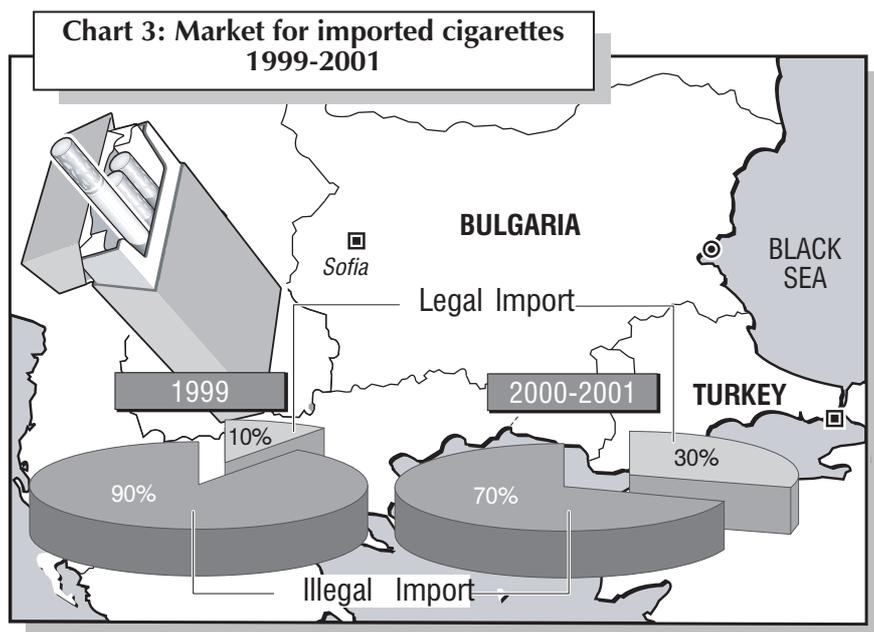
1.2.5. CIGARETTES

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.¹⁸ 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 cigarettes¹⁹ 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

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

¹⁹ 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.²⁰ 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

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

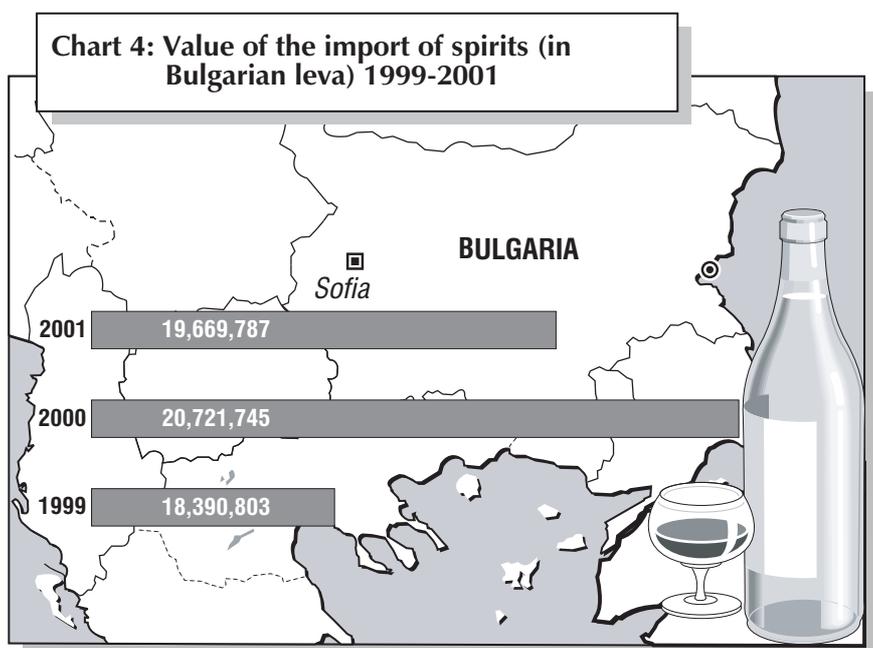
customs official they are acquainted to, such suitcase traders import several master-boxes of cigarettes and later sell them to retail traders.

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**.²¹ 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-

²¹ 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.²²

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.²³

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

²² 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.

²³ 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,²⁴ 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).²⁵

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

²⁴ June 2002, *BBSS Gallup* (TNS)

²⁵ 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.²⁶ 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.²⁷

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.

²⁶ 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.

²⁷ 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.²⁸

Another precondition for the legalization of business was the appearance of large international companies on the market. The purchase of company and trademark Nova Brasilia²⁹ 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.³⁰

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.³¹ 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

²⁸ 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.

²⁹ 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.

³⁰ 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.

³¹ 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.³²

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.³³ 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

³² 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.

³³ 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.³⁴

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.³⁵ 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

³⁴ 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.

³⁵ 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.

2. DRUG SMUGGLING

2.1. SOURCES OF INFORMATION

Like with other criminal forms of "business," a special problem connected with drug smuggling is the lack of not only accurate, but even of approximate statistical data. When analyzing the volume of smuggling of consumer goods, part of which is conducted semi-legally (through various forms of document frauds), some approximate estimates can nevertheless be made. This cannot be done with drug smuggling.

Consequently, the only available method to assess the volume, roots, prices and trends in the development of drug smuggling through Bulgaria are some indirect methods:

- Comparative analysis of the annual quantities of drugs, confiscated by competent authorities
- Sociological research and expert estimates of drug consumption in the country (which gives an idea about the extent of drug distribution in the country)
- Expert estimates about the market values of drugs in the country, as well as in separate regions (which estimates the demand/supply relation)

An additional problem is created by the lack of sufficiently reliable data about the drug consumption, which could offer a picture of the current and future situation in regard to the spread of drugs in society. This was also noted in the report of the British experts, entitled *Bulgarian Twinning Operation: Review of Demand Reduction Strategy* from May 2000.³⁶ The report also claims that the information systems in this field are not well coordinated and subordinated to a strategic goal, that there is no coordination between the information on demand and on supply, that a good analysis of available data is missing, etc.³⁷

Smuggling through Bulgaria is part of a transnational channel for illegal transfer of narcotic substances. In the past years, this transfer was stimulated by a number of circumstances, favorable to smugglers. The systematic and virtually ceaseless traffic of narcotics from Afghanistan through Iran, Turkey and Bulgaria to Western Europe was facilitated by the crisis in the former Yugoslavia, the lifting of visa restrictions within the EU and by the increase in the drug production under the Taliban regime.

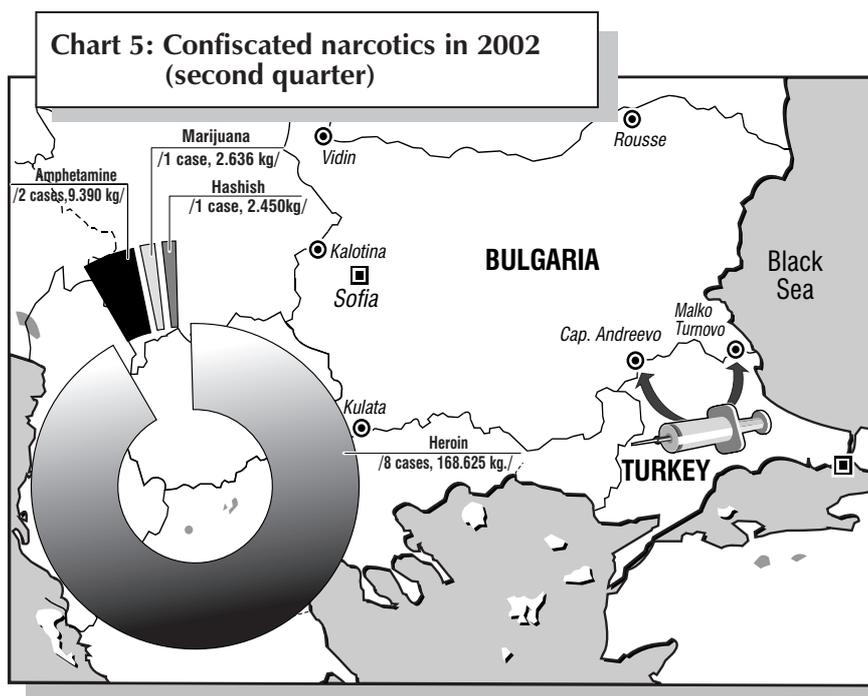
³⁶ The report states that "it is not possible to give accurate or complete assessment of the present situation and of the future prospects regarding drug abuse based on the available information." *Ibid.*, p. 8.

³⁷ *Ibid.*, p. 8.

At the same time, apart from the Balkan route, importance of several new routes for the transfer of heroin from Southwest Asia to Europe has increased – through Central Asia and Russia, with Central Asian countries Kazakhstan, Kyrgyzstan, Tadjikistan and Uzbekistan beginning to play a significant role in drug trafficking. Experts believe that increasing quantities of heroin travel along this "Silk Road." The Black Sea is also used more and more often for transferring heroin to Romania and Bulgaria both from Turkey and Georgia. Recently it was discovered that the ferry line between Istanbul and Trieste is also used for direct transfer of heroin to the EU. As a

consequence, the importance of the traditional Balkan Route from Turkey through Bulgaria, Yugoslavia, Croatia, Slovenia and Austria to Central Europe has diminished, as has been noted also in the Annual Report of the Balkan Information System for 2001. This route was used in only 13 percent of all registered cases of heroin smuggling (in 2000, it was used in 19 percent of the cases.)

An indication of the level of intensity of drug smuggling through Bulgaria are the statistical indexes for discovered and confiscated quantities of heroin on border crossings and in the interior of the country. Unlike the first quarter of 2002, when no cases of traffic of drugs and precursors through Bulgaria were registered, in the second quarter the following quantities were discovered:

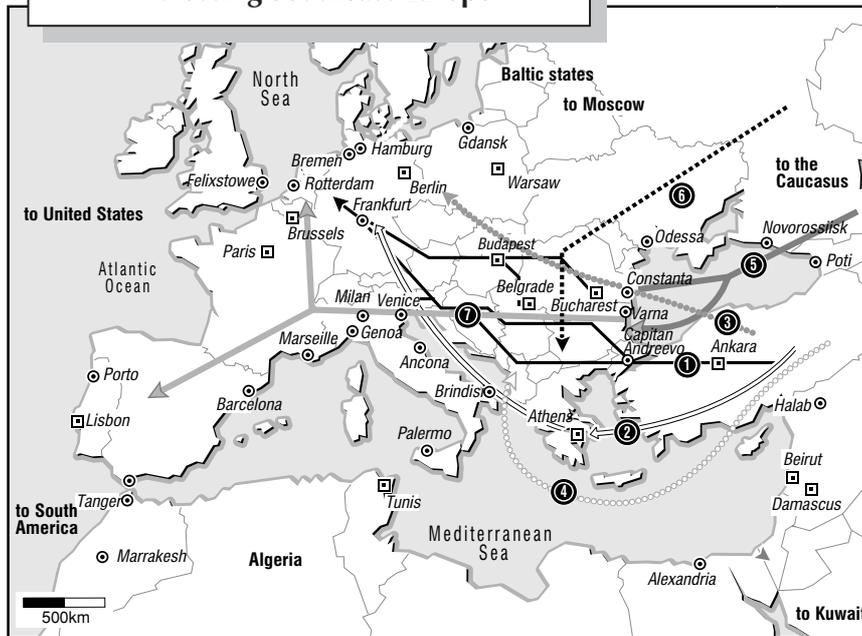


- 168.625 kilograms of heroin (8 cases)
- 9.390 kilograms of amphetamines (2 cases)
- 2.450 kilograms of hashish (1 case)
- 2.636 kilograms of marijuana (1 case)

Five Bulgarian, five Yugoslav, three Romanian, three Macedonian and one Turkish citizen were arrested for drug smuggling. It is interesting to note that the smuggling through the border crossing at Malko Turnovo has increased (in two cases, 114 kilograms of heroin were discovered, and in one case 6.6 kilograms of amphetamines). The Kapitan Andreevo checkpoint, where control has been improved, seems to be used less frequently now (only one case with 20 kilograms of heroin). More often, drugs are shipped in small quantities (from 5 to 10 kilograms) with railway transport.

As far as smuggling of drugs and precursors is concerned, Bulgaria is a typical transit country, although few temporary bases for short-term storage and re-packing of drugs on our territory have appeared. The same route used for traffic of heroin from Turkey through Bulgaria to Western Europe is used in the opposite direction for traffic of synthetic narcotics, cocaine, marijuana, hashish and precursors. The intensive

Chart 6: Drug smuggling channels crossing Southeast Europe



- ← 1. From Turkey, through Bulgaria, Macedonia, Romania, Yugoslavia and Albania;
- ← 2. From Turkey, through Greece, to Yugoslavia and Albania;
- ← 3. From Turkey, by sea to Romania and then to Central and Eastern Europe;
- ← 4. From Turkey and Pakistan by sea to Albania;
- ← 5. From the Former Soviet Countries in middle Asia, through Black sea and then to Bulgaria and Romania;
- ← 6. Through Russia, Ukraine, Moldova, Romania and Bulgaria to West Europe;
- ← 7. From Latin America, through the harbours of Bulgaria to Spain and Netherlands

Distribution of heroin in Sofia

According to the department Narcotics of the Sofia Directorate for Internal Affairs, heroin worth more than 150,000 leva (75,000 Euro) is sold in Sofia every day, of which pure profit amounts to 80,000 leva (40,000 Euro). Profits are divided among dealers and their bosses in the capital (around 300 persons). According to the official data, around 57,000 people use heroin in the country.

Heroin entering Bulgaria is very pure – usually between 50 and 60 percent, and costs nearly 20,000 leva per kilogram. The street value is around 150,000 leva per kilogram. One half-gram dose costs around 20 leva.

The profits of those who smuggle the narcotic into the country are 100 percent, since they get two kilos of heroin from one by reducing its purity. Before reaching the street, heroin passes through several intermediaries, with more additives added each time. In the end, the purity of the heroin is reduced to the point which enables dealers to make between 300 and 400 leva of pure profit per day.

According to the Ministry of Interior, there are 10 large bosses in Sofia. Each dealer covers the territory, usually including ten parallel streets. The most profitable areas are the center and one of the most densely populated neighborhoods (Lyulin).

trans-border traffic of narcotics has lead also to the increase in the local drug abuse and to the growth of distribution networks.

2.2. HEROIN SMUGGLING

The geographic position made Bulgaria one of the principal routes for heroin traffic. After Turkey, Bulgaria is the second barrier for heroin on its way from Asia to Europe. Large-scale heroin traffic is conducted by foreign drug smuggling organizations, among which Turkish and Albanian are the most important ones. They have long lasting experience, well-organized networks and enormous financial resources. Turkish drug syndicates and their distributors in European cities control the largest part of Balkan routes. Statistics show that they are involved in 59 percent of the cases of drug trafficking in the Balkans. The foreign drug-smuggling networks show a permanent aspiration for mutual criminal cooperation with similar Bulgarian organizations with the goal of facilitating easier and faster transfer of narcotics through the country.

Apart from being an important transit country for heroin, in recent years Bulgaria turned into an important "warehouse" for redistribution of this narcotic substance. Heroin consumption in the country has also increased, owing to the fact that Bulgarian criminal organizations receive part of the smuggled heroin as a payment for their participation in the traffic. As a result, more heroin now remains in the country to be sold on the Bulgarian drug market. The number of drug dealers has similarly increased. Large cities like Sofia, Varna, Burgas and Plovdiv have the highest number of drug abusers, including those addicted to heroin.

During 2002, the traffic and distribution of heroin and precursors for its production continued to be concentrated in large cities and along the E-80 highway. Relatively well-developed transport and

The main channels for heroin follow these routes:

- Turkey – Bulgaria – Romania – Hungary – Austria – Germany – France, Belgium, Holland, Great Britain;
- Turkey through Bulgaria in the direction of Romania – Hungary – Slovakia – the Czech Republic and Poland. The non-traditional route from Macedonia through Bulgaria and Romania to Hungary is also used;
- Turkey through Bulgaria in the direction of Romania, Moldova and Ukraine. Heroin is transported by buses and trucks with Moldovan, Turkish and Ukrainian registrations;
- Turkey directly to Bulgaria;
- From Bulgaria to USA;
- In direction of Serbia, Bosnia and Herzegovina, Croatia and Austria;
- From Turkey through Bulgaria to Greece;
- From Turkey through Bulgaria to the Czech Republic;
- From Turkey through Bulgaria to Western Europe with international trains – channel for traffic of heroin with the help of train conductors and stewards, and under patronage of the "power groups;"
- From Turkey to Bulgaria with boats across the Black Sea in the Ahtopol region;
- Heroin is imported also through Varna and Burgas ports, with Bulgarian, Turkish, Russian-speaking and Arab citizens involved. There are no publicly available data for heroin discovered in these two ports in the last three years.

telecommunication infrastructure creates conditions for fast transfer of shipments through the country. According to observers, Turkish citizens, smuggling narcotic substances (mostly heroin) from Turkey to Western Europe, meet with Bulgarian smugglers on Shell petrol stations, located along the Trakia highway, and sell them packages of at least 500 grams of very pure heroin. The drug is paid for on the spot. Most of it is distributed in Plovdiv and some in the Pazardzhik region. In Varna, one of the main organized criminal groups, involved in heroin distribution in the region, also deals with car thefts and racketeering of the owners of stolen cars.

The tendency of individual local criminal groups to organize independent drug smuggling channels has been also noted. This created preconditions for brutal clashes, leading to escalation of tension, connected with division of territories.

It can be expected that intensified efforts to curb heroin smuggling will lead to the establishment of alternative channels. The shipments will most likely travel in a direction which does not lead directly to their final destination.

2.3. COCAINE SMUGGLING

The trans-continental traffic of cocaine through Brazil and Venezuela to Europe in which Bulgaria is a transit country is continuously on the rise. Air transport is used most often. Transport is usually divided into several legs, with different couriers involved in each part of the journey to avoid unnecessary suspicion, which a person traveling from one "risk" country to another might arouse. Smaller quantities, trafficked to neighboring Balkan countries, are transported by cars. There are indications that a channel for cocaine smuggling from Bulgaria to Ukraine (run by Ukrainian citizens) is being activated. It seems that in the near future this channel might be used also for smuggling ecstasy and acetic anhydride to Turkey. The Plovdiv region is becoming a center for traffic of cocaine to and from Bulgaria.

South American cocaine is arriving to Bulgaria from various directions:

- From Uruguay through Cyprus to Varna and Burgas ports;
- From Paraguay through Cyprus, Greece, Bulgaria to Western Europe;
- From Columbia through Turkey and Bulgaria to Western Europe;

- From Brazil and Venezuela through German and French airports to Bulgaria;
- With accelerated post deliveries from Columbia and Brazil through Germany and France to Bulgaria;
- From Brazil through France to Bulgaria;
- A channel for transport of cocaine involving bus passengers from Bulgaria through Yugoslavia, Hungary, Slovakia to the Czech Republic;
- With airplanes from Brazil through Amsterdam and Vienna to Bulgaria;
- From island Aruba through Frankfurt to Bulgaria.

The number of cocaine dealers in Bulgaria has increased, as the results of police investigations demonstrate. The cocaine consumption is also on the rise, but at a slow pace due to the small purchasing capacity of the population. Only 2-3 percent of drug abusers can afford to use cocaine. This narcotic is popular among the organized criminal groups, engaged in the smuggling of cocaine and other narcotics.

2.4. SMUGGLING OF CANNABIS, MARIJUANA AND HASHISH

The main channels for smuggling of cannabis, marijuana and hashish are the following:

- Smuggling of marijuana from Albania through Macedonia and Bulgaria for Turkey. Albanian, Macedonian and Yugoslav citizens – ethnic Albanians – are involved. The narcotic is transported with cars and minibuses with Albanian and Macedonian registrations;
- From Pakistan through Egypt with ships to Greece and from there to Bulgaria with trucks;
- From Albania through Macedonia and Bulgaria to Turkey with trucks and vans with Albanian registrations. Traffickers are Albanian citizens;
- The marijuana and hashish market in Bulgaria is supplied also by local production. Numerous cannabis fields have been discovered in the country, and large quantities of dry cannabis leaves confiscated from Bulgarian citizens. According to police data, cannabis is grown by predominantly elderly people, who are paid by people, linked to organized crime. In large cities, cases of some Roma families or of individual consumers growing cannabis in plant pots in their homes were registered;
- It can be claimed that local distribution and consumption of cannabis, marijuana and hashish has significantly increased. According to some research, most hashish is sold in Sofia, Veliko Turnovo and Pleven, and most marijuana in Varna.

The number of cannabis fields, grown on communal land or land without official owners is increasing. Such fields are deliberately located further away from populated areas. Cannabis cultivation and production is often under the control of Bulgarian criminal groups. The largest cannabis cultivation areas are the regions of Blagoevgrad,

Sandanski and Petrich. Cannabis fields have been registered also in some areas of northern Bulgaria.

2.5. SYNTHETIC DRUGS

The problems related to smuggling and consumption of synthetic drugs are also very serious, as both are on the rise in Bulgaria and in other Balkan countries. Conducted investigations have confirmed the information that illegal establishments producing synthetic drugs continue to operate. Six illegal laboratories, equipped for the production of synthetic drugs were discovered in 2001 in the city of Sofia, and in the Sofia and Ruse regions. Distribution of metamphetamine increased in Sliven, Yambol, Stara Zagora and Burgas regions. Law-enforcing agencies are warning that international drug syndicates are shifting the production of synthetic drugs from Scandinavia to the Balkans.

The interest of the local criminal groups in synthetic drugs has also increased. Some of the unemployed Bulgarian chemists, technologists and pharmacists participate in the production. Some of them are involved in the criminal cooperation with citizens of neighboring countries. Synthetic drugs produced in Bulgaria are smuggled to Macedonia, Albania, Turkey, Romania, Poland, Ukraine, Middle East and Africa (Nigeria). The channels for smuggling of synthetic drugs from Serbia, involving Serbian and Bulgarian citizens, and the channels for smuggling of metamphetamine to Arab countries, involving Bulgarian and Turkish citizens, were discovered in 2002.

Consumption of synthetic drugs in Bulgaria has sharply increased. Few networks for distribution were discovered in Sofia in the last three years. Ecstasy (although usually amphetamines are sold under this name) is used mainly by young people – pupils and students. It is distributed mainly in discotheques and other places, where fans of techno music gather.

The profits from the production, distribution and international smuggling of synthetic drugs are enormous. According to the expectations, the production and consumption of synthetic drugs in the country will continue to rise in the following years.

2.6. MARKET VALUE OF NARCOTICS

Assessments of the price at which various narcotics are sold are not uniform. Approximate prices, given by informers, who are close to drug users, are in some cases few times higher than the prices given by the National Service for Combating Organized Crime.

Turkish drug traffickers are selling heroin for 10,000 – 12,000 leva per kilogram. According to informers from drug-using circles, one gram of 40-50 percent pure heroin is sufficient for 15 doses sold for 5 leva, or even for 20 doses containing between 5 and 10 milligrams of heroin and sold for 10 leva. It is believed that the price of heroin is much cheaper in the Roma neighborhoods, but the quality there is also much lower.

Two different and mutually hostile markets for cannabis exist in Bulgaria. One is controlled by organized crime. Cannabis is sold in the form of ready-made cigarettes

to minors and occasional adult consumers. But the larger part of cannabis is distributed by small dealers, who have direct contact with producers and who are selling the narcotic to their friends with little or no profit involved. This so-called "friendly trade" is typical for a larger part of the cannabis market in developed countries.

The criminal groups are continuing their efforts to increase their market share. The process started in the period April – June 2001, when they undertook a series of activities against petty dealers, who were forced to subdue to the mafia control. The actions were organized and coordinated. Members of mafia gangs had the addresses of the petty dealers and were informed about their movement. Dealers claim that active policemen participated in the beatings. As a consequence, the marijuana market (at least in Sofia) underwent significant changes. The quality of available marijuana begun to drop, and numerous dealers who in the past categorically refused to sell hard drugs were forced to start selling heroin. This development is extremely alarming. The lower quality of marijuana and the increased availability of heroin, coupled by very low awareness level among the minors (a result of non-competent or virtually non-existent prevention programs in schools) are blurring the lines between marijuana and heroin and are making heroin more attractive. Since the profits in this sector of the marijuana market are relatively low, it can be presumed that the main goal of criminal groups was namely to merge the teenage marijuana market with the heroin market.

Larger part of cannabis users continue to buy marijuana by weight, which is of a relatively good quality (without additives) and costs between 0.30 and 1.00 leva per gram. Probably over 80 percent of consumers are supplied in such a way because adult consumers, who buy most of the marijuana, intentionally avoid buying ready-made cigarettes from criminals, due to their high price, questionable quality and likely presence of additives (including heroin). The value of dried, non-refined leaf mass is from 80 to 100 leva per kilogram. Between 1,200 and 1,600 cigarettes can be made from such a quantity.

The value of hashish varies widely, depending on its quality. Informers believe that first-class hashish can be bought for less than 1,000 leva per kilogram. The hashish sold in Bulgaria is of loose texture, so it is impossible to form it into a thin stick, which could be inserted into a cigarette. This narcotic is not yet widely available.

The most popular amphetamine is "Dupnica amphetamine" (amphetamine combined with aspirin; the information on the bottle is in French; there is no data about producer), sold in Sofia for one lev per pill. In some cases, this price can be a bit higher, but if the whole bottle (20 pills) is bought, the price can drop to 0.50 leva for a pill. Minors are often ready to pay a higher price, even for amphetamines of extremely suspicious look and quality, but even in such case prices rarely exceed 3 leva.

Amphetamines are often sold instead of ecstasy, which uninformed buyers believe to be purchasing. The real ecstasy (MDMA) is very hard to obtain, and its price is very high (15 to 25 leva per pill). Often, there is even very little amphetamine in such "ecstasy," which is compensated by addition of caffeine.

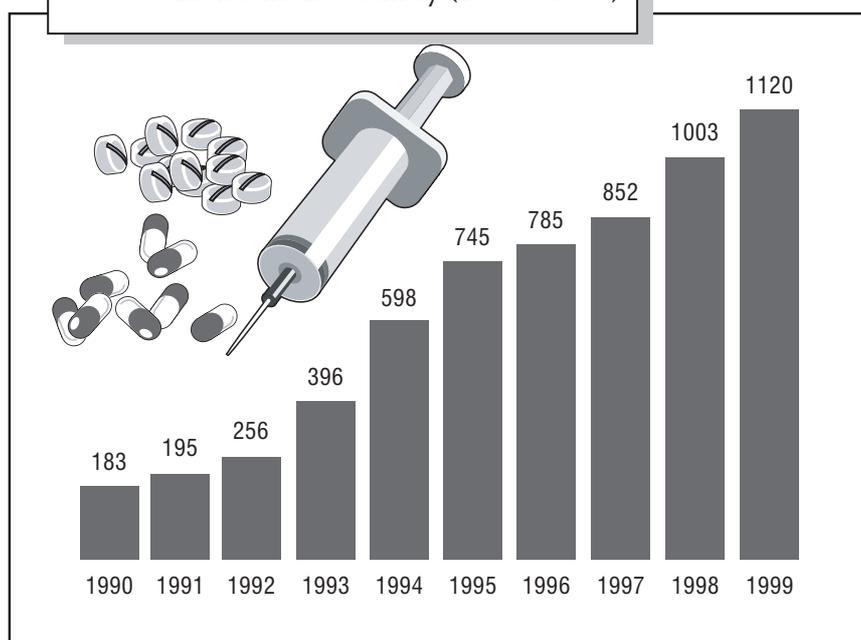
LSD is a semi-synthetic hallucinogen, which appeared on the Bulgarian market in the early 1990s. Its price is around 30 leva for a blotter and it is sold in various shapes (five-point star, Che Guevara, cyclist, pussycat). It appears that LSD comes exclusively from abroad.

2.7. DISTRIBUTION AND CONSUMPTION

The amount of drugs, confiscated in Bulgaria can give an indication of the extent of drug distribution in the country. In the first six months of 2000, the National Service for Combating Organized Crime confiscated on its own or in cooperation with other services the following quantities of narcotics and precursors: 20.792 kg of heroin, 0.447 kg of cocaine, 30.393 kg of hashish, 1.44 kg of opium, 24.3 kg of amphetamine substance, 400,007 kaptagon pills, 120,216 amphetamine pills, 3,031 ecstasy pills, 1,200 ephedrine pills and 20 liters of formamide. Sixteen people were arrested for smuggling and 77 for distribution of narcotics. One illegal laboratory for production of narcotics was discovered and four traffic channels broken.

Official data for drug consumption in the country is alarming. The National Strategy for Combating Narcotics (2002-2007) indicates heroin as the most serious threat to the public health. In the last 5-6 years, heroin was responsible for over 90 percent of cases in which medical treatment was sought in specialized departments in Sofia. Two thirds of heroin users are injecting the drug, which carries additional risk of infection with hepatitis C and HIV. The average age of those seeking medical treatment because of heroin abuse fell in the period 1995-2001 from 24.7 to 22.5 years. This drop seems to be stabilizing now.

Chart 7: Number of drug-addicted patients, treated in psychiatric establishments in the country (1990 - 1999)



Another objective criterion is the number of drug-addicted patients, treated in psychiatric establishments in the country between 1990 and 1999. The data was published in the National Strategy and follows below.

The distribution networks on the territory of the country are constantly expanding. Activities of organized criminal groups involved in the narcotics business are concentrated on large cities in the country (Sofia, Plovdiv, Varna, Burgas, Blagoevgrad, Haskovo), in border areas (Blagoevgrad, Haskovo, Vidin, Ruse) and in the cities, located along the international highways (Plovdiv, Pazardzhik, Veliko Turnovo, Ruse, Blagoevgrad).

The distribution of narcotics is increasingly under the control of organized groups, which emerged from the former "power groups." One consequence of the

increased activity of criminal groups operating in various regions is their desire to permanently divide and occupy particular regional drug markets. Violence is usually used as a means for taking over certain territory. In an attempt to eliminate the competition and obtain full control both in particular areas and in the entire country, numerous major criminal offences were conducted. The conflicts linked to the build-up of permanent networks for the distribution of heroin and cocaine escalated in 2001-2002. A series of explosions, armed skirmishes, assassinations and arsons

occurred as a result of the fight for territories in Varna and Burgas regions. The escalation of tensions has grown into a violent confrontation between the higher levels of criminal hierarchy.

All of the people, participating in groups, which distribute narcotics on the Bulgarian drug market, are Bulgarian citizens, working under the control of bosses of various "power groups." Each group operates almost exclusively on the territory under its control. All groups are hierarchically arranged. Leaders of organized criminal groups periodically change dealers to prevent leaking of information or infiltration of undercover police agents. In some groups, dealers of Roma origin are active – for example in the new "center" for heroin distribution, the Plovdiv neighborhood Stolipinovo, populated predominantly by Roma. Active drug dealers are found also among the residents of Roma neighborhoods in Kyustendil and other cities. The main centers for drug distribution along the Black Sea coast, and in north-west and south-west Bulgaria are Varna and Burgas. Drug markets and distribution networks in both these regions are well structured, monopolized by the organized criminal groups and controlled by a leader of a former "power group."

Narcotics are distributed also by individuals with criminal record, who are not connected to organized groups and who act independently. Many of them are dealing with drugs both for their own consumption as well as to make profit.

Along with their main activity – the drug business – organized criminal groups conduct numerous other criminal acts: arms trade, prostitution, gambling, car theft and smuggling of stolen cars, distribution of counterfeit money and forged documents, etc. They cooperate with similar criminal formations from Turkey, Germany, Holland, Macedonia, Romania and Italy. Thus common interest brings together Bulgarian, Turkish, Kurdish, African, Italian and other criminals.

Some regions have very specific features. For example, in the Blagoevgrad region drug trafficking in the direction of Macedonia takes place through Petrich, with local criminal groups cooperating with Macedonians and with Albanians from Macedonia and Kosovo, or through Sandanski region, where Pontus Greeks are involved. An average package contains 1-2 kg of heroin and 0.5 kg of cocaine. In the Vidin region, narcotic substances and precursors (acetic anhydrite) are smuggled mostly across the "green border."

2.8. TRENDS OF DEVELOPMENT

The international character of drug smuggling requires that the exchange of general and concrete information with similar services abroad takes place. Conduct of international operations for countering and neutralizing local and transnational drug syndicates is also needed.

The following short-term and medium-term predictions can be made, based on the analyzed situation on national and regional level:

- The territory of Bulgaria will continue to be used for smuggling of narcotic substances and precursors

-
- The process of cooperation between transnational drug-smuggling organizations with local structures of organized crime will most likely intensify in 2002 – 2003
 - The convergence of drug business with other types of criminal deeds and its intrusion into legal economy through money laundering will increase
 - Bulgarian criminal groups will continue to cultivate, process and smuggle cannabis to neighboring countries and Western Europe
 - The illegal production and trafficking of synthetic drugs will continue
 - The appearance of new channels is likely, with new methods and transportation means used; it is also likely that new materials will be used for the production of narcotic substances
 - The relative share of criminal acts related to drugs in the overall structure of crime will increase
 - The levels of supply and demand for narcotic substances will continue to rise, as can be seen from increased quantities of confiscated drugs

3. TRAFFICKING IN HUMAN BEINGS

Bulgaria lies on the migration route for various foreign nationals. Its territory is used as a regional transit center for trafficking in human beings.

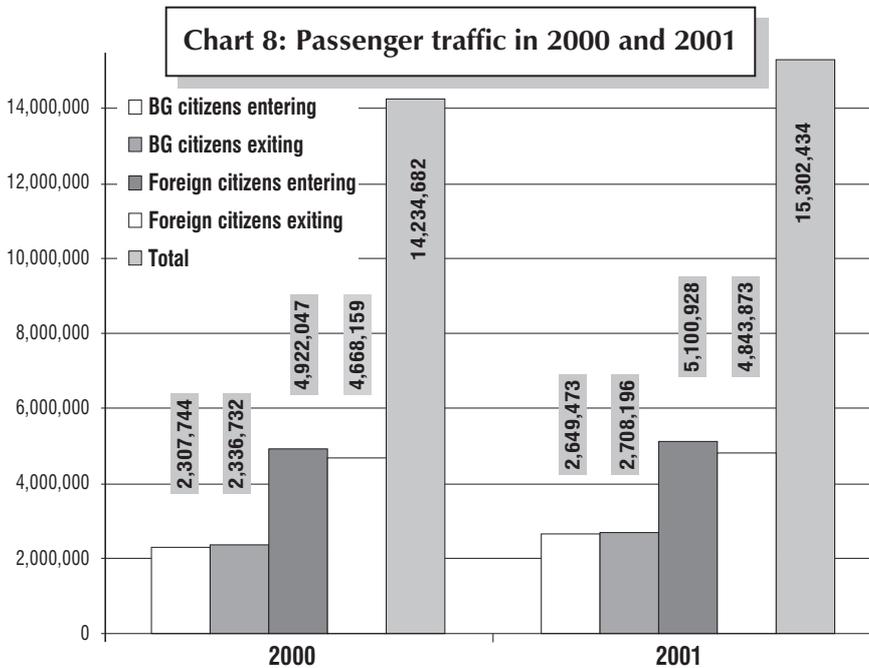
Bulgaria's geographic position was skillfully exploited by groups of Bulgarian and foreign citizens, who transformed the migration flow into an organized national and international criminal activity. A growing number of Bulgarian citizens living in border areas are making human trafficking their main occupation.

Bulgaria plays three different roles in human trafficking:

- as a transit route
- as a final destination
- as a country of origin

Most foreign nationals who entered Bulgaria through illegal channels do not wish to remain on its territory. The majority of those who have acquired the status of refugees subsequently attempt to leave the country illegally. There are numerous cases of people with refugee status in Bulgaria trying to illegally reach Western Europe.

Based on the analysis of methods used for transfer of people across the state border, the international channels for human trafficking can be classified as legal, illegal and combined.



Source: Customs Agency

3.1. CHANNELS FOR TRAFFICKING

The following methods are used for crossing the border illegally:

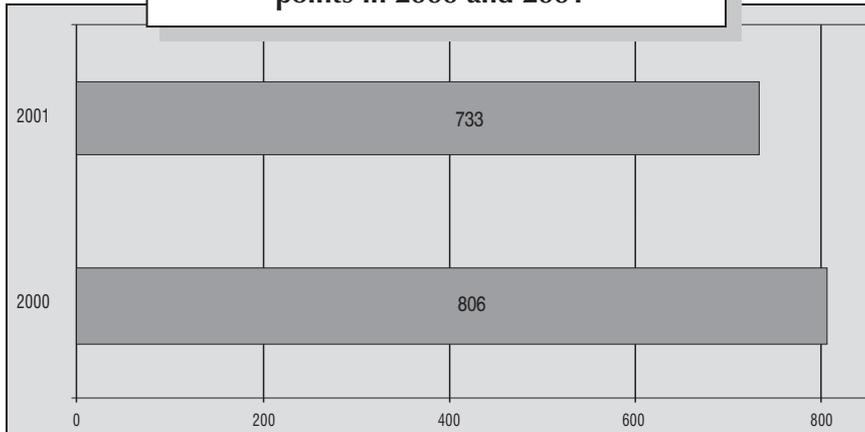
- Illegal individual or group crossing across the "green border"
- Foreign nationals enter the country legally with transit visas and then exit illegally through channels leading across Macedonia, Albania and Italy to countries in Western Europe
- Foreign nationals enter the country legally, but then attempt to exit with falsified documents
- Legal crossing into a neighboring country for which no visa is required and from there illegal crossing into Greece
- Hiding in secret compartments of transport vehicles entering the country
- Using package tours to reach the desired destination
- Hiding in passenger and cargo trains and ships

The following division of human trafficking channels can be made:

1. Foreign nationals enter Bulgaria legally and exit illegally.

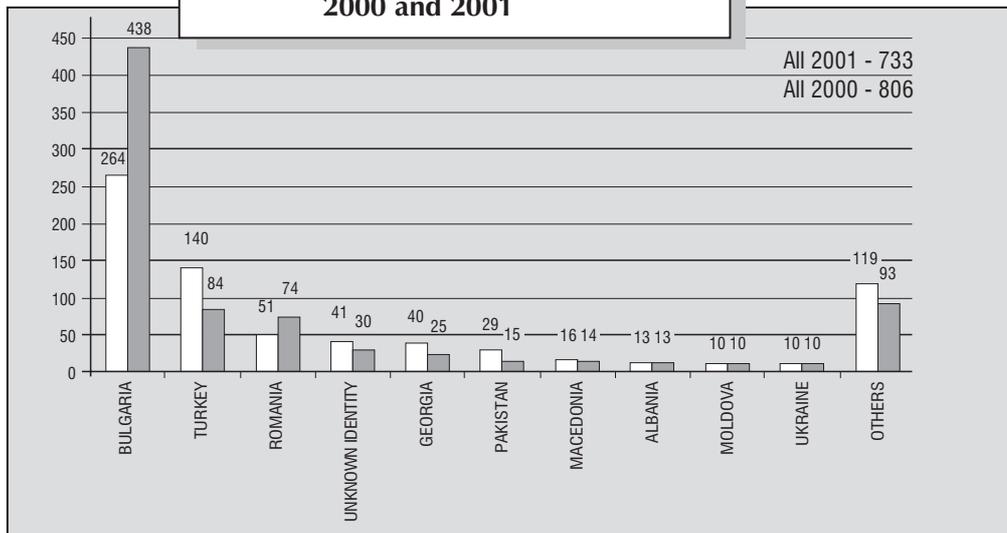
- **From Romania through Bulgaria or Macedonia to Greece and from there to Western Europe**
Mostly Romanian, Ukrainian and Moldovan citizens use this channel. Romanian citizens have the easiest access to Bulgaria since they are not required to obtain a visa. From Bulgaria, they illegally cross into Greece (either directly or through Macedonia), and from there to Italy and other West European countries. These channels are used also for trafficking of women for sex industry.
- **From Turkey through Bulgaria, Macedonia, Albania and Italy to Western Europe**
Turkish citizens of Kurdish origin represent the majority of people trafficked along this route. They reach Bulgaria by sea, air or land. From Bulgaria, they cross legal-

Chart 9: Persons detained at border checkpoints in 2000 and 2001



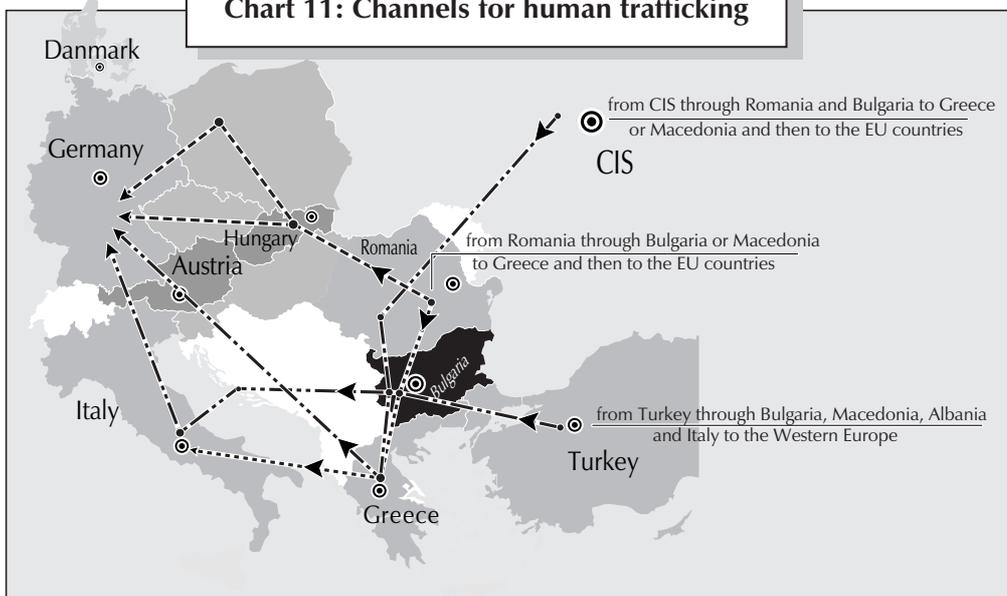
Source: Customs Agency

Chart 10: Persons detained at border checkpoints by nationality for 2000 and 2001



Source: Customs Agency

Chart 11: Channels for human trafficking



Source: National Border Police Service

ly or illegally into Macedonia, Albania and Italy and from there to Western Europe, Canada or the USA. In some cases, they reach Western Europe after being trafficked to Greece. The main problem in cutting the channel for trafficking from Turkey is that the majority of people using it have regular documents (they have transit visas for the third country).

■ **From Turkey through Romania and Bulgaria to Western Europe**

The channel is used mostly by Turkish citizens of Kurdish origin. They travel to Romania by sea or by air. Then they enter Bulgaria with transit visas and illegally cross into Macedonia across the "green border," or Serbia by using false Bulgarian passports. From there, they are trafficked to Western European countries.

■ **From former Soviet Union through Romania and Bulgaria to Greece or Macedonia and from there to Western Europe**

These channels are used primarily by citizens of Russia, Ukraine, Belarus and Moldova. They travel to Bulgaria by air, sea or land.

From Bulgaria, they are illegally transferred to Greece or Macedonia and Albania and from there to Italy and other Western European countries. These channels are used also for trafficking of women for sex industry.

■ **From former Soviet Union through Turkey and Bulgaria to Greece and from there to Western Europe**

These channels are used by citizens of Georgia and Armenia. They enter Bulgaria as tourists in organized package tours and subsequently attempt to cross into Greece or Macedonia and Albania with false documents or across the "green border." From there, they are trafficked to Western Europe. These channels are used also for trafficking of women for sex industry.

2. Foreign nationals enter and exit Bulgaria illegally.

■ From the Middle East through Turkey and Bulgaria to Western Europe

These channels are predominantly used by citizens of Afghanistan, Syria, Libya, Iran, Iraq, as well as by Palestinians. The air, sea and land transport is used for reaching Turkey. Trafficking into Bulgaria is organized across the "green border" or by hiding in transport vehicles, entering through border crossings. From Bulgaria, these people are trafficked into Greece or Macedonia and Albania and from there to Western Europe.

■ Trafficking of persons of Hindu origin

Citizens of India, Bangladesh and Sri Lanka are trafficked through Bulgaria to Greece and Western Europe. They enter Bulgaria by air or by land and then illegally cross into Greece or Macedonia and Albania and from there to Italy and other Western European countries.

■ Trafficking of persons from Africa

Citizens of Tunisia, Algeria, Morocco, Liberia, Nigeria, Sierra Leone and Rwanda cross Bulgaria on their way to Greece and other EU countries. Most of them enter Bulgaria by sea or by air. Many are trafficked from Bulgaria through Serbia and Hungary to Western Europe, Canada or the USA. In some cases, they exit Bulgaria with false West European passports.

In the first five months of 2002, 313 persons of various nationalities were detained at the Bulgarian border crossings: 130 were Bulgarian citizens, 45 Turkish citizens, 37 were citizens of Iraq, the identity of 20 persons was not established, 13 were Palestinians, 11 were citizens of Iran, 10 of Afghanistan, 5 of Greece, 5 of Tunisia, 4 of Ukraine and 33 had some other citizenship. In the same period, 423 persons, wanted by the police, were caught at the border crossings, of which 387 were Bulgarian citizens and 36 were foreigners. For comparison, between January and May 2001, 216 Bulgarian citizens and 27 foreigners were arrested.

In the same period of 2002, **793 persons were not allowed to exit Bulgaria.** They included 614 Bulgarian, 21 Macedonian, 17 Greek, 17 Turkish, 10 Romanian, 8 Afghan, 8 British, 7 German, 7 Moldovan and 7 Ukrainian citizens, as well as 77 persons with other nationalities. In the first five months of 2001, 600 persons were prevented from leaving Bulgaria, of which 452 were Bulgarian citizens and 148 were foreigners.

The total number of **persons, who were not allowed to enter Bulgaria was 2268**, of which 962 were Turkish, 134 Ukrainian, 123 Russian, 87 Tunisian, 77 Bosnian, 74 Macedonian, 71 German, 68 Yugoslav, 66 Romanian and 60 Greek citizens, while 564 were of some other nationality.

The officially repatriated persons numbered 298, of which 118 were Iraqi, 43 Nigerian, 21 Afghan, 12 Iranian, 12 Turkish, 8 Indian, 8 Somalian and 30 other nationals. In the same period **1987 persons were deported** (1255 in the same period of 2001).

3.2. CLASSIFICATION OF HUMAN TRAFFICKERS

Human traffickers can be divided into several groups:

- Persons living in border areas, who assist individual immigrants or small groups to cross the border illegally. They accompany immigrants to the border and show them the direction in which they should go. Some of the people living in border areas are used also as guides by larger trafficking organizations. Truck drivers, who hide and transport immigrants across the border crossings, are also a part of such organized groups.
- Traffickers, who independently recruit persons, wishing to leave the country, accompany them across the "green border" and then return to the country either legally or illegally. Some of such traffickers used to be part of organized trafficking groups and learned how and where to cross the border illegally. Some of them have served in the army at the border.
- Persons who accompany small groups of immigrants within Bulgaria and lead them to a meeting point. There they are boarded on transport vehicles and transported to a shelter, where they stay either for a short or a long period of time.
- Organized groups of traffickers, who are in contact with foreign nationals across the border, use the services of document falsifiers and cooperate with border control officials.
- Criminal groups, using tourist package groups or bureaus for recruiting candidates for employment abroad as a cover. Such groups are the main traffickers of female sex slaves. In cooperation with foreign criminal organizations, they traffic Bulgarian women and girls to brothels in Western Europe, and, lately, also to brothels in the western Balkans.
- Trafficking organizations, operating mostly from abroad and providing false documents, transport and apartments for a sojourn. For immigrants who are well-off, the so-called "safe channels" are provided.

There is a clear difference between traffickers, who conduct illegal services for the immigrants from Bulgaria and other countries (mostly from Asia and Africa), traveling to Western Europe, and the criminal groups, specialized in trafficking and inhuman exploitation of women. The priority of counter-trafficking efforts should therefore be organized criminal groups and the corrupt state officials cooperating with them.

3.3. PRICES OF TRAFFICKING SERVICES

Traffickers are paid between 200 and 10,000 USD, depending on the final destination, the method used for crossing the border, and the means of transport used in the process. The prices depend also on the route used, the size of the group, etc.

According to the data provided by unofficial sources and by people, caught while attempting to cross the border illegally, the prices, depending on the route, are as follows:

- From Istanbul to Sofia 500-700 USD
- From Sofia to Thessaloniki or Athens 700-1,200 USD
- From Sofia through Romania or Yugoslavia to Budapest 1,000-1,200 USD
- From Sofia through Romania, Yugoslavia, Hungary, Slovakia to Austria 2,000-2,300 USD
- From Sofia to Germany 2,000-2,500 USD
- From Sofia to Italy 2,000-2,500 USD
- From Sofia to Denmark or Norway 5,000-6,000 USD

4. ANTI-CORRUPTION REFORM IN THE CUSTOMS AGENCY AND IN THE MINISTRY OF INTERIOR

4.1. REFORMS IN THE CUSTOMS AGENCY

The legal framework of the Customs Agency³⁸ is harmonized with the legislation of the European Union and is based on several specific organizational principles of customs administration:

- The principle of structural separation and centralization of customs administration: This principle is characterized by an exceptionally hierarchical system of the Customs Agency, built on three levels (national, regional and local) and incorporated into one, autonomous administration within the Ministry of Finance.
- The principle of acceleration of customs procedures at the border and shifting of customs activities into the interior of the country: This principle is applied through the introduction of a two-tier customs procedure (customs clearance at the border and in the interior) based on the EU practice, with special attention given to control in the interior (at the internal customs bureaus).
- The principle of effective division of functions and tasks between customs bureaus: This principle is based on the possibility for dynamic reorganization of the work of individual customs bureaus and the possibility for assigning to them particular tasks, which depend on their location, intensity of traffic, type of the means of transportation, type of transiting goods, economic profile of the region, etc.

However, as it is the case with other Bulgarian institutions, the modern legal framework and its successful adjustment to the EU standards are often in contrast with practice. The efforts to counter smuggling of consumer goods, drug smuggling and trafficking in human beings are not sufficiently effective yet, the systemic and individual corruption is still spreading, there is no clear government vision for overcoming the weaknesses within the system, which make corrupt practices possible, the management of the Agency acts inadequately towards or inexplicably tolerates corrupt officials, customs officials are obviously much better off than other state officials. All these factors have contributed to the exceptionally negative public image of the Customs Agency and of the customs officials in the years of transition. The main incentive for the reform, which started at the beginning of the decade, however, was

³⁸ Customs administration is conducting its work according to the Customs Law, Regulations on Implementation of Customs Law and according to its Rules of Organization, adopted by the Government. Customs Law forms the institutional and foundational framework of the customs activities, while Regulations on Implementation elaborate on its provisions in the functional scheme, and the Rules of Organization on provisions in the organizational scheme.

the realization that the greater the corruption and smuggling, the smaller the revenues for the state budget.

* * *

The customs reform was among the priorities of the National Movement Simeon II (NDSV, *Nacionalno dvizhenie Simeon Vtori*) and corresponded to its policy based on honesty and fight against corruption. Such orientation was completely justified, considering the problems this institution faced under the government of Ivan Kostov (1997-2001).³⁹ The attempt to introduce radical changes undertaken by the team headed by Mr. Emil Dimitrov in the fall of 2001, however, proved unsuccessful. When his six-month term expired in February 2002, it became clear that the customs revenues had decreased due to the break in coordination between the individual components of the customs administration both on the central and regional levels.

Among the most significant reasons for the negative result of the first stage of the reform were the lack of overall vision, the reduction of the reform to personnel changes and the belief that the head of the customs, together with few assistants, can personally control the entire staff of the Agency. On the positive side, the actions of Emil Dimitrov did result in the temporary closure of some smuggling channels as a consequence of a series of sudden inspections and numerous dismissals from work, especially at the border crossing Kulata.

After February 2002, a period of "normalization" followed. To evaluate the term "normalization" accurately, it needs to be explained what the normal condition of the Bulgarian customs is like and which of the present practices within this institution will most likely continue in the future.

The updated business strategy of the Agency for the period until 2006 is based on the following priorities:

- Adapting customs administration to EU standards
- Strengthening the cooperation between customs, economic operators, businesses and the public
- Improving the collection of customs and other duties
- Counteracting customs and currency violations

The developments within the Agency can best be assessed by the changes in the collection of customs duties and other revenues, since such collection is an absolute priority of the government, faced by increasing financial difficulties and public pressure. In this regard, there has been a modest improvement within the customs. The revenue collection increased for over 42 million leva in September 2002 in comparison with September 2001. The net budget revenues for the first nine months of 2002 were 98,985,941 leva higher than the revenues in the same period of 2001.⁴⁰

³⁹ For more details see *Corruption and Trafficking: Monitoring and Prevention*, Sofia: Center for the Study of Democracy, 2000.

⁴⁰ See *Dnevnik*, October 9, 2002.

Since February 2002, the Customs Agency has undertaken numerous steps to improve the effectiveness of the fight against customs violations and frauds:

- **Particular excise and risk goods can enter the country only through several specifically selected border customs bureaus.** This measure has limited the possibilities for illegal import of such goods. By concentrating technical and human resources in these bureaus, the control was intensified, the possibilities for corrupt practices reduced, and labor division in customs administration made more efficient.
- **Customs bureaus in which excise and risk goods will be exclusively placed under the customs regimes import and export have also been determined.** This step is aimed at limiting the possibilities for conducting customs frauds with excise goods by declaring them as other type of goods or by declaring untrue value or origin.
- **The excise and risk goods will be exported or re-exported only through specific customs bureaus.** This step will limit the possibilities for the so-called "fictive export" when goods only appear to be leaving the territory of the country. As a result of "fictive export," the due payments are avoided or VAT is illegally reimbursed.
- In direct relation to the issue of intensified fight against smuggling, **the changes in the Road Traffic Law have empowered the customs control organs to stop transport vehicles on the roads and conduct inspections in accordance with the Customs Law.** This has created another barrier to illegal import of excise goods.
- Customs administration is trying **to implement the post-clearance control of customs declarations envisaged by the Law.** Such control would be conducted on the spot by inspecting the documents and the declared data concerning the performed import and export operations. Although such control was formally defined in the Customs Law (Article 84), it has still not been provided for with enough resources.
- A contribution to the improvement of the fight against customs and currency violations is expected also from an **impending introduction of a subsystem for customs investigation and intelligence as part of the Bulgarian Integrated Customs Information System (BICIS).** BICIS is already operating and connects all customs bureaus in the country, but relies only on data from customs declarations. However, these declarations are not automatically processed to determine the level of violation risk, no assessment of the risk profile is made, and no intelligence information is extracted.
- **A new mechanism for strengthening customs control over the import of liquid oil products was designed.** Specific instructions setting up clear rules for detection of illegal actions during the import of oil products were prepared for this purpose.
- **Increased control over the import of goods, characterized by a high level of risk for customs violations,** is being implemented. Such goods include meat and meat products, fuels, Turkish and Chinese goods, cigarettes, alcohol, coffee and

Actions against customs violations

From the beginning of 2002 until the fall of the same year, customs authorities initiated 8,455 legal proceedings on indictments for customs violations and 194 for currency violations. Of these, 530 involved serious violations of customs law (smuggling according to Article 233, customs fraud according to Article 234, and diversion of goods under customs control, according to Article 234a of the Customs Law), which represent a high degree public threat and cause considerable harm to the state budget.

In the same period, 6,926 decrees based on the indictments were issued. The violators were sentenced to pay the overall sum of 13,307,775 leva of fines.

other excise goods, For this purpose, the information on the type of goods entering the Customs Agency database is being analyzed. As a result, high-risk areas were identified, where customs control needs to be increased to prevent the declaration of untrue quantities and values of goods, causing losses to the state budget.

■ **The international cooperation** with the customs administrations of countries-exporters enables inspections in cases when the declared customs value or the indicated tariff classification of the goods is suspected to be false. As a result of such inspections, **numerous cases of false declaration of value or tariff number, causing losses to the state budget, were discovered.** Such cases were sanctioned according to the law.

■ **The international cooperation for establishing the authenticity of origin certificates for fuels is also continuing.** As a result, cases were established, where the

Cases of prevention of smuggling of goods in 2002

- As a result of inspection at the border crossing Kapitan Andreevo, conducted jointly by the officers of the Customs Intelligence and Investigation Directorate of the Customs Agency and the officials of the Ministry of Interior, the illegal import of vegetables was prevented. The inspections established that in cases, when the cargo includes several types of vegetables, the real quantity correlation between the various types is concealed. An increased quantity of goods on which lower customs duties are levied is declared, while the weight of the other goods is significantly reduced or completely concealed.
- Twenty-one uncompleted transit operations for vegetable deliveries from Turkey were revealed. Violations were conducted by several Turkish transport companies. The goods entered the country at customs bureau Kapitan Andreevo and were directed towards the customs bureau Suhodol. However, by using false customs seals, the goods were diverted from the customs control and most likely sold within the county without the due customs duties and other taxes being paid. Following this disclosure, another such attempt to divert goods was prevented and the goods were detained. The officers of the NSCOC are investigating the case.
- Thirty-eight other cases of related frauds were revealed. Twenty-four of them concerned deliveries of raw coffee, 5 were deliveries of chicken meat, and 9 were deliveries of Chinese goods. These goods entered the country at the customs bureau Kulata and were directed to the customs bureau Suhodol, but were diverted from customs control and their transit concluded with false customs seals. The Regional Prosecutors Office in Blagoevgrad is working on the case.
- Fifty-four transit-related frauds were revealed also at the Sofia airport. The goods were directed from the airport towards various customs bureaus, but were diverted from customs control and their transit concluded with false customs seals. The Regional Prosecutors Office in Sofia is investigating these cases.
- The investigation, conducted by the officers of the Customs Intelligence and Investigation Directorate of the Customs Agency, has prevented the attempt for customs fraud by presentation of falsified documents for customs clearance of nine cisterns, containing 450 tons of A-95 gasoline.
- As a result of the investigation, conducted originally by the customs bureau Ruse and later by officers of the Customs Intelligence and Investigation Directorate of the Customs Agency in cooperation with the NSCOC and the General Tax Directorate, several large violations involving import of fuel were revealed. Companies-importers did not pay the due VAT, excise tax, the tax State Road Network and the tax Preservation of Natural Environment in the overall sum of 1,487,015 leva. The fuel was cleared by customs authorities on the basis of false payment orders.
- In order to prevent similar frauds in the future, the customs authorities must be able to follow whether the due taxes have really been paid. Negotiations on how to make this possible are being conducted with the General Tax Directorate. This will prevent clearance of goods in cases when importers have not paid the due taxes.
- Two attempts to smuggle 7 kg of gold were prevented. Gold was hidden in special secret compartments in cars, traveling from Turkey to Yugoslavia and Romania respectively. In a separate case, an attempt to smuggle 25 kg of precious metals, hidden in cars traveling from Turkey to Moldova, was prevented.
- An attempt to smuggle 30,952 USD hidden in cars traveling from Romania to Turkey was prevented.
- Customs inspection prevented two attempts to smuggle objects of historic value out of the country – antique coins and other objects of considerable value.

payment of the necessary duties was avoided by the illegal use of origin preferences. These cases were also sanctioned according to the law.

The positive results in the fight against corruption and smuggling, as well as the closure of the chapter Customs Union in negotiations with the EU in the summer of 2002 **represent a success for the new management of the customs**. However, the short period in which the undertaken measures were implemented does not allow for precise assessment of the long-term impact. A significant increase in revenues, singled out as the principal priority of the reform, has also not occurred yet.

4.1.1. COOPERATION WITH CROWN AGENTS

At the beginning of 2002, the government made an unprecedented step by enlisting the British consultant company Crown Agents to help with the reform in the customs. From the very beginning, the procedure for hiring the company and the definition of its role in the customs reform became a subject of criticism by the opposition and by the public. The main points of the criticism were the following:

- An unconvincing argument that the procedure for hiring the company to supervise the customs was not public because the contract was linked to the question of national security.⁴¹
- The right of the Ministry of Finance to conclude a contract with a private foreign company without this being approved by the Parliament, as is required for international contracts, was disputed.⁴²
- Suspicion arose that corruption has motivated the presumed infringement of the law and of the procedures for public procurement, as well as the determination of the sum, which is going to be paid to Crown Agents according to the contract (over £8 million).
- The competency of the company was questioned, since according to critics, its experience is based on the work with developing countries in Africa, and not in the former socialist countries.
- The management of the Ministry of Finance was accused of non-professional behavior because the size of the payment to Crown Agents was not bound to the increase of revenue collection by the Customs Agency. Bulgarian experts have pointed out that the criteria and methods for the assessment of Crown Agents' performance were not set.
- There is no independent monitoring of the company's performance and results.

⁴¹ See *Novinar*, May 11, 2002.

⁴² Fifty MPs turned to the Constitutional Court with demand that the contract should be declared as anti-constitutional, since its interpretation and the relations between the two parties of the contract were settled according to the British and not according to the Bulgarian law. The Constitutional Court ruled that the contract is a private transaction of the state and is not liable to ratification in the Parliament as opposition demanded. (See *Pari*, May 29, 2002.)

- Media criticized the representatives of the British company for not taking the necessary measures to inform the public about their work within the limit of understandable considerations for discretion. The fact that the contract with the company was declared secret was mentioned as a proof that the accusations about the lack of transparency were justified.

Although some of these arguments – especially the accusation of insufficient publicity – have serious justification, it cannot be denied that some of the loudest accusations were not aimed at protection of national interest and of priorities of the reform, but served the interests of certain political parties and certain individuals.

According to the head of the company's team for Bulgaria, Mr. John Brown, the priorities of the Crown Agents include: cooperation with the customs management in internal audit, intelligence gathering and investigation, facilitation of trade, consultations in the field of legislations and ethics in the fight against corruption.⁴³

The road inspections

Since the end of August 2002, five mobile teams for countering smuggling are operating on the Bulgarian roads. Each unit consists of two customs officials, one NSCOC officer and a Crown Agents consultant. They are equipped with laptops, cameras and other equipment. They also have a special weighing machine, which corresponds to the EU norms. The data from the weighing machine is compared to the data on customs documents, detecting any possible corrupt involvement of customs officials at the border.

The mobile teams can stop transport vehicles, check documents and transported goods, and in case of suspicion detain the suspects. The inspections are carried out after the risk assessment or upon a signal. The teams are in constant contact with the regional departments of the Ministry of Interior and the results of inspections are stored in the information system of the customs.

It is not by accident that one of priorities in the work of the British team became the development of customs control, which would use intelligence and internal investigation for prevention of smuggling and corruption in a more efficient way. This goal can be achieved only through the introduction of modern methods for developing risk profiles on the national, regional and local level, and which would cover all border crossings and all customs bureaus, both at the border and in the interior.

The company is also advocating better cooperation with the other law-enforcing agencies, operating at the borders and in the interior, the development of an efficient cooperation with businesses and with the civil society, etc. The Crown Agents gave an example in this respect by declaring that it would act on signals, given by traders. According to the created mechanism, data on illegal import will be sent to the Bulgarian Trade Chamber via the Internet or telephone, and then forwarded to Crown Agents. Signals will not be anonymous and will contain information about the date on which the violation occurred, transport vehicles involved, border crossing where it occurred and the type of violation committed.

Special interest and high expectations were raised by the joint action of Crown Agents' mobile customs teams, customs administration and the Ministry of Interior regarding inspections of transport vehicles in the interior of the country, starting in August 2002. The first results of such actions should become clear by the end of the year. Immediately after the beginning of this operation, some media reported that the work of the customs officials on measurement of the weight of the trucks has improved. Thus, some of the crudest manipulations with quantities of registered imports can be averted.

⁴³ See *Pari*, September 2, 2002.

Although it is still too early to give an overall assessment of the work of Crown Agents, it can be noted that the decision to recruit a consultant company from abroad testifies to the genuine intentions of the government of Simeon Saxe-Coburg-Gotha to limit smuggling and corruption.

4.1.2. RECOMMENDATIONS FOR ACCELERATION OF THE CUSTOMS REFORM

In order to accelerate the reforms and to increase their positive effect it is necessary to implement several steps, some of which were also included in the government's anti-corruption strategy. We recommend that priority is given to the following:

- **Improvement of the cooperation between all law-enforcing agencies in fight against smuggling, trafficking and related corruption.** Political and public support has to be provided for the new forms of cooperation between the customs, the Ministry of Interior and the National Investigation Service. Such cooperation is necessary for overcoming the inherited bureaucratic and ineffective mechanisms for interaction between these institutions.
- Overcoming the lack of information exchange between customs and tax authorities through a **permanent mechanism for comparing the data from customs declarations to the data from tax documents and to the information on paid taxes.**
- Creation of a **system for exchange of operative information** between the Bulgarian border customs bureaus and the customs bureaus in the neighboring countries.
- **Optimization of the work of the customs through:**
 - **Establishment of effectively operating structures for customs investigation of smuggling violations**, which would improve efforts for countering trans-border crime and related corruption.
 - Introduction of a **system for development of risk profiles**, which would lead to better coordination of internal control, intelligence gathering and investigation.
 - Establishment of **technological models for customs clearance of goods**, which would not depend on subjective factors. This will make possible the introduction of control on several levels, based on information technologies, which would enable objective registration of events and automatic notification of specialized anti-corruption departments.
 - Introduction of **timeframes for conducting inspections of natural persons, goods and vehicles** at the borders and in the interior and during customs clearance of goods. The use of such timeframes will lead to acceleration of processes, linked to customs clearance of goods and to a considerable facilitation of import, export and transit of goods. Non-adherence to these timeframes should be sanctioned with disciplinary and other measures.
 - **Optimization of number and composition of officers** in dependence to the timeframes and to the real volume of the work in customs bureaus in particular periods of time, so that a better balance between correct implementation of legal provisions and facilitation of economic operations could be achieved.

- **The timeframes proscribed for processing complaints and requests of citizens/clients should be shortened.** The timeframes in which the respective policy decisions are made should be shortened also through changes in the legal framework, while preserving the strict observation of its provisions. Now, decisions regarding complaints and requests are deliberately delayed, laws are interpreted arbitrarily, etc. Such actions increase the corruption pressure on the clients of the customs.
- Introduction of **modern personnel policy**, which would stimulate professional growth of officials through various forms of training, examinations and assessment of their acquired knowledge and skills. This will create preconditions for successful professional growth and will guarantee transparency in appointment to executive positions.
- Overcoming the present discrepancy between the large public and economic importance of the work of customs officials and **the level of payments in this sector.**
- **Timely and appropriate sanctioning** of customs officials, committing offenses. More efficient use of mechanisms of publicity will put pressure on activities of the entire customs administration.
- **Informing the public on rights and obligations of customs officials.** Citizens need to know not only the jurisdictions, but also the duties of customs officials. They also need to know whom they can turn to if officials fail to perform their duty. This would limit the possibilities for dishonest officials to abuse their professional status and to violate rights and interests of their clients.

These recommendations are in line with conclusions, contained in the *2002 Regular Report on Bulgaria's Progress Towards Accession to the EU*. The Report recommends to Bulgaria to "focus on further alignment with the Community customs acquis, strengthening information technology and human resource policy, as well as on completing major projects on revenue collection, transit control and risk analysis."⁴⁴

4.2. ACTIVITIES OF THE MINISTRY OF INTERIOR FOR COUNTERING SMUGGLING, TRAFFICKING AND CORRUPTION

4.2.1. INSTITUTIONAL STRUCTURE

According to the Ministry of Interior Act, fight against corruption is one of the main priorities of this Ministry (Article 7, Section 3 from the Ministry of Interior Act). This task is performed by several specialized departments.

The main task of **the National Security Service (NSS)**⁴⁵ is the fight against corruption, linked to the involvement of foreign services and organizations. In other words, the NSS investigates those cases of corruption, which directly threaten security and legal exercise of the functions of state institutions. At the same time, the NSS investi-

⁴⁴ Commission of the European Communities. *2002 Regular Report on Bulgaria's Progress Towards Accession to the EU*.

⁴⁵ Precise description of its functions is: the NSS conducts independently or in cooperation with other state organs counter-intelligence activities for surveillance, detection, prevention and frustration of planned, prepared or realized violations against the national security, linked to corruption.

gates and counters smuggling practices in which are involved state servants from the system of the Ministry of Interior.

According to this service, the main risk represent the state institutions with jurisdiction over privatization of state property, those in charge with public procurement, the customs, the departments with jurisdiction to sanction, and organizations working with important economic, political and organizational-governing data. The sharp rise in illegal immigration has significantly increased the corruption pressure on agencies, involved in border protection and on those charged with granting of refugee status and Bulgarian citizenship.

On the other hand, the experience from the transition period has showed that due to its high importance, the NSS itself was subject to political pressure, expressed by the attempts of those in power to use it against the opposition. However, the accusations that the NSS become a party agency and serves to compromise political opponents are very difficult to prove because of the thick curtain of secrecy, which covers the work of this institution.⁴⁶

The National Service for Combating Organized Crime (NSCOC) plays an exceptionally important role in the efforts to curb smuggling and the related corruption. The NSCOC is a specialized operational and investigative police service with the goal of countering organized crime and corruption (Article 90, Paragraph 1, Section 10 of the Ministry of Interior Act). For this purpose, the agencies of the NSCOC:

- Establish, control and document activities of official persons who offer their services to criminal groups and organizations
- Investigate and trace the accumulation and transformation of possessions, acquired by public officials as a result of corruption violations and corrupt practices

The NSCOC performs similar tasks in countering corruption within the Ministry of Interior.

The NSCOC's focus on the fight against organized crime presupposes its exceptionally active contribution to the interception of smuggling of goods and narcotics, and of human trafficking, which represent the main "economic" activities of criminal groups in the country. This explains why the most important disclosures of such crimes are the result of the work of the NSCOC.

The National Border Police Service⁴⁷ is a specialized protective, operational and investigative police agency, which is especially active in countering human trafficking across the state border and in the interior of the country.

⁴⁶ Such accusations were directed also against the former head of the NSS, General Atanas Atanasov, who resigned in November 2001, directly before the government of NDSV and DPS took office.

⁴⁷ The National Border Police Service is specialized protective, operational and investigative police agency, performing tasks on countering corruption. Its jurisdiction covers corruption violations linked with smuggling of goods, smuggling of stolen vehicles, human trafficking and other crimes conducted in border areas and on international airports and ports (Article 95, Paragraph 1, Section 4 of the Ministry of Interior Act).

The National Police Service (NPS) is a protective, operational and investigative police agency. The investigation of signals for corruption is performed by the department of Economic Police within the Directorate of the National Police Service and by regional departments of Economic Police in the Regional Directorates of Internal Affairs.

4.2.2. ANTI-CORRUPTION REFORM IN THE MINISTRY OF INTERIOR

The government program defines the following priorities for the Ministry of Interior in the fight against corruption:

- Limitation of corruption through creation of efficient mechanisms for countering various manifestations of corruption
- Development of anti-corruption legislation with respect to its harmonization with international legal instruments and the EU law
- Strengthening of the cooperation with other law-enforcing agencies, the judiciary, media and civil society for countering corruption

Level of the public support for the work of the Ministry of Interior rose during 2002. The positive public image of the Chief Secretary of the Ministry, General Boyko Borisov, and some other leading figures had a decisive impact on this development. A more favorable social environment helped to define **the following priorities in the reform within the Ministry of Interior:**

- **Stress upon professionalism within the Ministry of Interior**
This is a very important task due to the systemic destruction of public trust into institutions, including the police. The professional honor of the Ministry of Interior employees can be reestablished and preserved only if the Ministry is cleaned from its corrupt officials, who damage the reputation of this institution.
- **Importance of concrete measures for overcoming the "war among institutions"**
Among the most important activities of the Ministry of Interior in 2002 were the initiatives of its management for overcoming the differences in the approach between various law-enforcing institutions – courts, the Ministry of Justice, prosecution and the Ministry of Interior. These initiatives reflect the public demand that the law-enforcing institutions stop opposing each other, since this contributes to the spread of crime and corruption.
- **Further de-politicization of the Ministry of Interior**
The modern definition of cooperation between the political government and the professional community in the framework of the public sector contributes to de-politicization of the most sensitive in this respect institution – the Ministry of Interior.

The specific anti-corruption actions, listed as tasks of the Ministry of Interior in 2002 are linked with:

- Improvement of the coordination between various services and departments

- Creation of a mechanism for information exchange
- The public and the other state institutions have to be better informed on anti-corruption actions of the Ministry
- Initiation of changes in the Criminal Code in order to criminalize the trade, supported by public officials, cooperating with criminal groups and organizations

The Ministry of Interior plans to realize a number of projects before 2005 for increasing public intolerance towards corruption. The projects will be implemented in cooperation with media and non-governmental organizations. More precisely, in the Academy of the Ministry of Interior, special courses on Anti-corruption will be held, in which topics related to the legal, institutional and practical counteraction of corruption on national and international levels will be discussed. Projects, aimed at increasing the level of professionalism and ethics of the Ministry of Interior employees will also be conducted.

The new management of the Ministry undertook **the following measures for countering corruption in the Ministry of Interior:**

- Status of departments, working on countering corruption, has been raised
- A mechanism for an internal control over corruption was established
- Measures for increased transparency in the work of the Ministry administration were adopted
- The rights, duties and procedures in regard to exercise of discretion jurisdiction (taking expedient decisions) were clearly regulated; mechanisms for prevention of conflict of interests were introduced
- Criteria for and control over the process of recruitment of candidates, their training and transition to full-time employment were improved
- Anti-corruption training for employees on various levels within the Ministry and its departments was introduced

In regard to the better coordination of anti-corruption activities within the Ministry of Interior, **an Internal Council headed by the Deputy Minister and responsible for the cooperation between services in fight against organized crime and corruption was created.**

In the Inspectorate Service, a department named Counteraction against Corruption in the Ministry of Interior was established. It exercises direct control over the execution of instructions, given by the management of the Ministry of Interior. Its tasks include generalization of information, collected by all services on cases of corruption among the employees of the Ministry, and submission of this information to the management of the Ministry.

Special regulations for collection of information and especially for access to information were created. Access is now highly restricted and can be granted only by the Minister or the Chief Secretary. The information activities of the Ministry of

Interior for countering corruption will be integrated into the planned National Integrated Information System, which will gather data from the entire state administration, including the customs, tax authorities and official statistics. The management of the Ministry of Interior believes that this will substantially improve the collection of information on corrupt practices of employees.

According to the information of the Inspectorate Service, the number of signals for corruption involving the Ministry employees has somewhat increased in 2002.

Most of the cases, investigated by the Inspectorate Service, were linked to the abuses of professional position for personal gains and were manifested as:

- Assisting the illegal actions of the criminal groups
- Participation in the channels for human trafficking
- Participation in the channels for smuggling of goods and stolen vehicles
- Extortion of citizens
- Unlawful contacts with persons with criminal records

In the first six months of 2002, the NSCOC investigated 183 signals for corruption in state and local administration and within the Ministry of Interior. As a result of these investigations, 13 legal proceedings and 6 preliminary investigations were formed, 11 cases for corruption were forwarded to prosecutor's office to decide on competency, 11 signals resulted in administrative measures being taken, and in 27 cases signals for corruption were found to be unjustified. The remaining 115 signals are still being investigated.

Of 209 investigated persons, 100 were employees of the Ministry of Interior, 31 of the customs, 11 of tax administration, 11 of regional administration, 11 were employed within the judiciary, 11 were medical workers and 19 were employees of state companies.

This situation is not much different from the one in 2001. In 2001, 181 Ministry of Interior employees were investigated for corrupt practices. In 27 of the cases, investigation was terminated, 69 signals are still being investigated, while 85 cases were concluded. 25 employees were discharged, 50 were given disciplinary sanctions, 10 were fired for inappropriateness, and the files of documents for 34 employees were forwarded to the Military Prosecution.

The following corruption situation has been observed within the National Border Police Service:

1. Criminal groups and individuals, conducting illegal acts linked with the violation of state border continue to attract the Ministry of Interior employees to cooperate in smuggling of goods and in human trafficking.

2. The corruption situation in Sofia, Svilengrad, Petrich, Vidin, Varna and Ruse is alarming.

3. Keeping in mind that the migration flow through Bulgaria is redirecting towards its north-west border, an increase of signals for corrupt behavior among the employees in the Vidin region can be expected.

4. Due to changes in the normative acts, the organization and control over the work on corruption disclosure in the Ministry of Interior was improved. Coordination and cooperation between various departments, working on countering corruption, has also significantly improved. As a result, higher efficiency in corruption disclosures could be expected in the coming period.

In connection with the closure of the smuggling channel for stolen cars through the border crossing at Zlatarevo, the management there announced that it would install a new software system to prevent corruption. This software will make it impossible for corrupt policemen to register false data for transiting passengers, vehicles and goods.⁴⁸

Part of the plan for "cleaning the border police of corruption" includes also everyday contact with police officers on the other side of the border. The access of unauthorized persons to the border crossing facilities will also be limited. For this purpose, special permits will be issued

As with other official statistics, numbers alone cannot present the accurate assessment of the real scope of corruption. Many victims of corruption extortion and those whose interests were harmed as a result of corrupt deals fear the reaction of involved officials and have not reported on such violations.

Both the government and civil society have to pay special attention to several vicious practices within the Ministry of Interior, inherited from the past. These include abuse of information on various levels within the Ministry, work without a plan or a clear goal, the use of "disclosures from reserves" to demonstrate that something is being done, unlawful connections with criminal groups, etc.

⁴⁸ To improve fight against car thefts, the Ministry of Interior proposed changes to the Criminal Code. This step is necessary, since the car theft can still be interpreted as "unlawful deprivation of transport vehicle" for which sanctions are much milder. See *Duma*, September 9, 2002.

CONCLUSION

In the last few years, the Bulgarian public got increasingly interested in the problems of corruption and crime, and in particular in the smuggling of goods, drug smuggling and human trafficking. All of these activities are performed in cooperation with corrupt state officials.

Now it is widely understood that the criminal alliance between corrupt officials and organized crime, which controls smuggling and trafficking channels, causes enormous losses to the national economy and threatens security and health of the citizens. "Black" and "gray" economies deprive the state budget of badly needed revenues and create serious obstacles to the consolidation of market economy and democratic institutions in the country.

A big question remains to what extent corruption and smuggling have been considered a priority of state policy and political leaders. It seems that so far, their destructive impact on market economy, national security, democratic institutions and legal order in the country has been widely underestimated. Such underestimation of these relatively new challenges is manifested also in the lack of appropriate institutional infrastructure and working mechanisms for counteracting the trans-border crime and related corruption.

A specific feature of this problem is the fact that through their lobbies in the government, smugglers and those officials, who are on their pay-lists, hinder reform attempts of the institutions to limit corruption within their own structures. When there is no clear political will to fight smuggling and corruption, the correlation of power shifts to organized crime, and the dirty money used for financing of political parties leads to a symbiosis between the government and the criminal underworld.

In the period, discussed in this report, the government stressed the necessity of introducing ethics standard and of reducing smuggling in the country. Such policy enables the unfolding of anti-corruption reforms in particular in the two institutions, which play the largest role both in countering smuggling, and in the corrupt partnership between state officials and smugglers – the Customs Agency and the Ministry of Interior. These two institutions are in the spotlight of the present report, but this does not mean that other state institutions and services with law-enforcing functions should be neglected in the context of discussed problems.

It is necessary to accelerate the reforms, aimed at more effective control, to increase professionalism and to guarantee transparency and civic monitoring. Such steps will contribute to the fulfillment of the most important goal, as declared by the government – the increase in collection of customs and other state revenues.

The report did not discuss international and bilateral cooperation on the issue of customs reform. It nevertheless concludes that introduction of EU standards in the work of the customs is of crucial importance not only for limiting trans-border crime and corruption, but also for the successful integration of the country into the European Union.