

EXECUTIVE SUMMARY

The report *Transportation, Smuggling, and Organized Crime* analyses the participation of transportation companies in smuggling practices.

- The report examines and describes a range of companies and individuals involved in organized crime groups whose main business is the trafficking of consumer goods.
- It also gives an overview of the criminal and semi-legal networks involved in smuggling Chinese and Turkish goods.
- It presents new data on oil and oil products smuggling.
- It examines the role of duty-free shops and their involvement in illicit cigarettes imports.

International transport in Bulgaria was gradually liberalized and changed in structure in the 1990s, after Bulgaria's borders were opened and its foreign trade was directed to new partners. The regulation mechanisms and the border control system, however, changed at a much slower rate. As a result of this, between 1990 and 2004 a number of transport companies integrated into criminal and semi-legal structures and joined the trafficking in goods and people. Another factor that contributed to this was the sluggish infrastructural development of the border crossings.

TRANSPORT COMPANIES AND SMUGGLING

Between 1990 and 2004 the number of commercial vehicles, as well as transportation and forwarding companies, increased immensely. As the borders opened, and after the end of the wars in the Western Balkans, trans-border and transit traffic rose several times. Bulgaria's foreign trade reorientation meant that if in 1990 85% of trade was with states from the former Soviet bloc, in 2004 60% of trade was with European Union member countries.

With regard to **railway and river transport**, the virtual monopoly of the two state companies Bulgarian State Railways and Bulgarian River Shipping Co. still exists, yet no proper regulation exists to counter illicit trafficking in goods. With the increase of private transport companies, smuggling practices are likely to become more widespread. **Air transport** poses similar problems since some of the newly sprung air carriers are known to take part in cigarette trafficking and transporting of arms and other cargo to destinations of concern.

Private carriers have also entered **maritime transport**. The number of large freight ships is only 181 (compared to 236 in 1996), but those of lower tonnage are much more numerous compared to the past. Their number only for the northern Black Sea coast is 2,800. Part of this growing fleet is trafficking in various goods, cigarettes in particular. The border police, in possession of three patrol boats, are the only

authority that controls trans-border maritime transport. Outside the ports, ship owners are still harder to monitor since many of their ships are sailing under flags of convenience and are registered as offshore companies.

However, it is **road transport** that is most challenging, since most smuggling activities are done through heavy trucks. The single pre-1990 state carrier SOMAT was supplanted by a host of smaller transport companies, whose number in 2004 has reached 4,290 owning 15,563 trucks. The number of companies owning one or two trucks is 2,372 and most of them are uncompetitive, poorly informed on customs regulations and non-compliant with EU's environmental and safety standards. Thus, many of them end up with contracts with neighboring Balkan states and engage in risky or outright smuggling operations. Certain smuggling channels make extensive use of passenger transport. Many companies operating **international bus routes** are run by crime groups and often transfer small quantities of drugs, firearms, prostitutes and cash money.

The role of **forwarding companies** is no less significant for certain smuggling patterns. Up to 1990, the market was a monopoly of the state-owned company Despred. By 2004, over 2,000 forwarders were registered. Besides the well-established international companies, however, a number of petty forwarding players (often one-man enterprises) have entered the market. They are much less competitive and often ready to assist illicit transfers. **Customs agents/consultants** (a service frequently offered by forwarders) are yet another important segment on the transportation market. Some of them are run by former or even current customs officers who often facilitate the illicit transfer of goods.

TRANSPORT INFRASTRUCTURE

Despite the radical change of the transport sector in the 1990s, improvement of the infrastructure, including that of border crossings, only started at the end of that period. Even in 2004, underdeveloped infrastructure continues to impede efficient control of the transport and trans-border trade companies. Control of the transport sector will be made even more demanding by the pending concessions of sea and airports to private operators. This is especially true for **sea ports** with their lack of electronic surveillance means, solid walls and a well-designed system for control of the inflow and outflow of people and vehicles.

ILLEGAL IMPORT OF TURKISH GOODS

For over 15 years now, there has been illegal import of goods from Turkey and this has caused immense losses to the state budget. Bulgarian manufacturers find it increasingly hard to compete with Turkish-made illicitly imported goods. The dominant mode of trade in the early 1990s was small-scale shuttle trade conducted by individuals, called "suitcase trade." By the mid-1990s, smuggling had become **extremely well-organized and was run on a grand scale by various crime groups** backed by certain political circles. Other structures supporting the illicit imports were also created at this time: these were wholesale markets, such as Illiantzi, run by crime groups and serving as the main wholesale distribution point of the smuggled goods.

By the end of 1998, new patterns to import Turkish goods had emerged. Smuggling was gradually substituted by smaller customs frauds such as declaring lower than actual price for the imported goods and declaring smaller quantities or wrong type of goods. As racketeer insurance groups ceased to exist in 1998, certain dramatic changes in the importation of Turkish goods occurred. The old hierarchies of organized crime structures collapsed and the relations between the remaining fragmented groups changed. Former rivals started to operate the same channels, dividing the responsibilities for securing different sections of the system. Others, which were formerly partners, entered into a rivalry or even crime wars over the redistribution of clients.

In the 2001-2003 period, the Bulgarian Customs Agency (BCA) increased significantly the amount it collected from duties imposed on Turkish goods. Between 2000 and 2002, duties rose from €132 million to €257 million. The customs value per kilogram of cargo increased from €0.5 to €0.82. Data from the year 2003 indicate that growth had slowed down, rising up to only €0.83. This is partly due to Turkey's policy of export promotion and the Turkish government's unwillingness to cooperate with the BCA. Most importantly, though, it is because the channels and infrastructure of Turkish goods smuggling have not yet ceased to exist.

ILLEGAL IMPORT OF CHINESE GOODS

The most well-developed large-scale smuggling channels are those importing Chinese goods. Between 1998 and 2003, **Chinese cargo smuggling became a primary source of funding for the gray economy and organized crime.** Between 2000 and 2003, the declared value of imported Chinese cargo rose from €62 million up to €217 million. The declared quantity of Chinese-made goods, however, barely changed during the same period. The most plausible explanation is that organized crime groups lost millions of dollars as BCA's efforts to reduce smuggling started slowly to work.

The smuggling channels that were crushed by the BCA and the Ministry of Interior (MoI) brought to light how important it was for organized criminal groups to have a working infrastructure for importing and distributing Chinese goods throughout the country. Such infrastructure has to comprise transport companies, forwarders and traders, as well as corrupt customs and police officers.

This illicit trade revolves around a cluster of Chinese-born merchants with family ties to China. They can easily buy goods at prices much lower than those offered to other importers. These merchants pare up with several tiers of intermediaries of varying grasp and degree of connectedness. The latter assist with both "duty-free" customs clearance and the distribution of the imports throughout the country. The route most widely used for Chinese goods smuggling is Thessaloniki (Greece)–Kulata–Sofia. Illicit cargo is also imported through Kalotina, Rousse, or through Kapitan Andreevo (where it is declared to be of Turkish origin).

Organized crime groups are in control of both wholesale markets (e.g. Illiantzi) and a large network of semi-legal retail traders. Smuggling structures also enjoy the support of corrupt security and judiciary officials whose expertise helps diminish or stepside the penalties after the BCA has reported a customs fraud.

OIL AND CIGARETTES SMUGGLING CHANNELS

Goods subject to excise taxes are of great interest to crime groups. Of these, the illicit import of oil products and cigarettes is the most profitable in Bulgaria. The chief illicit transfer points for cigarettes are the **duty-free shops**. The report reveals several schemes in which these shops and their storehouses throughout the country are used to import huge quantities of cigarettes. The oil product market is also analyzed as it attracts crime groups due to its very size (between €0.8 and €0.9 billion in 2003) and the relatively low risk involved in making a profit from it. The basic smuggling patterns are described: imported oil products are declared to be low-duty products, smaller quantities are registered, or ship fuel is smuggled in.

RECOMMENDATIONS

Inter-institutional and international collaboration

1. **Real-time information exchange with the customs authorities of neighboring states.** An exchange of this kind would help prevent many of the smuggling practices and would facilitate risk profiling of individual border crossing points and speed up document processing time at border crossings.
2. **Improvement of the mechanisms for exchange of operational and specialized information** between the Customs Intelligence and Investigation Directorate and the various Mol agencies (the National Service for Combating Organized Crime), the National Border Police Service, and the Coordination, Information, and Analysis Service) as well as the General Tax Directorate at the Ministry of Finance. **A limited number of high-level officials** of these agencies should be **allowed mutual access** to their information systems. This will contribute to a more effective fight against domestic organized crime and trans-border crime groups.
3. **Improvement of cooperation and greater efficiency of joint operations for uncovering smuggling channels** carried out by the Ministry of Finance and the Ministry of Interior.
4. **Utilizing the available resources of the Bulgarian Navy to facilitate smuggling prevention.** It is necessary for the National Border Police Service, the BCA and the Ministry of Defence to work out mechanisms to use the Navy's surveillance system and fleet in the border control and customs activities.
5. **Inclusion of customs officers and fishing experts from the Ministry of Transport and Communications in the patrol boat crews of NBPS.**

Border security

6. **Improving border control at sea ports and airports.** Private security companies and NBPS officers work simultaneously at ports, while airports are also guarded by Security Police units. Preserving the current pattern of control would necessitate the setting of stricter requirements to private companies working in proximity to border crossings at sea and airports and the strict legal provision for the distribution

of responsibilities between them and the border police. Another option is to transfer all seaport security responsibilities to the NBPS.

7. **Enhancing port security.** The Port Administration Agency at the Ministry of Transport and Communications should take measures to enhance port security by investing into electronic surveillance and security systems.

Risk analysis

8. **Thorough investigation of the airport and seaport concession applicants.** The Ministry of Transport and Communications should request the cooperation and opinion of the National Service for Combating Organized Crime, the BCA and the National Intelligence Service who should investigate whether concession applicants are related to any smuggling channels before the concession agreements are actually signed.
9. **The Ministry of Transport and Communications should provide information to the BCA and the Mol on the licensed international carriers.** This information will not only help the ministry to apply stricter control on carriers, but will also serve the NBPS and the BCA to accomplish risk profiling of transport companies.
10. **One-stop service.** State fee payment at the border (mostly road tolls, and when needed, phytosanitary and veterinary fees) should be run single-handedly by the BCA. Such a reform will be in harmony with EU practice and will shorten the waiting time and diminish bribing, as most bribes are given to officers from the Roads Administration.
11. **Provision of preliminary information on arriving cargo.** Amendments to the *Law on Customs* should be made, setting forth requirements that all carriers should send a customs manifest before the goods enter the country. This will give the BCA enough time for a risk analysis of incoming cargo and transportation companies.
12. **Implementing electronic control measures at duty-free shops.** The sale of any single item at duty-free outlets could be immediately registered by the BCA. Thus, one of the most frequent frauds at duty-free shops—numerous fictitious sales within a short time—could be prevented.

Human resource management

13. **Introduction of high-risk work environment payments to BCA officers.** Many customs officers work in risky conditions. Unlike police officers, however, their remuneration does not reflect that fact. Customs officers should be remunerated in accordance with the risks they take at work.
14. **Improvement of the incentives system of the BCA.** In view of the current legislative framework and the BCA's financial resources, smuggling can be most effectively and quickly curbed, if the system of incentives for uncovering customs frauds is changed. A mechanism that prevents groundless reports against offenders and motivates officers should be drawn up.

15. **Changing the remuneration structure and a gradual growth of salary levels at the BCA.** Such a step will substantiate the prospects of loyal customs officers for stable career development and will diminish corruption pressure.

METHODOLOGY

The present study is a product of the efforts of a research team at the Center for the Study of Democracy. The team worked closely with a working group that included officials from the Bulgarian Customs Agency, the National Service for Combating Organized Crime, and the National Border Police Service. Over 700 interviews with former and current officials from the BCA, the NBPS, the NSCOC, and the Navy, as well as with transportation company owners, truck drivers and traders were conducted. Field studies were carried out at four separate border crossing points: Kulata, Kapitan Andreevo, the Port of Varna and Sofia Airport.