

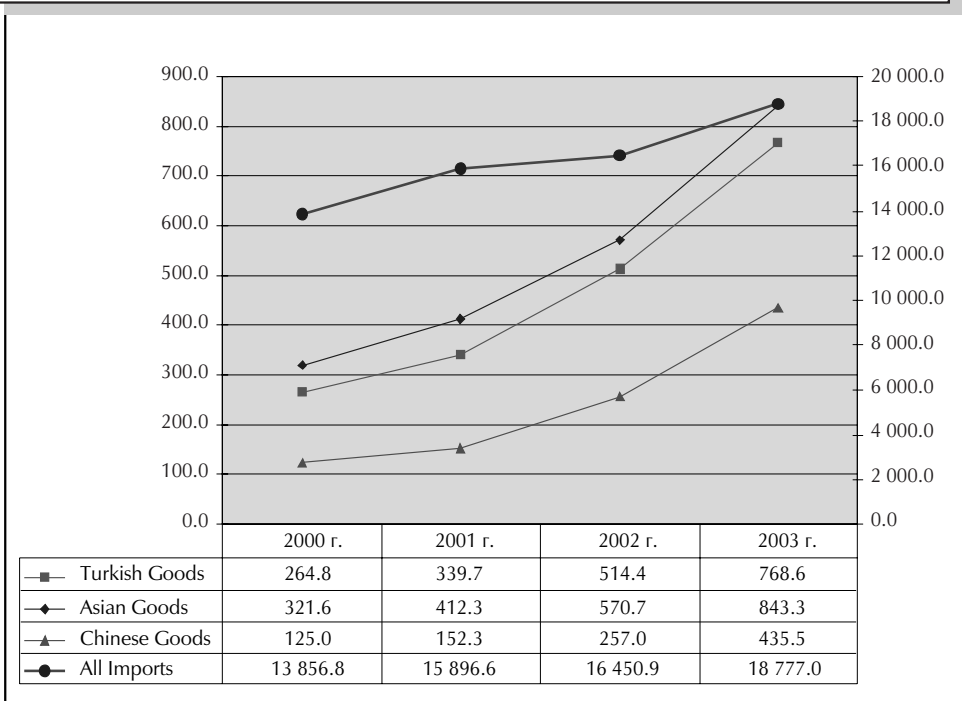
5. ORGANIZED CRIME AND TURKISH AND CHINESE GOODS SMUGGLING

The goods that are smuggled through the land border crossings of the country cause the most serious damages to the state budget. According to the customs data, about two thirds of the so-called sensitive goods (mainly, **Turkish, Chinese, and from other Asian**, including Middle Eastern **countries**) enter Bulgaria through the border with Turkey and Greece. The import of any of the three groups of commodities is dependent on the other two groups. Two main factors should be taken into account when analyzing the interaction between the imports of the various types of goods.

The first factor concerns the rapid and sustained increase in the worldwide import of products coming from the countries named above. The second factor is related to the fact that after the economic stabilization in 1997 the Bulgarian state—by means of its customs and tax administrations—intensified the pressure on importers of sensitive goods to increase the payments of duties, taxes, and fees. The analysis of commercial statistics does not provide sufficient information about the extent of “shrinking of gray import,” i.e. of its transformation into legal import. Also, there is no credible data to estimate whether the Bulgarian market has increased the consumption of goods from these highly export-oriented countries. The data shows that if all imports to Bulgaria (according to CIF) have been increasing with an average of 10.8% per year, the imports of Chinese goods have increased by 53.3%, of Turkish goods by 43%, and of Asian goods by 38.1% (See Diagram 6).

When discussing Diagram 6, one should also mention that according to some marketing surveys there is evidence of aggressive side-lining of the other two groups by the Chinese commodities.⁴⁶ Statistical data reveal that in some commodity groups, Chinese goods have increased their market share from 30–40% to 50–60% for the last four years. The import registration information does not, however, reveal a similar development. It is also evident from the above diagram that the three groups of commodities by origin increase in amount with almost the same pace. At the level “commodity group” of the customs data, the trend recorded by the market surveys is observed with respect to only some types of goods. In Table 7, such a tendency exists only in the commodity group 6401–6405, while in groups 61 and 62 one sees an illustration of the electoral year 2001.

⁴⁶ There are commodity groups which are not competitive at all. For example, in the same way as the Turkish electronic products cannot compete with the Chinese electronics, China cannot compete with Turkey with respect to the export of fruit and vegetables.

Diagram 6. Total Import and Export of Goods from the Different Groups *

* The left scale divisions are in hundreds of millions of leva and present the import from Turkey, China, and the Asian countries; the right scale divisions are in billions of leva and present the total import according to CIF.

Source: Bulgarian Customs Agency

Table 7. Comparison of Selected Commodity Groups of Turkish and Chinese Origin According to Year of Import

Code, Chapter (Position)	Year Name, Chapter (Position)	Turkish Goods 2000		Chinese Goods 2000		Turkish Goods 2001		Chinese Goods 2001	
		Net Weight (kg)	Stat. Value (leva)	Net Weight (kg)	Stat. Value (leva)	Net Weight (kg)	Stat. Value (leva)	Net Weight (kg)	Stat. Value (leva)
61	Clothing and clothes' accessories – synthetics and knitwear.	3 282 409	3 934 403	767 061	2 341 004	3 554 422	9 847 284	433 566	1 831 044
62	Clothing and clothes' accessories different from synthetics and knitwear.	1 865 399	2 176 769	1 121 927	3 662 046	1 790 648	6 448 944	737 375	2 688 213
6401–6405	Footgear, boots, and similar items.	1 604 366	3 081 178	1 694 226	5 441 213	1 856 905	8 295 721	1 464 884	5 230 445
Code, Chapter (Position)	Year Name, Chapter (Position)	Turkish Goods 2000		Chinese Goods 2000		Turkish Goods 2001		Chinese Goods 2001	
61	Clothing and clothes' accessories – synthetics and knitwear.	3 293 033	16 601 656	1 673 133	7 644 634	4 293 426	21 906 234	1 952 499	10 798 527
62	Clothing and clothes' accessories different from synthetics and knitwear.	3 603 161	18 568 672	2 183 841	10 398 621	4 854 512	31 122 353	2 826 106	18 350 380
6401–6405	Footgear, boots, and similar items.	2 659 840	16 482 850	3 384 876	15 379 015	3 425 024	18 033 206	4 891 640	26 376 294

Source: Bulgarian Customs Agency

The gray and the black infrastructure of the import of Chinese and Turkish goods should be differentiated. The **black infrastructure** covers the smuggled products that are:

- Not declared at all at the customs;
- Declared as coming from countries that have signed free trade agreements with Bulgaria;
- Declared as other types of goods, the duty taxes of which are much lower, and so on.

The **gray import** of goods involves their declaration at the customs but in reduced volumes or with lower invoice values. In the present text smuggling refers to both types of import—gray and black.

From a historical perspective, the smuggling of Turkish goods precedes the smuggling of Chinese products. The importers of Turkish goods are the pioneers in the development of the infrastructure that serves the smuggling channels. At the same time, since the beginning of the 1990s, Chinese goods are more and more aggressively introduced on the Bulgarian market, having obtained the necessary access to the gray and black infrastructure.

This is the reason why the present chapter first examines the structures that serve the smuggling of Turkish goods. It then deals with Chinese products and focuses on the dominating role of the gray and black infrastructure.

Most of the gray and black infrastructure has common actors: agents, clerks, declarators, forwarding and transportation firms, consultants—former and current policemen and customs officers. There are also overlaps among these individuals, i.e. the same names may be found in the smuggling of Turkish and of Chinese commodities. On the other hand, this study has demonstrated that **these coincidences are mostly at the intermediate level, while the more significant players and the service-providers tend to be specialized.**

5.1. THE TURKISH ROUTE

In order to best understand the logic and the potential of the different smuggling channels from Turkey, it is necessary to explore their genesis. The so-called “Turkish routes” do not simply represent a special case of trafficking, but are the structure through which organized criminal groups exercise their influence on border institutions. The reach of these structures has expanded over the years to include more institutions and officials, among these: special services, the police, the customs, politicians, and political parties.

5.1.1. *The Guide-Women*

The most interesting figure in the smuggling of Turkish goods is that of the “**guide-woman**” (vodachka). This is the name given to dozens of women who secure the smuggling logistics. In the early 1990s, they used to work only for the shuttle traders,

and their services covered a wide range of travel and trade logistics. Later, they expanded their scope of services with the inclusion of trucks and minibuses.

The figure of the “guide-woman” first emerged after 1989 with the increase in the import of cheap consumer Turkish goods that occurred soon after, and as a consequence of, the expulsion of the Bulgarian Turkish population in the spring and summer of 1989. The favorable conditions that spurred the shuttle trade were the revoking of the visa regime to Turkey for Bulgarian citizens and the deficit of consumer goods in Bulgaria.

Despite the fact that government propaganda had generated strong nationalistic feelings in Bulgaria and Turkey alike, only two months after the expulsion campaign took place, shuttle traders started the mass imports of Turkish goods. The typical procedure consisted in the organization of bus trips for groups of a few dozen shuttle traders. At that time, the phenomenon “guide-women,” called by some an “institution,” appeared.

The most important service provided by these women was the easy crossing of the border with illegal cargo. The crossing of the border was usually arranged by offering bribes to the BCA officers and the border guards. It was not so easy in the case of the Turkish border and customs authorities. They demonstrated a hostile attitude⁴⁷ and frequently confiscated the cargo of the Bulgarian shuttle traders without evident reasons. During that period, the negative feelings towards Bulgarians were stronger than the policy of unrestricted and uncontrolled exports that Turkey often pursues today.

There is a high degree of overlap in the stories told by merchants, drivers, and customs officers that provide details about the “guide-woman” phenomenon. In their opinion the biggest accomplishment of these women was their successful adoption of the culturally-specific Turkish way of bribing. They claimed that the women guides often had intimate relations with the Turkish border guards, as well as with policemen and gendarmes. In this way, they manage to establish close relations with the members of the otherwise closed groups of the customs officers and border guards. It is, however, difficult to assess the degree of truthfulness of these accounts. It is only at the Turkish–Bulgarian border where such intermediaries are only female.

In the early 1990s the Turkish commodities became the major source of consumer goods on the Bulgarian market, especially after the collapse of the Council for Mutual Economic Assistance (CMEA) and the crisis of the Bulgarian economy. At that time the few imports of Chinese or other Asian goods were also smuggled through the Turkish border.

Gradually, the “guide-women” started to diversify their activities as some of them started to assist trading companies that used trailer trucks and vans.⁴⁸ Most of the services they started to provide back then have remained the same until the present moment: ensuring the “logistics” inside Turkey and problem-free border crossing.

⁴⁷ The major reason was the repressions against Bulgaria’s ethnic Turkish minority. In the spring and summer of 1989, about 420,000 people were expelled to Turkey.

⁴⁸ Vans and buses are preferred to trucks because no additional certificates for transportation are required. Claiming that they transport only passengers’ luggage, the buses and vans have become efficient carriers of smuggled goods and gray imports.

Their commission varied between €1 250 and €1 500 for an eight to ten-ton truck. The fee covers all expenses and bribes at the border crossing, transport security, in-land customs departments, etc. Thus, their actual earning is even smaller.

5.1.2. Warehouse Markets and the Security Companies

Along with the guide-women, another key institution, the “**warehouse markets**,” emerged in 1991-1992. During the 1990s, these warehouses turned into market places and experienced a boost of profitable commercial activities. According to marketing estimates of some international retail companies, there are about 50 such markets, spread around all big cities in the country. Usually, their owners are engaged in the informal or illegal economic activities. Often, they are involved in racketeering schemes, disguised as insurance companies. The most famous of these markets is Illiantzi, in Sofia. Illiantzi has already evolved as a central marketplace not only for Bulgaria, but also for merchants from Serbia and Montenegro, Macedonia, Bosnia, and, during a certain period, Albania. It provides very competitive conditions and advantages. Its only serious competitor, the market in the town of Dimitrovgrad (close to the border with Turkey), lost its importance following the beginning of large-scale import of Chinese goods to Illiantzi through Thessaloniki (Greece).

In the early 1990s, neither the mass media, nor the politicians were much interested in the topic of smuggling. In 1993, the newly emerged organized crime groups started to become part of the money-making schemes of smuggling operations and placed the “guide-women” under their “protection.” The formal excuse that organized crime structures used to justify their activities was the increasing number of robberies of trucks and buses from highway gangs. Thus, there was the need for **security guards** that provided paid protection services on the import of Turkish goods.

The security companies quickly established control over a significant number of the participants in the chain of illegal commerce with Turkish goods. Thus the “guide-women” increased their fees to factor in the protection service. The warehouse-markets were rapidly divided among the most powerful of the “security companies.” Any intensification of the conflicts between various security firms had its immediate reverberations with respect to the activities of the warehouse-markets and the “guide-women.” During the periods of mafia wars between the various regional and national structures of the “security companies” cases of arson, destruction of commodities, kidnappings, beatings, and even assassinations became common.

The stories of two emblematic figures of the criminal world—Metodi Metodiev, known as Meto Illianski, and Konstantin Dimitrov, known as Kossyo Samokovetza—provide a good illustration of how organized crime groups participated in the Turkish channels. Meto Illianski became famous after he took control over the wholesale market of Illiantzi in 1994. It was granted to him by one of the most powerful bosses of organized crime during that time, Vassil Iliev, owner of the insurance company VIS-2. Meto Illianski succeeded in preserving this position even after the assassination of Iliev in 1995, despite the attempts to be ousted by people from within his own criminal circle or rivaling crime groups.

Kossyo Samokovetza made his appearance around the same time, in 1995, after the end of the Yugoslav embargo. He was involved with providing protection of the trucks with smuggled goods from Turkey to Illiantzi. His position as a boss of a “protection

squad” alongside the Serbian border provided him with an access to the structures of the Turkish trafficking channels and allowed him to become, within only a couple of years, one of the main smugglers of Turkish goods (Figure 7).

Figure 7. Illegal Import of Turkish Goods



The placement under partial control of major components of the channel for illegal import of Turkish goods is only one of a number of activities implemented by the mafia structures. Even during the time of the embargo on Yugoslavia, when the trade with oil or arms was extremely profitable, the crime groups also used the Turkish border as one of the main channels for excise-taxed goods such as sugar, cigarettes, and alcohol.⁴⁹ When implementing this type of trafficking, separate channels were established. They took advantage of the entire smuggling infrastructure from the wholesale warehouses through the use of customs officers or Mol agencies officers. The level of organization and subordination of these structures should not be exaggerated. According to members of these crime groups, the lack of clear rules, the chaos, the uncontrolled drive for profits at all levels, and the internal conflicts prevented the establishment of large and stable organized crime syndicates. The organizers of excise-taxed goods trafficking did not belong to the “security companies” and gradually many of them tried to legalize their businesses.

⁴⁹ See “Corruption and Trafficking: Monitoring and Prevention,” Center for the Study of Democracy, Sofia, 2000, and “Corruption, Trafficking, and Institutional Reform,” Center for the Study of Democracy, Sofia, 2002.

The warehouse markets continue to operate, but with a substantially lower revenues. The main reason was the competition from the new international low-cost department stores, such as Metro, Mr. Bricolage and Billa, or from domestic ones such as Technomarket and Technopolis. The Illiantzi market, though, has succeeded to preserve its position due to its competitive low prices and the services offered by traders, such as fake invoices, refund on VAT, transportation, etc. As a result, that warehouse market is still a preferred place to acquire specific commodity groups, not only by the Bulgarian, but also by the Serbian and Macedonian traders.

From the interviews carried out, it became clear that Meto Illianski had managed to preserve the control over this warehouse marketplace even after its privatization in 2001. If traders want to operate in Illiantzi, they have to pay fees of the amount of €1,000 to €1,250, no matter whether the smuggling of their goods is protected by one of the big “security companies” or how much rent they pay to Illiantzi’s actual owners. Those traders who attempt to avoid the forcefully imposed “fee” are usually punished: either their property is stolen or destroyed, or the tax inspectors suddenly appear and impose fines. It is evident, however, that after the disappearance of Meto Illianski at the end of November 2003, this criminal organization has been undergoing a deep crisis despite the efforts of some of his replacements to maintain the system in operation.

5.1.3. Political Corruption and Smuggling

When one analyzes the evolution of the import of Turkish goods, one should point out the serious changes that took place towards the middle of the 1990s. The introduction of VAT in April 1994 was one of the reasons for the abrupt transformation of the import conditions. In addition, 1994 was the year when politicians came to realize the importance of smuggling channels with respect to the financing of their political activities and started to use them. Seen in this perspective, understanding of smuggling channels from Turkey needs to be analyzed in light of the political developments at the end of the last century and the beginning of the new millennium.

The end of the period of political uncertainties in 1995 coincided with the emergence of the need to secure state control over the national borders. It soon became evident that such an objective was very difficult to achieve because the mafia structures were already manipulating not only senior state officials in the financial administration, the customs, the police, and the special services, but also a number of key figures from the governing political party both at national and at regional levels. The financial crisis of 1996 and its subsequent transformation into a political one left the state borders at the mercy of the criminal groups controlling the situation there.

At the end of 1996, though, the ruling Bulgarian Socialist Party (BSP) decided to close down the smuggling channels that were financing to the opposition parties.⁵⁰ A series of police raids and wide-scale investigations followed. At that point the senior officials at the Mol came to realize the great extent to which crime groups had penetrated the security services. To reduce the chances of corrupt practices during the operations the Mol organized special police squads consisting of police officers from different regions of the country. According to customs officers and smugglers, the anti-smuggling operations during that period were the most serious blow to organized

⁵⁰ Interviews with former Mol officials, Sofia, February 2004.

smuggling schemes since the beginning of the 1990s. Despite BSP's efforts, the smuggling channels survived. When the opposition Union of Democratic Forces came to power in February 1997, channels across the Kapitan Andreevo border crossing continued to be a cause for accusations between political opponents.⁵¹

It is difficult to assess to what extent the two major political parties (the Union of Democratic Forces and the Movement for Rights and Freedoms) received funding through smuggling schemes and whether the parties' leadership were aware and involved in them. The political changes that took place, however, brought about a temporary re-opening of the hermetic societies of customs officers, border guards, and policemen in the region of Svilengrad.⁵² Some of the former directors of customs and police departments began to make public statements in the media⁵³ and for the first time the issue of the redistribution of national wealth through smuggling became a topic of public discussions. It is quite probable that a significant part of the initiated changes were linked with the attempts at neutralization of the influence of mafia structures in Svilengrad.

Evidence about the penetration of criminal structures into the police, the security services, and the customs' management can be found in the scripts from recorded conversations between "guide-women."⁵⁴ These scripts also confirm the claims made by former police directors from the Svilengrad region that with the end of the formal structure of the "security companies" in 1998⁵⁵ the smuggling channels had been overtaken by their structures at regional and national levels. Thus, the hierarchical structure of organized crime was substituted by a network structure. The former competitors came together as partners in one and the same channel, each of them responsible for the securing of one or more components of the system. At the same time, former associates became rivals and even enemies because of the redistribution of previous clients.

Towards the end of 1998, new patterns of import of Turkish goods began to evolve. The smuggling operations were gradually replaced by more "benign" forms of customs frauds, such as: customs duties levied under lower tariff rates, declaring of smaller quantities or of different types of goods than the actual ones, etc. Some of the mass consumer products gradually become imported almost 100% legally (alcohol and detergents). With other commodities (clothing or food products), although small quantities are still not declared, smuggling is rare.

⁵¹ The new director of the Svilengrad customs and, subsequently, MP from the Union of Democratic Forces, Georgi Shishkov, accused one of the most influential politicians from the Bulgarian Socialist Party (BSP) Lyuben Gotzev, general from the reserve, of being involved in a cigarettes smuggling channel. Later on, General Gotzev won the court case for slander against Shishkov. In response to this, the former Svilengrad customs director and current municipal councilor from the BSP, Pavel Lilyanov (See interviews with Lilyanov in *Sega* magazine), made public statements about the availability of video tape of a courier from the Union of Democratic Forces involved with the smuggling crime groups, including a recording of the delivery of the money by a customs official.

⁵² For example, during 1997, only in the Regional Police Department in the city of Haskovo, four individuals were appointed and dismissed as police department directors. One of them held the position for only fifteen days.

⁵³ Among the most intriguing testimonies is the one provided by the eleventh in a row of appointed directors of the Regional Police Department of Haskovo after 1989, Ventsislav Yordanov.

⁵⁴ See *Sega* magazine, 27 April 2000.

⁵⁵ In the summer of 1998 the government closed down the mafia-run "insurance companies" by revoking their insurance licenses. For more details, see: "Partners in Crime," Center for the Study of Democracy, Sofia, 2004.

5.1.4. The Big Intermediaries

That is also the period when the well-known smuggler Konstantin Dimitrov a.k.a. Kossyo Samokovetza began to build up his hegemony. Details about his role in the trafficking of Turkish goods came to light only in recent years due to the changes of the Bulgarian political elites (following the 2001 elections) and the reforms in the security sector and the customs administration, but particularly following Samokovetza's assassination.

For less than two years, between 1998 and 2000, Kossyo Samokovetza managed to establish an organization of exceptional (for Bulgaria) magnitude. According to the people interviewed, this was possible to achieve only because of his extraordinary abilities in obtaining the support of important figures in almost all relevant institutions—the customs, the tax authorities, special services, and the police.⁵⁶ Kossyo Samokovetza used the already established structure of “guide-women” and worked primarily with a few of them whom he knew and trusted because of having provided the protection service for them. These women found clients and secured the illegal import's overall logistics in Turkey and in Bulgaria.

Kossyo Samokovetza's role was primarily to ensure the problem-free passing through the border. With the help of one of the deputy directors, and, subsequently, director of the Svilengrad customs, he managed to introduce a new organization of the smuggling channels. The trucks of his clients were always levied with lower customs duties, and typically crossed the border more rapidly than the competitors' trucks. However, this was not enough for clients to choose him as intermediary. In a country where clientelism is the rule, changes are difficult and slow. In order to change their attitudes, Samokovetza made use of his contacts with officers from the anti-smuggling department at the National Service for Combating Organized Crime. These officers organized a series of thorough inspections at the Svilengrad customs that slowed some companies' trade with days, and were in effect an attack against his competitors and a way of adding traders to Samokovetza's client network.⁵⁷

The cooperation with the NSCOC, however, proved to be not that simple. The fact that Samokovetza provided information to the NSCOC about the other smugglers and crime structures provoked their reaction and they started also to seek allies in NSCOC. As a result, in August 1999, 30 trucks from Samokovetza's structure were detained in the city of Bourgas.⁵⁸ Although, in the final run, the NSCOC operation failed, Samokovetza was forced to pay higher bribes in order to regain his previous preferential positions.

The summer of 1999 developments resulted in a number of changes in the structures controlled by Samokovetza. He appointed regional units and he withdrew from direct

⁵⁶ This is feedback from interviews with regular and senior officials of the BCA, as well as current and former senior officers from the special services.

⁵⁷ “Fired Police Officer Says Five NSCOC Officers were Kossyo's Men,” *168 Chasa*, 19 December 2003.

⁵⁸ Different stories are being told by interviewees of that operation. The common facts that emerge are as follows: the NSCOC followed thirty trucks that entered through the Malko Turnovo border crossing with Turkey and arrested them on their way to the Fishing Port in Bourgas. Due to a number of procedural violations, Samokovetza's lawyers easily obtained a court order for the release of the trucks. The trucks left back to Turkey but later on, the same trucks entered Bulgaria again, this time through the border crossing of Kapitan Andreevo.

participation in the smuggling channels.⁵⁹ Although the chaos in his structure was never completely overcome, one could discern three levels. The first level is the one of the “guide-women.” The second level is the one of the regional representatives, responsible for the organizing of traders, who place the orders for Turkish goods. In some of the smaller towns, though, the “guide-women” were the ones to recruit and organize the clients. The third level is that of the “collectors,” the individuals collecting the payments from the traders, covering the expenses (such as bribes), and withholding the Samokovetza’s share.

Following these changes Samokovetza was almost untouchable, and it became more and more difficult for the Bulgarian state institutions to prove his participation in smuggling channels. According to most interviewed respondents, the run-up to the 2001 parliamentary elections helped to create a unique situation, which established Samokovetza as the most prominent Bulgarian smuggler. Some newly appointed customs officials in October 2000 provided an opportunity to Samokovetza to evolve as the monopolist of the illegal import of almost all major and most important commodity groups. Under the new arrangement the BCA inspected thoroughly and levied high customs duties on all importers who did not participate in the Samokovetza network. As more traders became part of Samokovetza’s network, his revenues increased as those of rival intermediaries became smaller. Due to his monopolistic position, Samokovetza was willing to charge less commission while the state was able to somewhat increase its revenues. At the same time his clients were still importing their goods at low price.

In order for the monopoly of Samokovetza to function successfully, his representatives had to carry out an enormous amount of “organizational work,” from payments to customs officers to the coordination of the “guide-women”. The expectations for the change of the UDF ruling party with the National Movement Simeon II after the June 2001 elections brought about a collapse within the monopoly structures. Samokovetza’s big rivals in the smuggling business managed to take advantage of the changing political environment and to quickly adapt to it. Samokovetza tried to preserve what his position by fragmenting his organization and giving parts of it to his allies.

One of the people who continued to work for Samokovetza was Tzvetan Vassilev–Hafti.⁶⁰ The information on his activities and schemes came to light following a police operation. In the view of some of his competitors, this operation, although supposedly against him, was in practice pointed more towards eliminating his competitors. The action undertaken in the summer of 2002 along the border with Turkey seriously affected the business of his competitors Bazdat and Abdusalam Ibrahim–the Doctor, and completely ousted some other competitors, such as Lescak–the Pole. Despite these operations, Samokovetza and his former associates could ensure the support that they previously got from corrupt officials at the customs, the police and the judiciary, who ensured much of the late 1990s unfettered border passing and stable incomes.

By the end of the summer of 2001, the pre-monopoly structure of the import of Turkish goods had almost been restored. The intermediaries that inherited

⁵⁹ 168 *Chasa*, 19 December 2003

⁶⁰ Interviews with MoI officials, Sofia, February 2004.

Samokovetza, were involved with the trafficking of more limited amounts of goods, whereas the substantial quantities were distributed among multiple other participants. The major smugglers continued to operate also during 2004.

5.1.5. Transport Companies and Smuggling

An important element in the system of smuggling of Turkish goods are the **transport companies** that operate the **small 8-10-ton trucks**. The main advantage to smuggling of that type of vehicle is that small traders usually use them to transport small quantities of a wide variety of goods. This makes them very difficult to inspect. They are usually overloaded making it easy to conceal some goods and declare much smaller quantities than the ones actually transported. These companies owning such trucks rarely use TIR carnets and their owners, usually sole proprietors, are willing to undertake high risks. Their exact number is not known, but they are probably more than 1,000 because they provide services to the trafficking channels for Turkish goods for the Balkan countries, including Serbia and Montenegro, Macedonia, Bosnia, and Croatia.

During the interviews, trailer-truck drivers pointed out more than once that small truck owners take very high risks. In their opinion, their drivers often do not know the exact content of the cargo and risk even the possible transportation of drugs. Up until the summer of 2002 a number of the owners of small trucks were actually customs, police, and other border control officials. After a police operation against the gray import through the Turkish border in the summer of 2002, and with a special order of the BCA, the ownership of customs officials of such transportation companies was strictly prohibited. By 2004, the only border authorities that participated in such transportation firms were employees of the Road Taxes and Permits Directorate. The attempts on the part of the Turkish control bodies for intercepting these trucks were very much welcomed by the management of the BCA but, still, there is no evidence that there will be a complete prohibition of their activities because such an order would obstruct the export of Turkish goods—something that is understandably not wanted by the Turkish authorities.

In addition to the above-described structures supporting the smuggling of Turkish goods—the “guide-women,” warehouse markets, and the transport companies—there are other parallel structures that work at lower level. One of these parallel schemes involves the old regional bosses of the security companies who usually gather between five and ten small traders who import Turkish goods and arrange for these traders the illegal smuggling. Instead of “guide-women,” they use “agents” or forwarding companies (which have agents of their own) that ensure the successful crossing of the border and the duty-levying. These small traders do not need the bigger centralized markets and prefer to sell the illegally-imported goods directly at their shops.

Another parallel scheme, which is applied mostly for the import of fruit and vegetables, is the shuttle trade carried out by local people living in the border region. The locals cross the border with small amounts of goods, but, in contrast to the other shuttle traders, they store them in their small town. The truck of the respective gray businessman picks up the cargo from these small storage facilities and takes them to the bigger towns where the goods are sold through the semi-legal retail networks.

5.1.6. The Shrinking of Illegal Turkish Import

As early as the end of the 1990s, the BCA delineated a strategy for reducing the losses for the national economy caused by the illegal trafficking of Turkish goods. There were two main objectives: gradual increase of the duty-levied value per unit of import (kg) and enforcement of requirement for importers to declare the whole amount of imported goods. At the macro level, the data for the last four years (2000–2003) indicates a successful implementation of that strategy even during the above-mentioned crisis period at the beginning of 2001 (See Table 8).

Table 8. Import of Turkish Goods

	2000	2001	2002	2003
net weight (kg)	265 558 049	260 589 809	314 487 762	464 016 623
customs value (BGN)	264 767 290	339 669 007	514 399 322	768 603 455
price per kg (BGN)	1.00	1.30	1.64	1.66
increase of weight		-1.87	20.68	47.55
increase of value		28.29	51.44	49.42

Source: Bulgarian Customs Agency

The optimistic interpretation proposes that in 2001–2002 there was a sharp increase of the declared customs value of imported goods (by 51.40%) including a 64% increase in the declared price for 1 kg. In 2003 these two values increased only slightly, but that happened while there was sharp increase of the declared volume (net weight) of imported goods (by 47.5%). As a result of the increase in these three indicators, the customs were able to collect record-high duties. There are, however, skeptics who claim that the main factor for the increase of the declared value of duty-levied goods in 2002–2003 was the increase in exports that accompanied the recovery of the Turkish economy and were supported by the Turkish government. The other explanation is that the increase of imports of Turkish goods was part of the trend of overall increase of imports in Bulgaria from the EU and Asia. Neither explanation, though, provides evidence about the reasons for the increase in the value per 1 kg. of goods.

The Joint Operation of the National Service for Combating Organized Crime and the Bulgarian Customs Agency, May–June 2002

In compliance with a plan approved by the Secretary General of the MoI, during the period 28 May–14 June 2002, the National Service for Combating Organized Crime participated in a specialized police operation that included thorough customs inspections of 657 vehicles that imported goods through the border crossings of Kapitan Andreevo and Svilengrad in that period. Eight companies importing fruit and vegetables, five food and confectionery importers, and seven industrial goods importers were identified. All amounts of commodities imported during the above-specified period were strictly documented. The analysis that was undertaken by means of comparing these amounts with the ones documented during the preceding time span of seventeen days indicated that with reference to the group of fruit and vegetables the declared amount of import during the monitored period had increased with 17,441 kg, or by 59%.

With respect to food and sugar products there was a decrease of 93% of declared imported quantities, a decrease of 5.9% of the total amount of imported goods in net weight, as well as an increase of 5.7% in the paid VAT and of 5.4% of the total customs duty paid. For the whole monitored period, there was an increase from 4,387 to 7,963 kg of the quantities of food and sugar products imported with a single vehicle. The conclusion is that the average monthly defrauding of the state budget was of over €63,000.

With respect to industrial goods, a comparison indicates that during the time before the monitored period, of the total import 62% was realized by companies under the control of Abdulsalam Ibrahim—the Doctor, and the remaining 38%—by companies controlled by Tzvetan Metodiev Vassilev—Hafti. During the NSCOC operation, this ratio changed and 79% of the import was under the control of Vassilev, and 21% was realized by Ibrahim's companies. At the same time, the total declared amount of import increased by 138%.

The general conclusion from the NSCOC operation was that the most frequent violation was that the invoices of the imported goods were fake and stated prices 10 times lower than the actual ones. In addition:

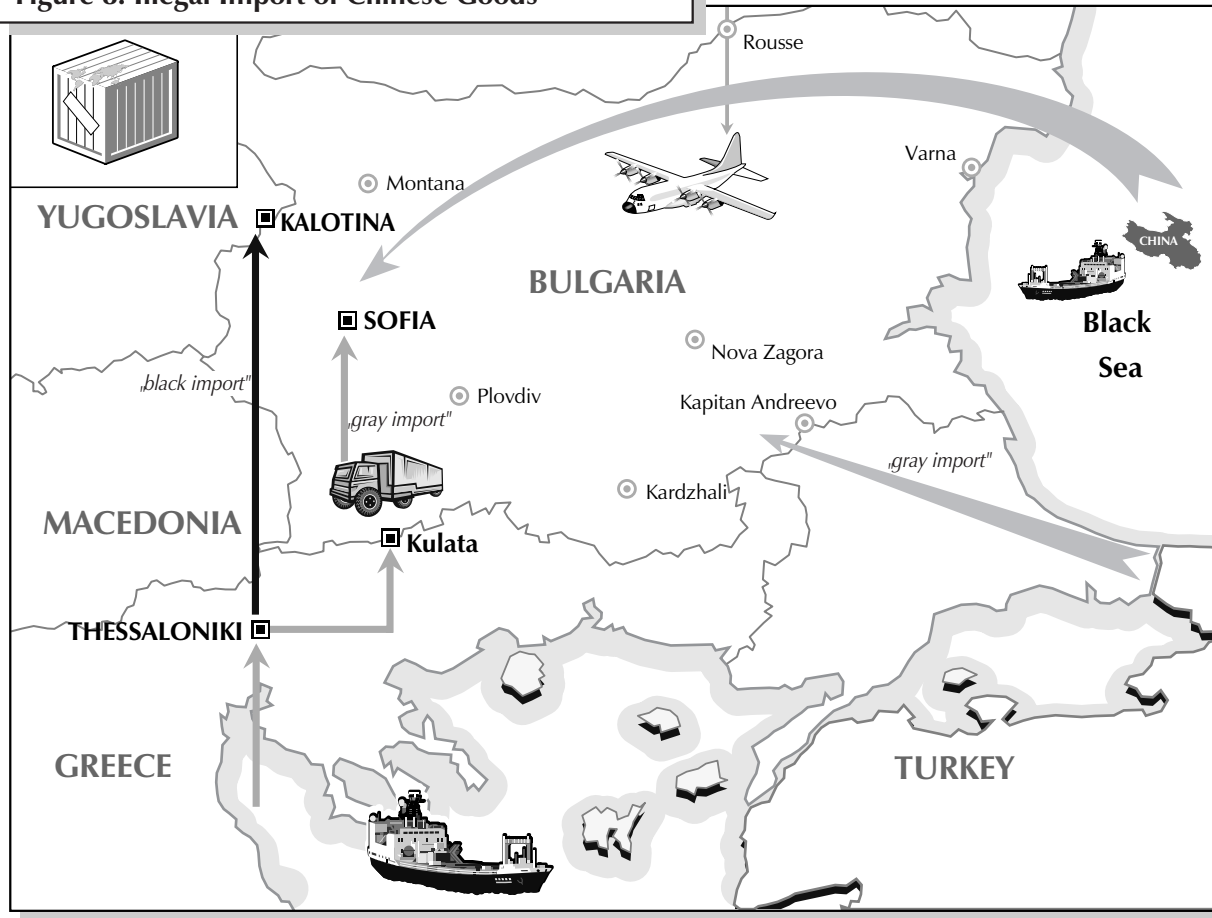
- By using fake invoices, the commodities produced in third countries (China, India, Indonesia, the Philippines, and others) were presented as manufactured in Turkey—the objective was to take advantage of the preferential customs duties established under the customs agreement between Bulgaria and Turkey;
- The VAT on imported goods is defined on the basis of the prices listed on the fake invoices, i.e., the accrued and paid VAT is several times lower than the actual value-added tax due;
- There are missing attachments to the customs documents about paid import transport service and a certificate for cargo insurance, which are obligatory according to the Customs Law;
- The revenues of the transport companies were not declared to the tax authorities. The sum paid for the transportation for the Bulgaria–Turkey–Bulgaria run is €500.
- A significant number of the transportation vehicles used for the import of goods were actually owned by customs officers or people of their circle.

(The data for the above operation was provided by the NSCOC)

5.2. CHINESE GOODS

From the middle of the 1990s the import of Chinese goods became one of the most important sources of income for the gray economy and organized crime in Bulgaria. According to the customs authorities, close to 80% of the import is done through Thessaloniki–Promahonas–Kulata route (See Figure 8). The rest of the import of Chinese goods passes through the Port of Varna, while high-value goods pass through Sofia airport. In addition to the 300–350 containers of Chinese goods that pass through the Bulgarian–Greek border, 140–160 of Chinese goods containers enter from Turkey. These containers are officially registered, though, as Turkish goods, as Bulgaria imposes lower import duties on Turkish goods. There is no verifiable information on the amount of Chinese goods that enter from other countries and are registered as EU-made goods.

Figure 8. Illegal Import of Chinese Goods



5.2.1. Participants in Cross-Border Smuggling

In order to understand the risks for **Chinese goods smuggling**, the **criminal and semi-legal infrastructure that supports it** must be described. This infrastructure includes a number of companies, experts, and individuals that provide a wide range of illegal services. These services include, among many others: the concealment or transportation of smuggled goods; privileged treatment by the customs authorities; threats and attacks on companies and individuals that obstruct smuggling channels; falsifying records, such as these of the chemical composition of imported goods. There are four groups of structures or four levels that comprise the network for Chinese goods smuggling.

1. **The Chinese merchants:** The first group that is at the heart of the smuggling scheme consists of **clusters of families of Chinese citizens permanently residing in Bulgaria**. They finance the biggest part of the import of Chinese goods. They have well-established relationship with Chinese producers and exports in China. These relationships guarantee them prices that are much lower than the prices offered to non-Chinese traders that try to import goods from China. Their contacts in China also ensure regular deliveries and high-quality goods. The payments are usually transferred through offshore banks or banks in other Asian countries with large Chinese diaspora. Thus, any attempts to match money transfers to China with imported goods would prove fruitless.

There is a **strict hierarchy** among the clusters of families in this group of Chinese merchants. The most influential cluster consists of about **ten families**. According to some police and customs officials, as well as members of the Chinese community in Bulgaria, these ten families are supported by the Chinese state. Due to the closed character of the Chinese community, the available information about the activities of these families is contradictory. As for the Chinese community in Bulgaria, it remains unclear whether the apparent success of some families is due to their entrepreneurship or their connections to the Chinese government.⁶¹ The rapid growth of the Chinese community in Bulgaria until 2002 made it difficult to differentiate between importers and various other entrepreneurs such as shop and restaurant owners.⁶²

Around this core group of influential families, a number of small and medium-size family-run trading companies function. In addition, a number of Bulgarian trading companies also import Chinese goods. They use the criminal and semi-legal structure described below⁶³ only in part.

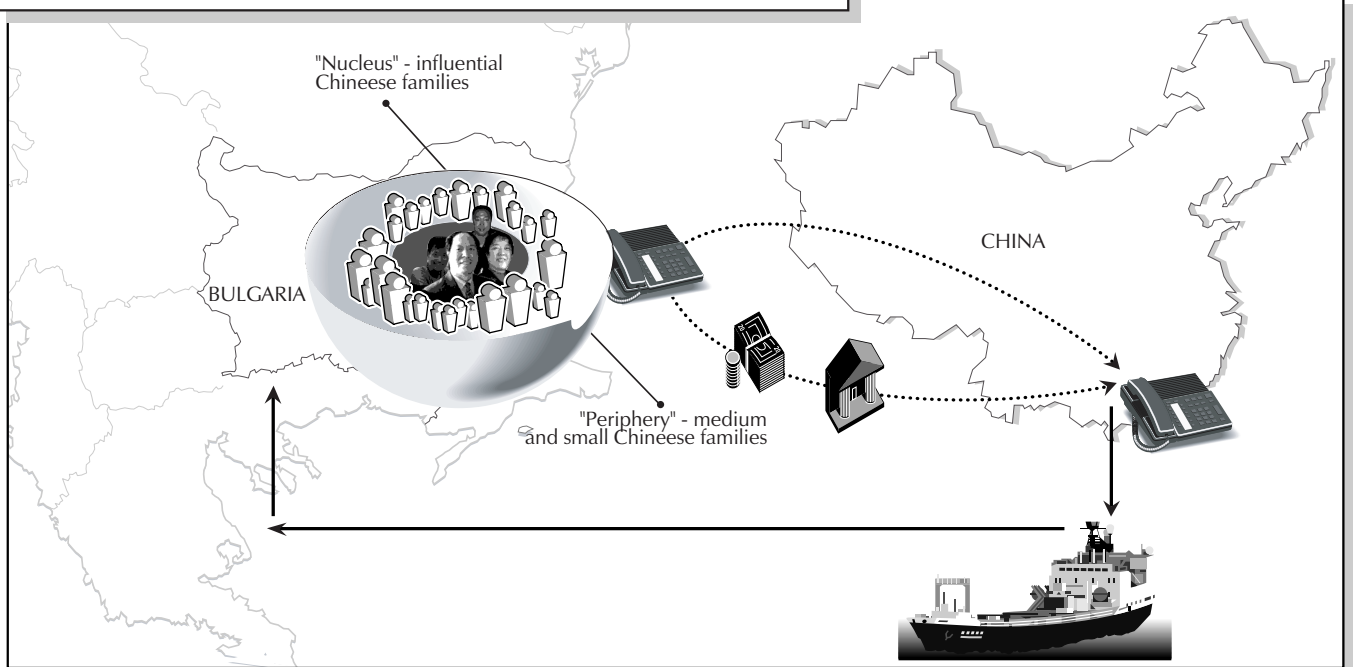
2. **The Security Companies:** The second group includes a number of semi-legal or criminal groups and companies. They usually extort money from the importers who want to gain access to wholesale markets and warehouses, such as Illiantzi (in Sofia) as well as the duty-free zones. In exchange, they provide security to the wholesale areas and the smuggling channels. In the mid-90s, when the smuggling of Chinese goods became a regular practice, most Chinese merchants chose the Illiantzi wholesale market as their main wholesale distribution point in Bulgaria. At that time, Illiantzi had already gained status as a “warehouse market” for smuggled Turkish goods. In order to gain a spot at the market, the Chinese trading companies, similar to Bulgarian, Turkish, and Arabic ones, needed to pay to the security companies, who controlled this market.

⁶¹ This might mean that “family ties” are actually state support ensuring loans and safe delivery of cargoes for the chosen families. But critics of this hypothesis claim that most large Chinese importers, who have moved from former Yugoslavia or Romania to settle in Bulgaria, have lost connection with the Chinese state and run independent businesses.

⁶² Chinese imports and the broader topic of this comparatively new ethnic community in Bulgaria cannot be considered separately. In addition, developments in the last decade have created a need for special extensive research into the problems posed by the illegal immigration channels through Bulgaria to Western Europe and these “new minorities.”

⁶³ It is not clear whether the core cluster cooperates much with the outer clusters. Although the core cluster is almost hermetically closed, it has members that are in contact with Bulgarian society. These individuals are mostly in mixed marriages with Bulgarians but are kept outside the immediate circle of the core.

Figure 9. Chinese Families and Chinese Goods Import



Merchants claim that the man who started and controlled this structure was Meto Illianski, who was succeeded by Lyubo Chetvorkata (also known as Lyubo Illianski) from 2001 onwards. Some of the Chinese traders at the Illiantzi market tried to boycott the racketeers in 2001, after the market was privatized,⁶⁴ only to provoke a series of thefts, incendiaries, and tax inspections.

As the **Chinese families** started paying for their access to the Illiantzi market in the late 1990s, some of the more influential ones **resorted to the services of Bulgarian organized crime** to gain and also retain their positions. Chen Shian, known as the Big Chen,⁶⁵ who was deported from Bulgaria in 2001, is a typical example of these relations. However, serious incidents have stopped since 2001. The Chinese merchants claim that little has changed since Meto Illianski's disappearance in November 2003. They pay the same protection rackets, €500 to €2,500 per month for a market stall, or for a stall plus a warehouse. The amounts extorted depend on the type of goods merchants import. If any portion of the goods is concealed, racketeers punish the trader.

3. **The Intermediaries.** Intermediaries secure cheap border crossing into Bulgaria of Chinese goods. Thus, they manage to compete with the initially stronger Turkish and Bulgarian commodities. Price-wise, Chinese goods *are* a rival, but they couldn't match the cargo entering through established smuggling channels used by Bulgarian, Turkish, and Arabic entrepreneurs most of whose business is semi-legal and has been protected by Bulgarian organized crime since the 1990s. Chinese

⁶⁴ Since no verifiable information is available, the relations between the market warehouses' new owners, their agents, and the former racketeer company are not examined in the present report.

⁶⁵ See *Monitor*, 9 March 2001; *Sega*, 9 March 2001. It is believed that she currently lives in Greece, continuing her collaboration with the "big four" (that is, the big three plus Lyubo Chetvorkata) in the importation of Chinese goods which is discussed below.

containers and *cargo trucks* at first used the Danube Bridge border crossing,⁶⁶ and later switched to Sofia Airport where they were shielded by the respective racketeer groups.

As in the case with Turkish goods, **the role of the intermediaries** remains of prime importance to the smuggling schemes. They have to secure the in-country movement of the goods (or, with Chinese goods, their trip from the Port of Thessaloniki to Bulgaria) until they reach the warehouses. The most expensive part of the smuggling is the customs clearance, followed by duty collection at a suitable customs bureau at the right price. According to the interviewed importers, forwarders, police, and customs officers, Chinese import requires a variety of intermediaries. Following the labels given to them by customs officers, they can be broadly divided into the “the big” and “the brokers” (that is, of medium power).

It is considered that at least 60 % of Chinese imports (at the start of 2004), are run by **the big intermediaries**. Since 1998, at any one time, there have been between two and four individuals at this level. Each of them controls a criminal network comprising, in some of the cases, up to 200 people. Another significant part of the Chinese goods imports is controlled by smaller intermediaries, called “**brokers**”. They handle from 3–4 trucks a year to 4–5 per week. The channels and the associates that the brokers use are not fixed but change depending on the conditions around each smuggling operation. Sometimes, brokers deal with the problems in stages. An example for a limited service could be a situation where the forwarder’s truck passes the border’s customs post legally, but the broker connects them to a corrupt official at a customs post in the interior of the country. It is at this customs post where customs duties are paid and with the broker’s help the forwarder pays a lesser amount than the required one.

The main advantage of intermediaries is that information about the actual value of goods is unavailable since Chinese authorities, like the Turkish ones, do not cooperate with Bulgarian customs. This makes possible the import of goods at false, lower prices, and consequently lower customs duties and VAT.

4. **The wholesale markets.** The distribution of Chinese goods on the domestic market is also a good environment for violations. In the mid-1990s, the Illiantzi wholesale market allowed importers to access not only Bulgarian retailers, but also retailers from Serbia, Macedonia, Bosnia, and even Croatia and Albania. Even after the economic stabilization (following the establishment of a Currency Board in 1997) and the spread of multinational department store chains after 2001, the gray retail and wholesale businesses persist and continue to facilitate tax evasion.

The gray structures, far from being big centralized organizations, are a rather **disordered assortment of structures, combining tens of networks and involving thousands of trading companies** from warehouses to roadside stalls. They are extremely competitive due to the wide range of false documents they offer (from VAT invoices to certificates of origin) which enable very low consumer prices. Illiantzi is a

⁶⁶ They used the Chinese import channels already established in Romania. Chinese trading communities first formed in Romania, where many Chinese students resided during the Chaushesko regime.

source of customized VAT invoices⁶⁷ to the numerous ex-Yugoslav traders, who could not get them at the Metro department store, for instance. Thus, they can fully compensate for the VAT when they return home and they also get full logistic support, such as loading and transport. Bulgarian retailers have a whole range of options at Illiantzi as well, corresponding to the risks taken: they can choose between fake invoices mostly printed in the Roma-populated neighborhoods of Sofia to invoices supposedly issued by large Western companies.

These semi-legal retail networks do not automatically grant success, but follow the ordinary competitive market principles. One's profitability depends on how competitive their prices and commodities are. That does not mean, however, that organized crime is unrelated. The former security companies control in many towns the municipal markets as well as the issuance of sidewalk stall or kiosk permits. Through this network they have created a typical oligopoly market. Although this network coexists with thousands of other retailers and the big department stores, the security companies control the best market locations, have much higher profits margins and have the largest market share. **The gray networks also supply a number of luxury stores and boutiques in downtown Sofia and customers can hardly distinguish between original brand goods and Chinese fakes.**⁶⁸

In addition to all structures described above, a number of law-enforcement and judiciary officials join in to mediate between gray businesses and top officials from their institutions. This echelon that includes lawyers, police officers, investigators, and judges supports the criminal and gray economy all over the country. Chinese imports could hardly be competitive without its existence.⁶⁹

5.2.2. The Big Intermediaries

As the present report focuses on the role of the transport industry for the functioning of organized crime networks, the intermediaries deserve special attention as a group. So far, there has been a single radical shift in the structure of the Chinese goods import market. In October, 2000, the late **Konstantin Dimitrov, a.k.a. Samokovetza**, established a monopoly⁷⁰ over gray import and smuggling (described in part one of the current chapter). Interviewees at the Greek border, the main inroad for Chinese imports, repeatedly quoted him saying: "You pay *me* 5,000 leva (2,500 euros) per container, or you pay the state 50,000."⁷¹ The customs officers interviewed claimed that during the monopoly period, high customs or Mol officials would send a list of the companies that had paid Samokovetza, which meant that all the other companies had to be inspected.

⁶⁷ The invoices were issued on the name of actually existing companies. Fake invoices went out of use after electronic information on registered companies became available.

⁶⁸ The network of boutiques also has the peculiar "social" function of providing jobs to the girlfriends of criminal bosses and their aides.

⁶⁹ On the interaction with law-enforcement and the judicial system see: *The Drug Market in Bulgaria*, Center for the Study of Democracy, Sofia, 2003.

⁷⁰ All interviewed drivers, forwarders, traders, customs, and Mol officers have agreed with regard to the time when this shift happened.

⁷¹ Interviews with customs officers and drivers, Sofia, February 2004.

Another “incentive” pushed by Samokovetza so that companies would obey his monopoly was a decrease of his fees: instead of the traditional €15,000⁷² per 40-foot container of smuggled Chinese goods he charged only €11,000–12,000. The duration of this monopoly was around 6–7 months. The revenue gathered in that period by those who run the monopoly is easy to calculate, having in mind that the average monthly number of illicitly imported containers was between 250 and 300.

After the 2001 elections, which brought change of the ruling majority, intermediaries gradually returned to the previous organization of business, while Samokovetza’s network disintegrated. It was at this point that the group of the three large intermediaries was formed—the **Chinese Doctor, Niki Kitaetza (Niki the Chinese), and Niki Pileto (Niki the Chicken)**. Their names are frequently mentioned by traders, customs officials, the media, and even politicians. Pileto, who was Samokovetza’s main associate during the monopoly period, attempted to set up an independent network. In April, 2002, he was threatened by bomb blasts near his home and his girlfriend’s offices, which tossed him back to Samokovetza’s sphere.⁷³

In the summer of 2002, a series of measures taken by the customs administration to shrink gray imports forced some of **the big three to move from entirely criminal to semi-legal or gray imports**. Reportedly, Niki Pileto was the one that decided not to legalize his business. A number of investigations that became public in 2003–2004 allow for a description of the smuggling schemes.

The smuggling schemes

An investigation conducted jointly by the Sofia police and the customs uncovered that roughly 300 containers with Chinese cargo had passed through the Kulata border crossing as “construction materials” between the summer of 2002 and July 2003. The levies due to the state for such amounts of construction materials are approximately €1,000. The levies due for the actual shipment were €20,000. Thus, in this case alone, the state was robbed of €5–6 million.⁷⁴

On 19 July, 2003, the police arrested eight trucks (in a single smuggling scheme). The operation had been prepared for a month and was carried out upon a signal. There is evidence in the investigation that uncovers a number of rules involved in the operation of such a channel, among them certain economic prerequisites. As noted above, the customs administration pursued a course of levying cargo by its real value which started in mid-2002. Thus, cheap Chinese goods import became increasingly unprofitable. Up to then, the smuggling of these goods at the lowest price had brought profits equal to those from cigarette smuggling, with the only difference being that Chinese-produced articles have a really huge market.⁷⁵

The investigation also showed that the perpetrators had known the system inside out. Containers were shipped through the border on the busiest days, that is, on Fridays,

⁷² In the late 1990s, containers with Chinese cargo were trafficked as follows: the trader gave € 15,000 to the intermediary who had to smuggle in the container, with which he was supposed to pay all taxes, duties, fees, and bribes.

⁷³ See *Noshten Trud*, 21 April 2002; *Dnevnik*, 22 April 2002; *Capital*, 26 July 2003.

⁷⁴ Interviews with customs officials, Sofia, February 2004.

⁷⁵ Goods such as clothing and footwear costing between 1 and 10 leva are quite attractive since they can always be marketed among large groups of the population whose solvency is rather humble.

when the truck flow reaches 220–250 trucks, whereas on other days it is a normal 170–180 trucks. So the trucks of Niki Pileto would pass on Fridays. Trucks would travel by night or at weekends to avoid being checked by the Crown Agents mobile teams.

In addition, some of the importers turned out not to be registered under the mandatory BULSTAT database of business entities. Their owners/representatives also used fake personal identification numbers. The transfer of the 300 containers through the Kulata border crossing had been aided by at least six customs officers. The whole chain of customs control had been corrupt—from the shift supervisor who ensured there would be no inspections, through the officers who inspect the documents, to the officer who had to enter the cargo details in the customs' electronic information system (BICIS). The imported goods had been registered as "household appliances" or "construction materials" which were certain to escape attention due to the usual large-volume import of such goods from Western Europe.

Inland customs offices determining the customs duties were also secured. According to documents, the cargo was levied at a number of customs offices throughout the country, in the small towns of Gorna Oryahovitsa, Gabrovo, Sevlievo, Kalotina, or in bigger cities like Bourgas, and Varna. The main objective was to eschew the follow-up control in Sofia. The only exception was the customs office in Gorublyane, Sofia, where corrupt officers also served Niki Pileto's network. There is one more issue which has not been discussed so far, namely, if such a huge channel could have possibly functioned for so long without the aid of the Greek customs authorities.

Despite the bilateral cooperation, the Greek authorities have been quite unresponsive, providing only scant information of incoming goods, behind the excuse of the pending elections and Summer Olympics. In April, 2004, it became known that during the first half of 2003, 88 containers of MGS Ltd. owned by Niki Pileto had crossed the Kalotina border without undergoing customs inspections. Before that the cargo was unloaded at the Port of Thessaloniki (Greece), loaded on trains and trailer-trucks, shipped through Macedonia and then through the Serbian border crossing Gradina reached the adjacent Bulgarian crossing point of Kalotina. Before the cargo entered Kalotina, however, its documents were substituted. Four customs officers were dismissed after the April case. They accused their superiors of ordering them to let Chinese goods through without inspection.

Some customs officers (who wished to remain anonymous) claimed that the smuggling channel through Kulata was still in operation,⁷⁶ despite all disclosures made at the border crossing. A variety of schemes are reportedly still employed to import Chinese goods, which are usually declared as fabrics and other materials supplied to South Bulgarian dressmaking companies by Greek customers. Goods are also sometimes declared as second-hand clothes from Western Europe at other Bulgarian border crossings. There are even some rather unique cases, such as the import of 50 containers of Chinese goods through the Danube port of Rouse, described as toilet paper and other sanitation supplies, for which duties were paid at small-town customs bureaus like Gabrovo and Lovech.

⁷⁶ The previous customs director Emil Dimitrov replaced all customs officers at Kulata with teams from the Kalotina border crossing. Some MoI officials claim that officers at both customs points had had a long-standing cooperation, which the intermediaries deftly used.

The disclosures in the summer of 2003 show some of the actions used to **protect the high-level intermediaries**: brazen arrogance, brash physical violence, and pressure on law-enforcement and judicial bodies. In July 2003, the Sofia regional police directorate detained eight trucks after catching them at the moment they had removed the customs seal from the border's customs post and were transferring the cargo to other trucks. Their intention was to then load the cargo with building materials, reseal the truck and drive it to the customs office where lower duties would have been paid.⁷⁷ The police sealed the trucks and moved to the customs supervised warehouse, where police guard was also assigned. When an inspection was made on the following morning, the content of the trucks turned out to be construction materials and the Chinese goods had disappeared. As the investigation showed, Niki Pileto had attempted to bribe and then had threatened the police guards, who eventually let him change the cargo. In addition, a corrupt customs officer had been brought by Niki Pileto and had sealed the trucks as if nothing had happened.⁷⁸ As the investigation progressed, a number of policemen, customs officers and even a district prosecutor tried to bail Niki Pileto out. Ultimately, he was released in October 2003, despite the fact that he had threatened public officials and despite another pending smuggling trial. He had also been charged with rape.⁷⁹ After the channel through Kulata used by his trucks⁸⁰ was uncovered, he shifted to traffic through Kalotina. Here the question remains of what are the other two large intermediaries doing. Pileto is not more important than them.⁸¹

The Gray Imports Schemes

Besides the outright large-scale smuggling operations of the large intermediaries, a huge portion of the Chinese cargo is trafficked along smaller scale gray channels. The analysis of the data the CSD team gathered indicates that at present, **in order to minimize risks, a very intricate system of quasi-legal import is in operation.** Without going into details or multiple individual cases, the pattern set in the late 1990s is as follows:

- **The merchant**, whether one from the nucleus or the periphery of the business, orders the goods to his intermediaries in China (usually members of the extended family), paying for it either through an offshore bank or a bank in outer China. Note that cargo and cash take different routes here. The cargo arriving at ports/airports is an anonymous property, that is, property of a claimant in possession of a consignment note. Transportation costs are also covered by the

⁷⁷ For more details, see the national dailies from the period 20–30 July 2003.

⁷⁸ The readiness, availability of the necessary materials to seal the trucks, and the prompt completion of the operation within a single night are worthy of notice.

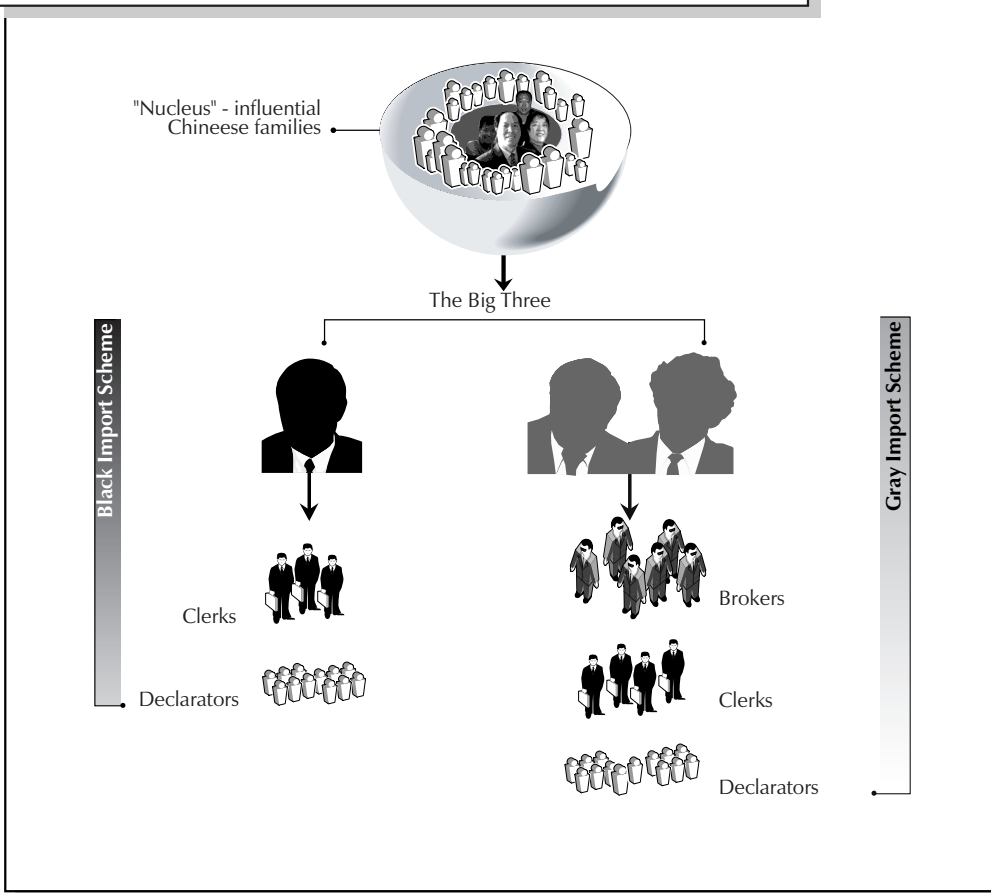
⁷⁹ "Niki Pileto's Associates in the Customs Seized," *Banker/Paragraph* 22, 31 January 2003.

⁸⁰ Niki Pileto's company has 15 trucks and it is curious why he continues to use it, since its business is common knowledge at both the police and the customs services. He has an impressive experience in working via fake companies. One explanation of this paradox might lie in the sentence ascribed to him: "My company transports, but does not pay duties."

⁸¹ The answers which the CSD team got to these questions made the picture look even more complicated and messy. However, the aim of this report is not to discuss the multitude of contradictory statements, such as the claim that there were informers of the National Security Service among the customs officers sacked from Kalotina border crossing or "information" about which circles of former customs managers and which intermediaries used the media as a means to tarnish their rivals.

merchant.⁸² The consignment notes themselves are sent by express mail as valuables. At this point, the Chinese merchant contacts the intermediary to deliver the note to him.

Figure 10. Chinese Goods: Black and Gray Import Schemes



- **The intermediary** is supposed to find a trading company to assign the container to, a forwarder to deal with the consignment note, a carrier, etc. Such operations cost the merchant from €11,000–12,000 to €25,000 (depending on the type of cargo) which he gives the intermediary for the delivery of a single container to a particular warehouse. The sum is supposed to cover all taxes, duties, fees, and bribes. The intermediary’s main task is to collect the cargo from the Greek Port of Thessaloniki (occasionally from Varna, or from Sofia airport if the cargo is expensive), and then to transport it through the customs post (the border crossing of Kulata in most cases) and pay the duty at an inland customs office. Whatever cash the intermediary manages to salvage from any of the stages (transportation, forwarding, and duties), he takes as his due commission. Intermediaries are chosen as a result of complicated client interdependencies or severe competition among the intermediaries themselves. Among the large intermediaries in gray import are the Chinese Doctor and Niki the Chinese. Among the lesser

⁸² The average cost of the transportation of a 40-foot container from China to Thessaloniki Port is USD 4,000; to the Port of Varna it is USD 4,400. The cost for air transport from China to Sofia is USD 1 per kg.

intermediaries, the more significant ones are Irina Debelata (Fat Irina), Zdravko Prokurora (Zdravko The Prosecutor), Toni Vietnemetza (Toni the Vietnamese), Chau, etc.⁸³

Large intermediaries have specialized in Chinese goods and their numbers have varied during the years. The smaller intermediaries do not usually specialize strictly in one type of goods. They also handle goods from Turkey and Dubai, meat, vegetables, etc. They work in network, sharing associates to which each pays a certain fee. If a particular intermediary's client has got a problem at a customs office and the intermediary is not close to any of the key personnel, he finds another, better connected intermediary. The two intermediaries then have to share the profit. These smaller intermediaries or **brokers**, follow a kind of free market principle, competing for clients and contacts. They come from different backgrounds: former and current customs officers and even regular tradesmen. To enter a broker network they have to offer certain resources in exchange of this participation. These resources are generally a portfolio of suitable men and contacts, in the most popular case—customs officers in the right places.

- The intermediaries get in touch with the lower level participants. These are fairly independent, although some of the big players keep some “full-time staff” for follow-up activities. Intermediaries also set-up nominal **companies**, usually on the name of students, pensioners or poor Roma. In case of any hindrances, these companies can easily be closed down. Another specific low-level group is that of the **clerks**, considered as the lowest level of intermediaries. Although clerks happen to attend to a client without “talks” with superiors, they do not have the means to be properly called intermediaries. In fact, their basic function is to handle the necessary importation documents. However, clerks often do not even have an office or registration and are separate entities constantly on the move and at the disposal of intermediaries. The system is additionally supported by other low-rank doers—the so called **declarators** hired to represent the importer. Such an individual is needed because pensioners, students, or Roma people are not qualified to do this. Thus, in case of failure, it is the declarator's name that will be registered in the BICIS (and he will have to change his line of business). Declarants are paid from €10 to €15 a day to queue at institutions' doors and handle the necessary documents.

Besides employing low-rank middlemen, the top intermediaries have to secure their own “transport infrastructure,” i.e. loyal carriers and forwarders, as well as customs and police infrastructure in which customs, border police, local police officers, and special service officers are networked. Apart from the freelance clerks–declarators pattern, intermediaries may legally use expert assistance, namely companies called customs agents. The latter divides the cash between border and inland customs officers, completes the goods customs declarations, handles the TIR carnets, etc.

The biggest customs office in the country—that of Sofia airport, which has turned out to be yet another ring in the Chinese goods chain should also be considered. Budget revenues collected at Sofia airport customs are either the largest or the second largest every year. It attracts the attention of criminal and semi-criminal structures. A

⁸³ Most mid-level intermediaries are not mentioned in this report as they have not yet been publicized by the media.

report of the National Service for Combating Organized Crime on this customs bureau shows that its director Boryana Emilova had created an orderly system for imposing lower duties on certain risk goods. The customs investigation, however, could not prove her guilty. She was nevertheless removed from her position and went on unpaid leave.

From the interviews, one can conclude that her system was operative for nearly a whole year—from May, 2003 to February, 2004. The man that remained in charge of “fee collection” was Zhoro Purata (Zhoro the Cigar). Interviewees asserted that he was the unofficial collector handling clients’ contributions and distributing them upwards—to criminal group bosses, customs and Mol superiors, and downwards to simple performer. On a good month, the amount to be distributed would reach € 250,000. As evident from the beatings of customs officers in late 2003, discipline within the system was kept through physical violence.⁸⁴ Zhoro Purata is comparable to the boss of Illiantzi in that he is probably accountable to higher-standing figures.

As in the case with Niki Pileto’s containers, the BCA got close to crushing the system by pure chance—only after some incidents related to the beatings. Customs authorities decided to ban the levying of risk goods at Sofia airport customs posts. The decision did not disrupt Chinese imports in any significant way as cargo traffic was diverted to similar customs bureaus. But it serves to topple a system earning huge incomes to organized crime.

5.2.3. Transformation of the Organized Crime Structures

An indirect estimate of the state budget losses incurred through such schemes can be done by comparing the customs data for the last three years. Its statistics show that duties on imported Chinese goods have brought an additional €160 million, reaching an annual total of €218 million in the year 2003. This 250% increase was achieved at a mere 15% rise in domestic consumption. It can be deduced, therefore, that the losses of gray business and organized crime amounted to about €150 million as compared to the year 2000.

In spite of the significant reduction of smuggling and gray import, the structures described above have not ceased to function. Their activities, however, have been transformed and reduced by several additional factors. Legislative changes made it **more difficult for Chinese nationals to gain permits for conducting economic activities in Bulgaria.** Between 2001 and 2003 the number of active companies owned by Chinese nationals has dropped due to an amendment in the Law on Foreigners that allows permanent residence solely to foreigners whose companies hire fulltime at least ten Bulgarian citizens.⁸⁵ The Chinese families’ cluster of merchants has also thinned. Yet, these developments have touched mostly the small Chinese importers who have been compelled to leave the country.

The change of government in mid-2001 was the second factor, leading to a restructuring of the criminal networks. In 2002 some large criminal formations lost

⁸⁴ Zhoro Purata also fought his way up to his collector position by thrashing his predecessor Plamen Shunkata (Plamen the Ham).

⁸⁵ Law on Foreigners in the Republic of Bulgaria, Art. 24.2, amended SG 42/ 2001, supplemented SG 37/2003.

their influence, some dissolved while others changed bosses. The disappearance of Metodi Metodiev-Illianski (Meto Illianski), who controlled the Illiantzi wholesale market, was just an episode from the loss of ground of former racketeer groups controlling the Chinese import. Although it is not clear who sits at the top of these racketeer groups, Lyubo Chetvorkata, the individual appointed by Meto Illianski, has been collecting fees from Chinese merchants and their brokers alike.

The third and perhaps the most important factor of the transformation is the **customs policy to gradually increase the collected customs duties by pressuring companies to declare the real values of imported goods**. This strategy has affected mostly the import of Chinese goods. Toward the beginning of 2002, intermediaries started having a hard time hiding the real prices of imported goods, as the BCA introduced obligatory minimal values for certain groups of commodities.⁸⁶ Thus, intermediaries' fees on top of the mandatory minimal prices became only slightly lower than the value that could be declared if the import was done legally. As a result, large Bulgarian importers that have built sustainable trade relations with Chinese manufacturers opted for entirely legalizing business operations as the additional profits were low compared to the risk involved. Chinese merchants, on the other hand, did not forsake their channels with such ease. They chose instead to start importing better-quality goods, striving at the same time to keep their share of the gray sector profits intact.⁸⁷ The meager incomes of Bulgarian consumers, however, present a problem, since they would not buy better and therefore more expensive t-shirts, for instance. This is why Chinese importers try to preserve the mass market by maintaining low prices. This low-end market can only be supported by intermediaries ready to venture outright smuggling operations.

⁸⁶ The BCA can hardly follow a policy of imposing duties on the actual prices of the goods due to the lack of cooperation by Chinese authorities. In contrast to Western European goods, where each invoice can be verified, Chinese goods importers can very easily state any price they wish.

⁸⁷ An illustration of this strategy offered by merchants is the simple comparison between the prices of imported goods and the expenses for duties and taxes. If up to the year 2000 merchants imported t-shirts bought for 1 lev, and the state got 10 stotinki from it, in 2003, when t-shirt duty became 40 stotinki, importers bought them for 1.3 leva, thus trying to keep their 90 stotinki from the year 2000.