

CENTER FOR THE STUDY OF DEMOCRACY

**CORRUPTION, CONTRABAND AND ORGANIZED CRIME
IN SOUTHEAST EUROPE**

Sofia, 2003

Recent CSD publications:

- *Corruption Assessment Report*. Sofia: CSD, 2003.
- *Smuggling in Southeast Europe*. Sofia: CSD, 2002.
ISBN 954-477-099-2
- *Corruption, Trafficking and Institutional Reform*. Sofia: CSD, 2002.
ISBN 954-477-101-8
- *Anti-Corruption in Southeast Europe: First Steps and Policies*.
Sofia: CSD, 2002
ISBN 954-477-103-4
- *Corruption and Trafficking: Monitoring and Prevention*. Sofia: CSD, 2000.
ISBN 954-477-087-9

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

SUMMARY: *THE OLD AND NEW HIGHWAYS OF CRIME IN
SOUTHEAST EUROPE*

- The spread of organized crime and its manipulation of corrupt practices are among the strongest impediments to the development of Southeast Europe.
- Regional instability in the past thirteen years has undermined effective law enforcement throughout the region. It has raised considerably the cost of regional trade, and thus the stakes of smuggling, which consequently has become a breeding ground for organized crime on a regional scale.
- Organized crime, particularly the type which relates to trafficking has turned into one of the most important mechanism for unlawful redistribution of national wealth. This slows down economic growth and causes social deprivation.
- Further, corruption and organized crime disrupt the transition to a market economy by destroying fair competition and the potential for free private initiative.
- Criminal networks endanger the stability of democratic institutions by capturing government through systemic corruption. The impact of dirty money in politics is especially negative through the financing of political parties and of election campaigns. This has had a negative impact on the public's trust in the emerging democratic and market economy institutions and has bred disillusionment with reforms in general.

- One of the most dangerous forms of corruption, which destabilizes both internal and regional security in SEE, is the symbiosis between organized crime and representatives from the security sector in the Balkan countries.
- The gravity of the problem calls for bold and radical measures which should upset entrenched interests. Traditional bureaucracies - be they national or international - cannot muster the type of public support needed if these reforms are to be successful.
- Thus, a new type of public-private partnership is necessary to secure public backing for the measures against organized crime and corruption. This partnership should seek to include civil society and private sector institutions as stakeholders in the process of prevention and enforcement.

The rule of law is the foundation for democracy, prosperity and long-term stability. Organised crime threatens all of this.
Today we therefore place this at the top of our agenda and agree on a strategic partnership - for freedom, security and justice. In the past, organised crime has been more organised than national and international efforts to defeat it. We now undertake to shift the balance.

The London Statement, "Defeating Organised Crime in South Eastern Europe", Lancaster House Ministerial Conference, London, November 2002

1. THE LINKAGES

Corruption has received much attention, particularly in the countries of transition as it has become an accompanying phenomenon on the road from state-socialism to market capitalism and democracy. The common problems that post-communist societies face contribute to this fact significantly, but there are also a number of characteristics specific to the countries in SEE:

- Public sector operations are non-transparent, performance is poor and trust in state institutions is low.
- The collapse of the communist regimes left behind an over-extended public sector and high expectations in the population that it will receive assistance in all walks of life (i.e. a “premature welfare state”)
- The combination of weakness, lack of transparency and overburdening in the SEE public sectors constituted fertile ground for both petty and large-scale corrupt practices.
- Economic reforms have been slow and countries have experienced significant periods of “reform-freeze”.

These features, which originate in the recent past, however, cannot alone explain the extraordinary scale of corrupt transactions in the new Balkan democracies. The process of transition of state-owned economy into private ownership through privatization, in addition to the restitution of property, created huge opportunities for the misuse of public power. Another often ignored sphere of systemic corruption is the **de-facto privatization of cross-border transactions** through bribing state officials at the customs, border police and other regulatory and law-enforcement bodies. Given the open nature of the Balkan economies, cross-border transactions constitute up to 2/3 of the GDP for any single country, hence they generate even more dirty money than privatization itself. In most of the SEE countries subordinating state institutions to private interests, similar tendencies generally marked the first stage of the transition-the end of 1989 and the first half of the 1990s. The symbiosis between the state and “high-risk” businesses under unclear

rules of the game and a paralysis of the judiciary bred systemic corruption.

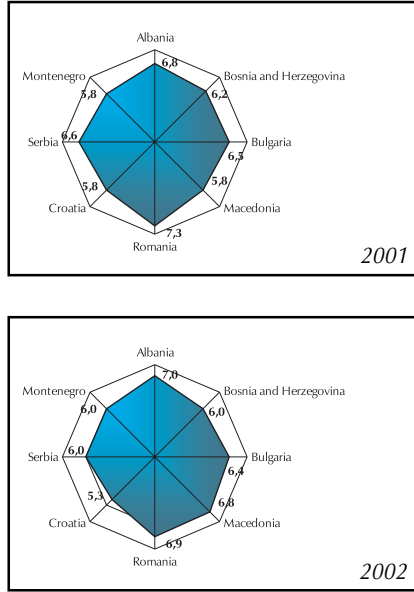
In addition, clientelism, nepotism, and a “secondary” symbiosis of the state and businesses also occur as a result of governance failures. In this case, state interference in business affairs is much greater than the opposite trend - “buying of politicians” by strong private-economic power-groups. Some throwbacks to the past take place, which make possible excessive government interference in the economy despite the privatization of state-owned property. In situations like these, the opposition blames the governing party for imposing neo-authoritarian forms of government that favor private interests close to those in power.

Understandably, it is grand - political and systemic - rather than administrative or petty corruption, which is the main target of anti-corruption efforts by civil society; and it is public reforms rather than purely preventive measures that are the most urgently needed to remedy the existing situation. Independent monitoring and assessing of the gray zones of socially high corruption risk, designing and recommending anti-corruption instruments and reforms, and the lobbying for their adoption by national assemblies and executive branches, are the main areas of civil society mission in countering corruption.

The Southeast European Legal Development Initiative (SELDI), an initiative of the Center for the Study of Democracy and the International Development Law Organisation (IDLO), has been studying corruption in the region for over three years now¹ and has published the first region-wide assessment of its spread. SELDI’s analyses have highlighted the public significance of the problem of corruption and the degree of penetration of this phenomenon in the various social structures, institutions, and groups, both on a comparative level, among the individual countries in the Balkans, and in terms dynamics.

¹ www.seldi.net/anti_corruption.htm

Figure 1. Spread of corruption in SEE



Source: SELDI Corruption Monitoring System

* * *

The systemic nature of corruption in SEE has become *the* major factor impeding the region's development efforts. It has distorted the restructuring of SEE economies, the modernization of their education systems and public health care, and has affected many social programs (e.g. public housing). All this has had a negative impact on the public's trust in the emerging democratic and market economy institutions and has bred disillusionment with reforms in general.

Another relevant aspect relates to the factors bringing about corruption on such a large scale. *The institutionalization of corruption in the SEE countries cannot be explained by the national circumstances alone.* Although corruption is mostly manifested and experienced at the national

level, a number of *region-wide* causes need to be taken into account if we are to comprehend the nature of the problem.

In general, **regional instability in the past thirteen years has undermined effective law enforcement throughout the region, has raised considerably the cost of regional trade, and thus the stakes of smuggling, which consequently has become a breeding ground for organized crime on a regional scale.** As put by Javier Solana, EU's High Representative for CFSP, "organised crime has benefited from conflict and post-conflict situations."² As a consequence, one of the prevalent forms crime has taken in the region has been trafficking, a fact acknowledged by EU's Thessaloniki Agenda for the Western Balkans: "Particular focus should be placed upon fighting all forms of trafficking, particularly of human beings, drugs and arms, as well as smuggling of goods."³ Driving the SEE economies into the gray, and even criminal zone, has been the main dynamic behind high levels of corruption. Thus, **the specificity of corruption and crime in Southeast Europe, as contrasted with other transition or post-communist countries, lies in the cross border illegal trade, centered on the war-ridden Western Balkans, but affecting all the countries on the peninsula.**

2. THE ORIGINS

The war in former Yugoslavia and the sanctions and embargo regimes, imposed on the warring republics (especially the sanctions imposed on the FR Yugoslavia, which directly affected the whole region) led to proliferation of organized crime, and especially of smuggling, trafficking and illegal trade in SEE.

² Intervention by Javier Solana, "Defeating Organised Crime in South Eastern Europe", Lancaster House Ministerial Conference, London, November 2002

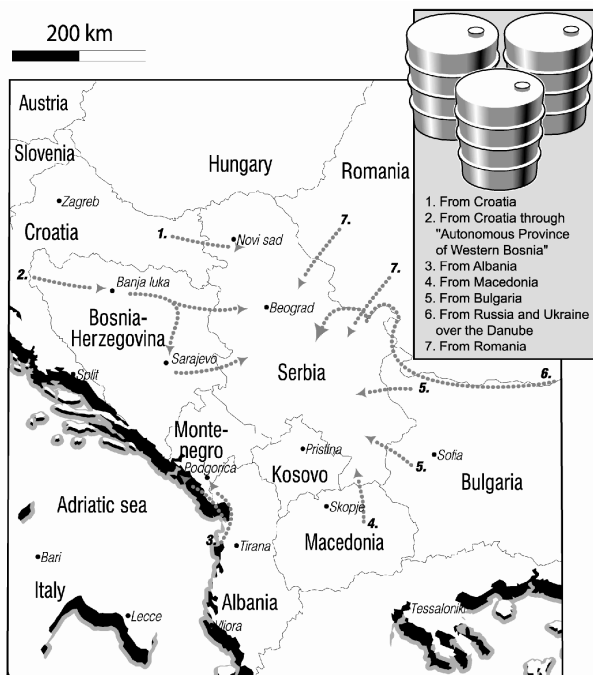
³ "The Thessaloniki agenda for the Western Balkans: Moving towards European integration," EU General Affairs Council, 16 June 2003

In the name of the higher goals like protection of national independence and sovereignty, the leaderships of the seceding Yugoslav republics had to set up and arm the newly created republican armies in the only way possible way - illegally, by using existing as well as newly established smuggling channels. The party leaders and high-ranking figures in the Yugoslav army and the Yugoslav secret service largely tolerated these activities and in their turn contributed to the development of a stable smuggling system. This system was built both vertically (from political leaders to actual smugglers) and horizontally (it included the whole chain of smuggling channels, passing across the new state borders and connecting through common interests the political elites in all post-Yugoslav republics).

The elites in the Yugoslav republics were actively involved in **development and organization of smuggling channels**, and they protected and assisted those who were directly involved in their exploitation. This prosperous "business" was controlled in close collaboration between politicians, their security forces lobbies and organized crime structures. The Yugoslav experience shows that temporary symbiosis between authorities and organized crime during the process of creation of new states leads to permanent transformation of state/national interests into private ones and fosters the development of corrupt, non-transparent and crime-permeated societies.

The free reign given to the organized crime in the war-ridden Western Balkans, had an impact also on other countries on the peninsula. The connection between the events in former Yugoslavia and the trans-border crime and related corruption in the Balkans was most clearly visible during the trade and arms embargos, imposed by the UN on the post-Yugoslav states. The sanctions and embargos fostered the development of a regional net of smuggling channels, with organized crime structures in Bulgaria, Romania and Albania playing a crucial role in this process. Furthermore, smuggling of goods under embargo to post-Yugoslav countries became an important source of income for various groups, ranging from political leaders to people, living in the border areas. As a result, corruption permeated law enforcement agencies and political elites in these countries.

Figure 2. Oil smuggling routes to the Federal Republic of Yugoslavia⁴



⁴ Center for the Study of Democracy, *Corruption, Trafficking and Institutional Reform*, Sofia, 2002 (www.csd.bg/publications/book11/content.htm). Smuggling and customs fraud with petrol products have a long history. Petrol products have become the most popular objects of smuggling at the beginning of the 1990s. Preconditions for such development were created by the lifting of the state monopoly on import, export and retail trade of petrol products (during the period 1991-1993, the number of petrol stations has doubled). An additional catalyst for smuggling of fuel was the introduction of an embargo on import of petrol products to Serbia and Montenegro. This has increased profits from trade in petrol products three to four times as compared to the previous petrol consumption in the country. Both the ordinary citizens living in border areas and the economic groups, patronized by politicians, got engaged in fuel smuggling. The embargo on Yugoslavia was one of the most important factors, influencing the growth of organized crime in the country. After the end of the embargo regime, the established channels continued to operate under new conditions. This was possible because of the subsequent political and economic crisis, privatization chaos and different prices of petrol products in various Balkan countries. As a consequence, from mid-1990s until present, the market with petrol products, fuels and oils remained a suitable environment for realization of illegal import, in which criminal groups and companies, operating within the different "shades of gray" are involved.

The trans-border organized crime networks, set up semi-officially with the knowledge and often even active participation of the highest state officials, were soon “privatized” by well-placed individuals and groups within or closely connected to the ruling elites. The process of privatization was well underway by 1992 in all SEE countries and was largely concluded by 1995 (the only exception being Kosovo where the process could be observed between 1997 appearance of the KLA as an important regional player and the 1999 NATO campaign). During the same period, the channels initially established for smuggling predominantly weapons and oil were expanded to include other goods, such as drugs, stolen vehicles, cigarettes, alcohol and other commodities. The origins of the constantly growing Balkan trade in human beings can also be traced to the 1992-1995 period and to the lucrative business of assisting refugees to escape from the war zones to safety. Thus, trans-border organized crime and corruption started to seriously undermine the normal functioning of the states in the region.

While the regimes, which were actively engaged in development and organization of the smuggling channels, remained in power, virtually no attempts were made to stem trans-border crime and the corruption that facilitated it. In Croatia, Bosnia-Herzegovina, Montenegro and Serbia, where due to the specific circumstances (involvement in the war being the most important one) the same regimes remained in power for almost the whole decade, all the attempts to check the flow of smuggled goods were only cosmetic, if any. In countries, where governments did change (Albania, Bulgaria, Macedonia, Romania), some measures to stem proliferation of smuggling were taken. Unfortunately, in most cases these measures were ineffective, and led only to the change of people involved in the smuggling. One exception to the rule may be the sweeping anti-corruption and anti-Mafia reforms, which followed the assassination of Serbian Prime-Minister Djindjic by former security sector officers, allied to organized crime.

The *Croatian* authorities justified the proliferation of smuggling and their virtually complete inability (or unwillingness) to put an end to it with the fact that Croatia was still engaged in the armed conflict and that more than a third of Croatian territory was not under their control. Liberation of these

territories was declared the absolute priority and all other issues, including the fight against corruption, organized crime and illegal trade, were conveniently put off until some unspecified future. Little has changed after the war ended. Many of the high ranking individuals engaged in smuggling and other criminal activities enjoyed complete immunity from prosecution, due to their “defenders of the homeland” status.

Before the Dayton Agreement, which ended the war in *Bosnia-Herzegovina*, any attempt to put an end to illegal trade was unthinkable. No legislation, no police force, no customs services, and even no clearly defined and recognized borders existed. Above all, there was absolutely no willingness on the side of the authorities to tackle the problem. Trans-border organized crime and war formed a vicious circle, in which war generated the need for smuggling while the profits smuggling was bringing to those involved generated the need to prolong the war for as long as possible. After the war, the provisions of the Dayton Agreement, which aimed above all to preserve peace and stability in the country, created conditions in which any serious action against organized crime and corruption was made virtually impossible. Complicated political and administrative arrangement, division of the country in two entities (of which the Croat-Muslim federation was further divided into 10 cantons), as well as the more pressing issues like post-war reconstruction, return of refugees and displaced persons, and preservation of peace, sidetracked the fight against organized crime, smuggling and corruption. These issues were not addressed properly until the end of the decade.

In the *FR Yugoslavia*, the international sanctions presented the same excuse the war offered to the elites engaged in illicit trade in Croatia and Bosnia-Herzegovina. Efforts were made to morally justify smuggling as “necessary” to help Yugoslavia survive under the “unfairly” imposed sanctions. While Milosevic’s regime was in power, not surprisingly, no attempts were made to counter illegal trade. Furthermore, the general public, the civil society and the majority of opposition parties hardly ever raised the issue, despite the fact that it was already more than clear that the only survival trans-border organized crime made possible was the survival of Milosevic’s regime. The explanation might lie in the fact that huge segments of the population were

either directly involved in or dependent on smuggling (predominantly small-scale or so called “suitcase” smuggling).

In *Kosovo*, The KLA’s armed insurrection and the consequent clashes between the KLA and the Yugoslav security forces destroyed any vestiges of law and order in the province, giving the drug smugglers a completely free reign. The alleged goal behind the drug trade continued to be the “liberation” of Kosovo from the Serbian “occupation” while in fact it served primarily for personal enrichment of the members of 15 clans, allegedly controlling both the drug trade and the KLA. Prior to the UN Mission in Kosovo (UNMIK) taking over the administration of the province in 1999, effectively no authority existed which could possibly try to curb the drug traffic.

In *Albania*, the weak government, inadequate and non-enforced legislation, corrupt and ill-equipped security forces and dire economic situation all contributed to the creation of a perfect environment for proliferation of organized crime. The involvement of the highest representatives of the governing Democratic Party in smuggling and other criminal activities prevented any serious action against the illicit trade before the 1997 collapse and the subsequent change of the government. The 1997 events exacerbated the problem to such an extent that the new, Socialist government, even if we assume that it was actually willing to do so, was completely powerless to do anything on its own and the international community had to step in. The most important development was the establishment of European Commission’s Customs Assistance Mission in Albania, deployed in June 1997 on request from the new Albanian government.

The new “division of labour” between the international criminal groups in SEE outlines the increased role of Albanian and Turkish Mafiosi in heroin trafficking, of Albanian, Macedonian, Bulgarian and Turkish criminal groups in human beings trafficking and of Serbian and Russian/former Soviet Union criminal groups in hired killings.

During the rule of the Party for Social Democracy (PSDR, the former communists) in *Romania*, which lasted until the 1996 elections, numerous ties were forged between some governing officials and the shadow economy

structures. The former provided the latter with easy access to unsecured credits from state banks (three of the main state banks were driven to the edge of bankruptcy because of this practice), with legal “blessings” for their trading monopolies, and with preferential treatment in privatization procedures. The new Romanian “business” class provided their political mentors with funds for their electoral campaigns and other, official and unofficial, needs. In such an environment, the fact that hardly any measures were taken to curb corruption and the gray economy, including smuggling and trafficking, hardly comes as a surprise.

In *Bulgaria* the following pattern could be observed with every change of government (the situation was very similar also in other countries):

- The electoral campaign, in which promises to fight corruption and organized crime play an exceptionally important role, in fact intensifies the activities of the trans-border organized crime networks, since those involved try both to build up “reserves” for an uncertain future and to take advantage of the ensuing power vacuum between the elections and the inauguration of the new government.
- When the latter takes place, some swift and highly publicized steps are taken - some contraband channels are broken, some of the individuals involved (most often including some customs officers) might be dismissed or arrested.
- The smuggling and corruption, however, are rarely significantly affected. Rather, new people, close to the new authorities, take over the smuggling networks.

* * *

The Yugoslav conflicts and the interweaving of political-ethnic and criminal interests in the Western Balkans are not the only reasons for the creation and growth of the regional criminal infrastructure, based on permanent smuggling channels and systemic corruption. There are at least two more important factors, which contributed to the criminalization of trans-border traffic and the ensuing corruption.

The first is the **liberalization of movement of goods and people** and the lifting of visa and other restrictions in the regional post-Communist countries. In combination with the weakening of the state control, this has created favorable conditions for trans-border crime. In particular, the withdrawal of the state from strict control over the movement of people and goods across the borders encouraged the processes of privatization of both old and the newly-created smuggling channels. These channels were thus taken over by the criminal and semi-criminal groups in close cooperation with former agents of security services. State administrators, employed in key institutions like customs, police and other services involved in border control, also got included in the scheme through the expanding corruption networks. It can be said that to a great extent **border control** passed from the hands of the state and **became an unlawfully acquired private domain of illegitimate actors**. In addition, most of the borders were not defined and mutually recognized, and consequently properly controlled, until well into the 1990s. Furthermore, the succession of armed conflicts and ethnic cleansing campaigns in the former Yugoslavia led to creation of quasi-states (Kosovo is the most obvious example of such an entity) and weak states, practically unable to control their borders.

The second factor contributing to dynamic development of trans-border crime and corruption during the last 12 years was the impact of one of the main features of Balkan economies: namely, that **the national borders in this period represented the largest redistributing mechanism of national wealth**. Due to the small capacity of regional economies, the value of goods transported to and from the Balkan countries reached up to 85 % of GDP in some cases. The losses incurred through illegal import and export over the last 13 years will most likely exceed the value of revenues from privatization,

including the countries where privatization is almost completed (Bulgaria and Croatia).

Of course, the impact of the **region's geographic position should also be considered**. The Balkans has traditionally been the most important European point of entry for the Asian heroin. During the last decade, they also became an important distribution center for the South American cocaine. Further, the southeast-northwest route of heroine will probably remain the most vulnerable "highway of crime". The future modernization of the transportation infrastructure along with the European corridor №4 (Greece-Bulgaria- Romania) and №8 (linking the Bulgarian Black sea coast to Vlora in Albania through Macedonia) could be instrumental in the intensification of the traffic.

The region is also the most important land route for hundreds of thousands of illegal immigrants from Near East and Asia, who are trying to reach the EU countries. It is also an important source, transit and even destination region for women and girls, trafficked to be employed in the sex industry. Southeastern Europe is also one of the most important links in the chain of European cigarette smuggling. All these aspects represent a practically bottomless source of corruption, mostly among border police and customs officials, but also in the judiciary and the public administration. Furthermore, the *scale* of these criminal activities also breed political corruption because of the need for political protection of the criminal networks.

The illegal transactions, however, are not limited only to trans-border business (import and export). Their destructive impact can be seen also in the deformed structure of national economies, since the extraction of enormous revenues from illicit import and export can be possible only if a large enough gray sector exists. After the collapse of the Soviet model of total state control over the economy, illegal transactions performed in the **gray sector came to comprise between 30 and 50 percent of the Balkan national economies**. A common practice is that those who are actively involved in trans-border crime are also directly or indirectly involved in trade in the unofficial economy.

3. THE MECHANISMS

The smuggling of goods has inflicted considerable damage to the economies of the SEE countries. It is often accompanied by trafficking in banned or controlled substances and items; criminal acts; competition between the organized smuggling groups, and between traffickers and lawful importers. Moreover, in order to stay in the market, lawful importers are forced to resort to violations of the established foreign-trade regulations.

Trans-border organized crime has a destructive effect not only on the economy, but also on the institutions and the rule of law in a given country. The huge resources accumulated in this manner allow engaging in covert financing and refinancing of various types of legal and illegal undertakings. This is largely due to the fact that the revenues from smuggling do not enter official government statistics; they are never declared and thus never registered with the relevant authorities. Practice shows that all too often proceeds from illegal trafficking serve to finance political parties, labor-union and other organizations in SEE. Illegal import adversely affects domestic production and harms sectors of strategic importance to the country. In its various forms it is in fact one of the means companies employ to enter a given market. It is also used to monopolize a certain economic or other sector of activity - for instance the trade in alcohol, cigarettes, grain, sugar, video and audio equipment.

The goods most frequently subject to smuggling are those with high import tax rates (cigarettes, alcohol, motor vehicles), goods subject to national bans and restrictions such as arms, narcotic substances and precursors, pornographic materials, subsidized goods, protected animal species and plants, goods and technologies of civil and military use, works of art and objects of cultural and historical value, strategic raw materials, forged goods and products violating intellectual property rights, goods subject to international control, nuclear and radioactive materials, hazardous and toxic substances and wastes, hi-tech products, etc.

Illegal import can be carried out at any time and anywhere along the border, with the actual places of occurrence falling in two main zones -

points where customs control is executed (ports, airports, border checkpoints, free trade zones, and others) and points outside customs control - a remote location along the coastline, a minor port or airport.

Depending on the nature of smuggled goods, as well as on the initial and end buyer (destination), citizens of different states are engaged as perpetrators. In a number of cases the citizenship of the person used for the smuggling is of great significance insofar as there are visa restrictions on the movement of persons and goods in certain regions of the world - for instance, the Schengen Agreement. Illegal trade with a final destination in a Schengen country usually involves nationals of these countries, or persons frequently traveling to these countries.

* * *

Below, cross border organized trafficking mechanisms in **Bulgaria** are exemplified.

Table 1. Smuggling according to the types of goods⁵

Type of goods	Origin, route	Bribes	Quantity/value of smuggled goods	Type of fraud
1. Petrol products	Romania - Ruse. Varna - Lesport Neftohim	100,000 leva per barge (3,000 - 5,000 tons)	30-35% of general consumption	Export declarations from Romania; Part of the cargo is hidden
2. Household appliances	Thessalonika - Kulata - internal customs bureaus	Roughly 10,000 leva per truck	20 trucks per month	They are taxed as different goods
3. Electronics (chips, plates, etc)	USA, EU - airport Sofia	30% of unpaid VAT	\$ 3-5 million	Shipping agents are involved in smuggling
4. Airplane cargo	China, Dubai - airport Sofia	1.5 leva / kg	40-100 tons monthly	
5. Turkish goods (not counting food products)	Turkey (Istanbul) - Kapitan Andreevo - internal customs bureaus; Istanbul - free zones - internal customs bureaus - Plovdiv, Haskovo	Kapitan Andreevo - 500 leva; internal customs bureau - 1,000 leva	150 trucks per month	Untrue weight is declared; false receipts; false origin certificates; free zone Svilengrad; precise quantity and type of goods is not specified in documents, but only the number of boxes
6. Chinese and other Asian goods	China, Vietnam, India, etc. Thessalonika - Kulata - internal customs bureaus; Thessalonika - Novo Selo - Plovdiv - Kazanluk; Varna	Border crossing - 500 leva; Internal customs bureau - 1,500 leva for trucks with canvas coverage; 2,000 leva for 3 containers (2 trucks)	200 containers per month on average	Considerable discrepancies in weight quoted in documents and in reality. False certificates of origin (Turkish).
7. Consumer goods from Dubai	Dubai - customs free zone Syria - Svilengrad - internal bureaus Sofia, Plovdiv	Border crossings - 500 leva; Internal customs bureaus - 1,500 leva	200 trucks per month	False origin certificates (mostly Turkish); transported in trucks with canvas coverage.
8. Fruit and vegetables	Turkey, Syria, Macedonia - clearance in Svilengrad, Zlatarevo, Sofia	1,000 leva on average, divided among customs, sanitary control, police, traffic police, hygiene-epidemiology institute, regional bureau for combating organized crime	240 trucks between October and May and 20 trucks from Syria	Transportation of poultry and meat instead of vegetables in some trucks.
9. Meat and poultry	Thessalonika - Kulata - Sofia; EU - Vidin - Sofia; EU - Kalotina - Sofia; Black Sea ports.	Border crossings + veterinary controls - 800-1000 leva; Internal bureau - 2500-3000 leva for customs officials + 500-1000 leva for veterinary control	250 refrigerator trucks per month	Producer is not indicated on the trucks; false certificates, false EU export declarations
10. Milk powder	Ukraine, Russia - Ruse, Kardam	4,000 leva per truck		False certificates from Poland; pure profit \$10-12,000 per truck
11. Rice, beans, lentils	Varna 10-20,000- ton ships	\$19-20,000 per ship	2 ships loaded with rice per month	Part of cargo is hidden; concealed origin;

¹¹ Center for the Study of Democracy, *Corruption, Trafficking and Institutional Reform*, pp.16-17

Petrol products are the most important contraband items in this country. According to official data of Bulgaria's Customs Agency, 350 tons of liquid fuel enters the country every day. The smuggling of petrol products, as well as the number of various forms of customs violations and fiscal offences connected to it, has substantially decreased in the last three-four years. Yet, experts analyzing the current situation believe that 30 to 35 percent of general consumption in Bulgaria is still "gray" or even "black."⁶

Illegal import of petrol products, fuels and oils therefore generates the largest losses to the state budget. If we compare data for legally imported petrol products for the last three years, substantial differences can be observed.

According to the operative data from the customs statistics, there was an unprecedented drop in the petrol import in the first six months of 2002, although there was no registered drop in the consumption on the internal market in this same period (table 2).

Table 2. Comparison of the value of imported petrol products (in Bulgarian leva) by quarter

	1999	2000	2001	2002
Petrol products - first quarter	27,217,097	34,183,808	58,311,141	16,018,630
Petrol products - second quarter	24,481,056	81,991,287	52,973,198	25,541,868
Petrol products - half year period	51,698,1531	116,175,095	111,284,339	41,560,498

Source: Bulgarian Customs Agency

⁶ According to independent sources within the customs administration, budget losses come to around 500,000 leva daily as a consequence of that.

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

Another widespread phenomenon is smuggling of automobiles. Unlike most of the other Eastern European countries, Bulgaria does not have its own car production and is completely dependent on import. According to statistical data, the import could conditionally be divided into two categories - import of new and import of used cars. Data from operative customs statistics show that the market for used cars is valued at 250-300 million leva in 2001. The value of the annual market of new cars ranges from 200 to 250 million leva. The overall car market in the country therefore reaches around 500 million leva annually and is one of the largest in Bulgaria (1.69% of GDP in 2001).

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

The situation regarding the import of used cars is very different. The data shows that in the last 10 years, more than one million cars were imported, with an average annual import of about 100,000 cars in the last three years. Used cars therefore occupy the central place on the Bulgarian car market. The used cars market is well developed, with companies specialized in particular types and classes of cars, with permanent partners all over the world, with specialized transport facilities, with numerous service-stations and with an "exclusive right" on a particular part of the country. Despite the lack of systemized information, it is obvious that the market is large enough for the big importers (100-300 cars annually), medium-sized importers (30-

40 cars) and for private persons, importing 2-3 cars a year.

Liberalization of the import of used cars has created a gigantic gray market for spare parts and accessories for the cars (it represents 70-80 percent of the overall market). With 100,000 used cars imported annually and with the enormous gray import of spare parts, it is not a problem for a specialized criminal group to conceal up to 20,000 cars, stolen within the country or in some other European state. Bribes between 2,500 and 3,000 leva (depending on the type of the car) are paid to customs and border police officials in Kapitan Andreevo. Usually, the person driving the stolen car is registered as a passenger, transiting the border on foot or in some other transport vehicle, and the car itself is not registered at all.

Cigarettes represent perhaps the most popular item for smuggling due to their specific features (small size, high price, very large consumption), cigarettes are the most popular item for smuggling not only in Bulgaria, but also in most of the world. The profits made by the cigarette smugglers are close to those, made by the drug smugglers. The volume of cigarette smuggling in Bulgaria can be most accurately determined if the data from customs statistics are compared with the data from marketing research on the sales of imported cigarettes in the country. According to the latter, the annual cigarette market in the country can be estimated at 500-560 million leva.⁷ Imported cigarettes represent 12-15 percent of all cigarettes sold (60-80 million leva).

Based on these estimates, CSD experts calculated that in 1999, less than 10 percent of imported cigarettes, sold in Bulgaria, were legally imported. In the period 2000-2001, the share of legally imported cigarettes sharply increased, although consumption remained unchanged. However, legally imported cigarettes still represent only 30 percent of foreign cigarettes, sold in the country.

Several factors have influenced this development. Among the most important is the new approach of the large multi-national companies. Few

⁷ The estimate of the National Statistical Institute is lower - 260-280 million leva annually.

of them planned to participate in the privatization of the Bulgarian tobacco giant “Bulgartabak” and as a consequence, they tried to legalize their products, sold in the country. The change in the behavior is also a result of many international law suits against them on charges that the multinationals assist the smuggling of their products. Equally important is that the Bulgarian law-enforcing agencies intensified their efforts in countering cigarette smuggling.

A new situation occurred in early 2002. A clearly visible drop in revenues from cigarette imports has occurred as compared with the same period in the previous two years (see table 3).

Table 3. Comparison of the value of cigarette imports (in Bulgarian leva) by quarter

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

Source: Bulgarian Customs Agency

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

* * *

4. THE CONSEQUENCES

From the second half of the nineties, organized crime has undertaken the following steps towards its integration into SEE business and politics:

- through privatization, control of imports and exports, racketeering, establishing monopolies in a number of the most profitable economic sectors, etc.
- redistribution of profits(import and export of raw materials and commodities, wholesale of agricultural and industrial production, financial institutions, tourism, etc.).
- control over the “black economy“ (revenues from petty crime, car theft, drug trafficking and drug distribution, prostitution, human trafficking, counterfeiting of money and securities, etc.).
- venturing into new methods for financial crime (cyber crime, credit card fraud, etc.)
- creation of durable corruption networks through redistribution of dirty money among the lobbies of organized crime in government structures.

Those methods sketch the outline of the economy of crime as a **quasi-economic system, which combines legal with illegal and criminal methods and forms of business, and which is to a great extent protected from law enforcement.**

The threat posed by this infiltration is increased because of the fact that often regional societies and governments in one way or another tolerate the economy of crime as it is deemed different from “traditional“ criminal activity. State institutions and law enforcement continue to show certain tolerance to the big players in the shadow and the criminal business. A number of laws are not enforced making it necessary to introduce new regulations although their effectiveness remains questionable as well. The inefficiency of the judicial system has an especially destructive effect on the efforts for counteracting the economy of crime, which is only partly due to imperfect legislation. In practice, not only does organized crime remain unpunished,

but it also uses the judiciary to eliminate competitors through corruption.

In his speech to the London Conference on Organized Crime in SEE, EU External Relations Commissioner Chris Patten pointed out that crime and corruption are a social, political and economic problem.⁸ In particular, the absence of adequate measures against the economy of crime has a number of **negative impacts**:

- Deepening of the socio-economic problems of transition by the draining of public resources.
- Undermining the transition to a market economy by destroying fair competition, the potential for free private initiative and consequently pushing honest business players out of the market.
- Redistribution of national wealth through corrupt privatization, financial and tax fraud, trafficking and resulting import monopolies, etc.
- Participation in international corruption and criminal networks through which the region is integrated in international criminal infrastructure.
- Creation of a negative image of the region among foreign business and political partners, which creates obstacles for its integration in the European Union and NATO.
- State capture with the resulting risk for the stability of democratic institutions.
- The impact of dirty money in politics is especially negative through the financing of political parties and of election campaigns.

⁸ Speech by The Rt Hon Chris Patten, CH, "Defeating Organised Crime in South Eastern Europe", Lancaster House Ministerial Conference, London, November 2002

5. THE SOLUTIONS: INNOVATING FOR SECURITY

As has become obvious by now, traditional security risks related to armed conflict in SEE have given rise to new, softer versions based on the spread of organized crime and governance failures caused by systemic corruption. “Hot” conflicts are being supplanted by the gradual erosion of sovereignty of public institutions over key aspects of social and economic life in the region - Javier Solana called it “a predatory system”. Most importantly, these result in undermined human development efforts and diminished chances for EU and NATO integration.

The international community and local reform-minded opinion makers in SEE provided indispensable leadership and vision in overcoming the conflicts in the early and mid 1990s in the region. Since the gravest current threats are fluid and flexible, and their effects become evident only over time, similar leadership and vision is needed from international and regional actors.

The gravity of the problem calls for bold and radical measures which should upset entrenched interests. For this to happen, broad public coalitions need to be formed both within countries, and region-wide. Traditional bureaucracies - be they national or international - cannot muster the type of public support needed if these reforms are to be successful. And public support is a must in confronting a phenomenon with such broad social and economic consequences. Currently, SEE societies are not sufficiently engaged in changing the permissive environment that allows crime to operate freely. Thus, being effective against the new challenges to the security and reforms in SEE is preconditioned on the departure from the traditional state-oriented thinking. Where crime makes inroads into development through corruption is where governance failures could be redressed through public-private partnerships - neither public governance structures nor the private sector could do it alone. **A new type of public-private partnership is necessary to secure public support for the measures against organized crime and corruption. This partnership should seek to include civil society and private sector institutions as stakeholders in the process of prevention**

and enforcement.

Broadening the scope of stakeholders in responding to crime and corruption in SEE has a number of advantages:

- **Flexibility** will be added to the prevention and enforcement mechanisms. One of the difficulties in combating modern criminal networks is that law enforcement bureaucracies are pitted against adaptable and innovative structures.
- Civil society organizations are much **less attractive for criminals to capture** and will thus infuse integrity in the process.
- Private sector and civil society institutions could provide **sustainability and long term approach** as they are not bound by the election cycle limits of governments and political parties.
- The available expertise will be enhanced (e.g. in areas such as forensic accounting, threat assessment and analysis, etc).

Finally, becoming aware of the true dimensions of regional trans-border crime and of its impact on regional corruption patterns requires that a comprehensive approach be adopted. For now, the regional approach in counteracting trans-border crime and corruption is still overshadowed by individual national efforts, which are further fragmented by the artificial division on challenges to internal security on one side, and external security of a particular country on the other.