

**The London School of Economics and Political  
Science**

Backdoor traders: illicit entrepreneurs and legitimate  
markets

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A thesis submitted to the Department of Sociology of the  
London School of Economics for the degree of Doctor of  
Philosophy, London, April 2011

## Declaration

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## **Abstract**

This dissertation examines the factors that determine the behaviour of criminal entrepreneurs in legitimate markets. The particular aspect studied is how such entrepreneurs enter a new market when they immigrate into a new country (Chapter 1).

The empirical focus of the thesis is the Bulgarian illegal entrepreneurs involved in the sale of stolen cars. More specifically, the dissertation compares their market behaviour in Bulgaria and in Spain between the late 1990s and 2010. The empirical basis for the dissertation is a comprehensive analysis of summaries of 86 Spanish police investigations against organised crime networks, as well as fieldwork consisting of interviews with 79 offenders, law-enforcement officers, entrepreneurs, and car-dealers in Spain and Bulgaria (Chapter 2).

To best understand the intertwining of criminal entrepreneurs and legitimate markets the thesis starts by examining the operations of the car markets in Spain and Bulgaria (Chapter 3). It goes on to explain the 'car-theft industry' – focusing on how criminal enterprises and networks are structured and operate (Chapter 4). The analysis then continues by comparing how stolen cars are sold by illegal entrepreneurs in Bulgaria and Spain, and the different ways in which 'legal' and 'illegal' markets intertwine (Chapter 5). The conclusion of this analysis is that Bulgarian criminal entrepreneurs failed to enter the market for used cars in Spain, and instead preferred to traffic and sell the stolen cars in Bulgaria.

There are two sets of factors that explain the reasons behind this failure. The first one is the local socio-economic and historical legacies in Bulgaria, which explain how illegal entrepreneurs and buyers (typically part of local economic elites) are linked (Chapter 6), and the factors that fuel demand for stolen cars. The role of the Bulgarian immigrant community in Spain is also considered. The second set of factors, examined through the lenses of economic theories, includes the economic / business rationale that influences the illegal entrepreneurs' behaviour when entering a market (Chapter 7). The thesis goes on to conclude (Chapter 8) that it is the first set, the complex socio-economic and historical factors that best explain the behaviour of criminal entrepreneurs and their failure to sell stolen cars in Spain.

## **Acknowledgements**

The first year of the work on this thesis was funded by then Chevening Scholarships of the Foreign and Commonwealth Office. My special thanks also go to the Center for the Study of Democracy and Tihomir Bezlov, as well as Dr. Ognian Shentov and Dr. Emil Tsenkov, who supported my work on this thesis in various ways. I thank my family and my wife, Olga, for being patient and inspiring. Many thanks also go to my PhD supervisor Dick Hobbs, as well as reviewers and examiners who provided useful remarks throughout the process of writing and revising the thesis: Paddy Rawlinson, Claire Alexander, Nigel Dodds, Nigel South, and Don Slater.

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## Acronyms

|         |   |
|---------|---|
| ACEA    | European Automobile Manufacturers' Association                  |
| CSD     | Center for the Study of Democracy (Bulgaria)                    |
| EMCDDA  | European Monitoring Centre on Drugs and Drug Addictions         |
| EU      | European Union  |
| EUICS   | European Crime and Safety Survey                                |
| FATF    | Financial Action Task Force                                     |
| FDI     | Foreign direct investment                                       |
| FECAVEM | Federacio Catalana de Vendedores de Vehicles a Motor            |
| FITSA   | Fundación Instituto Tecnológico para la Seguridad del Automóvil |
| GD COC  | General Directorate for Combating Organised Crime (Bulgaria)    |
| IO      | Industrial Organisation   |
| IOM     | International Organisation for Migration                        |
| MNC     | Multinational corporations                                      |
| MoI     | Ministry of Interior  |
| NPC     | National Police Corps (Spain)                                   |
| NSCOC   | National Service for Combating Organised Crime (Bulgaria)       |
| NSIC    | National Strategy Information Centre                            |
| OCG     | Organised crime group   |
| OCTA    | Organised Crime Threat Assessment (Europol)                     |
| OLI     | Ownership-Location-Internalisation (Dunning)                    |
| SIC     | Sofia Insurance Company (Bulgaria)                              |
| SME     | Small and medium size enterprises                               |
| SOCA    | Serious Organised Crime Agency (UK)                             |
| UNODC   | United Nations Office on Drugs and Crime                        |
| VIS     | Vasil Iliev Security (Bulgaria)                                 |

# 1 Introduction

The debate on the 'globalisation of crime' has probably become as banal as the one on 'globalisation' itself, yet it has remained far less sophisticated: criminologists have often been left to rely on superficial and unreliable evidence, trying to connect the tips of many icebergs into a global crime picture. What remains obvious is that increased labour migration following the end of the Cold War, globalisation of financial markets and communication technologies, increased tourism and travel, have created and opened new opportunities to criminal entrepreneurs (Albanese 2000). In Europe these processes have been more radical than in other regions of the world, precipitated by the removal of state border inspections through the creation and subsequent expansion of the EU's Schengen Agreement.<sup>1</sup>

While some forms of 'global crime' (e.g. complex financial and tax crimes, or cyber crimes) are the result of new criminal opportunities created by globalisation processes, crimes associated with trans-border movement of criminals is a much older phenomenon. The migration of Italian mafia or Chinese triads to the United States, for instance has been well described (Critchley 2009, Curtis at al. 2003); while in Europe, Moroccans in Spain, Turks in Germany, and Caribbean immigrants in the UK, for instance, migrated in the decades before 1990. The Eastern Europeans were only the latest wave of criminal and labour migrants after the end of the Cold War and again with the accession of many Eastern European countries in the EU.

Despite the fact that this recent wave of migration of criminals has received attention from both law enforcement agencies and criminologists, the phenomenon of 'integration' of criminal migrants into their new host markets for illegal goods and services has received little attention. This thesis aims to fulfil this gap, by examining the factors that influence this 'integration' process.

Not all criminal migrants engage in 'market type' organised criminal activities: many might engage only in petty crimes; others engage in crimes for which there is no

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<sup>1</sup> The two EU accession waves of East and Central Europe were in 2004 and 2007. Visa restrictions for Bulgarians and Romanians were lifted only in 2001 and 2002 respectively. The UK was the only EU member state to keep visa restrictions until the two countries became members in 2007.

market (e.g. burglaries, VAT fraud, or credit card-fraud). The empirical focus of the present thesis, though, – ‘car theft’ – is a market type of criminal activity. As such it is closely connected to the legitimate car market. The relation between the illicit good (i.e. the stolen car) and the legitimate market make the case of car-theft similar to other organised criminal activities related to legitimate markets: illicit excisable goods (tobacco, fuels, and alcohol), stolen or fake cultural goods, counterfeit goods, illicit firearms, or smuggled consumer goods that avoid import tariffs. Illegal entrepreneurs who engage in the production or distribution of any of these illicit goods inevitably have to compete and to engage with the legitimate market participants. In such ways they become part of the legitimate markets and part of legitimate economic life.

The empirical focus of this thesis is the case of Bulgarian car-theft enterprises and their presence in the markets for stolen vehicles in Spain and Bulgaria. More specifically the thesis examines how criminal entrepreneurs entered the markets for stolen cars in both countries in the period between 1998 and 2008.

This introductory chapter aims to expand on the broader theoretical issues, in particular on the present debate about the structure and operation of ‘illegal markets’ and market entry, and on the relation of these debates to broader sociological theories, in particular to the sociology of markets. It also introduces some non-sociological theoretical frameworks from economics and international business studies that are relevant to the analysis of ‘market entry’.

## 1.1 Markets and market illegality

The entry into a market for illegal goods might seem to be a narrowly defined issue but its theoretical underpinnings in sociology, economics, and criminology are much broader and can be clearly outlined. Market ‘entry’ is one aspect of the operation of any market. Therefore, its theoretical consideration falls within the realm of economic sociology and more narrowly in the field of the ‘sociology of markets’. The latter has grown in recent decades, building upon the classic works of Weber (*Economy and Society*, 1978) and Durkheim (*Division of Social Labour*, 1984).

The operation of markets for ‘*illegal goods and services*’, at least since 1967 (United States: President’s Commission on Law Enforcement and the Administration of

Justice (1967:1) has become an important analytical framework through which criminologists analyse 'organised crime'. While criminologists have generally not paid attention to the issue of entry into such markets, the issue of 'barriers to market entry' has been a topic of significant academic debate amongst economists, and in particular strategic management studies. This academic interest has grown in recent decades as multinational corporations have continuously expanded their operations into new markets.

The economists' take on the market as a concept, has differed from that of sociologists: it has implied the existence of an *abstract space* in which aggregate demands and supplies meet and, through successive adjustments, end up defining the market price. The market, therefore, is a structure that formats and explains each individual commercial transaction. The modern economy is seen as a 'system of self-regulating markets' (Polanyi 2001: 38).

### 1.1.1 Sociology of markets

The concept of the market sits at the core of sociological theory and economic life. Weber<sup>2</sup> (1978: 635-636) described the market as 'the coexistence and sequence of rational consociations'. For Weber the behaviour of market participants is rational, impersonal, following only the actor's interests, governed by the rules of the market. He describes the free market as moving towards 'capitalistic monopolies' acquired through the power of property. Market rules are either autonomously agreed by participants or imposed by different groups, especially political and religious organisations (p.639)

Classical economists have been criticised for not paying enough attention to the 'market' (Lie 1997). For neo-liberal economists, the medieval and the modern 'placeless' market basically have the same characteristics. The behaviour of all participants is subjected to their will to maximise their utility (Lie 1997: 343). In all these classic economic analyses market externalities, institutions, social networks, or power considerations have been largely neglected (Lie 1997: 344).

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<sup>2</sup> For Weber economic action is a key aspect of 'social action' and consists of the material interests of the actors, which are influenced by the actions of other actors. (1978: 63-69).

Economic sociology has therefore tried to fill these gaps over the past few decades. Fligstein and Dauter (2007: 106-108) outline five 'schools of thought' in the sociology of markets, each of which explains market structure and participant behaviour slightly differently, through the 'network', 'institutionalist', 'performative', 'political economy', and 'population ecology' approaches.

Scholars in the **network** tradition have focused on relational ties between actors as the 'building material' of social structure. Granovetter (1985) has argued that economic behaviour and markets are embedded in networks of interpersonal relations. These relations establish the levels of *trust* needed for the functioning of a market. White (1981) further argued that firms and market actors observe the behaviour of other actors, and that ultimately determines their behaviour.

The **performative** school of thought views economic action as a result of calculative processes involving the specific technologies and artefacts that actors employ (Callon and Muniesa 2005). Their basic idea is that economic action is about calculation, and that how the qualities of goods are calculated (i.e. the amenability of goods to calculation, the calculative capacities of actors, and the interaction between them in the act of exchange) is crucial to understanding the market structure.

These first two schools of thought have generally not taken into account the role of governments. **Institutionalists** focus on how cognition and action are contextualized by market rules, power, and norms. DiMaggio and Powell (1983) for instance, argued that the market ('organisational field'<sup>3</sup>) becomes more homogenous, as market actors become more similar: e.g. as a result of state (political) pressures (e.g. legislation that regulates a certain market), or firms mimicking each other's behaviour (e.g. offering the same products), or 'due to the fact that the various professionals working in the firms have the same backgrounds. Many institutionalists focus only on some effects of government interventions, and ignore others (Fligstein and Dauter 2007: 107). Laws, regulations, and institutionalized practices regulate the relationships between firms, owners, governments, and workers in ways that produce fundamental differences in the market structures of societies (ibid). One such example is the role of government in regulating and enforcement of property rights. The 'exchange of

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<sup>3</sup> They use the term 'organisational field', as a more encompassing one, so that not only competitors but also regulatory authorities, suppliers, and contractors are included.

property rights is the elemental market transaction'. (Carruthers and Ariovich 2004: 24)

### 1.1.2 'Organised crime' and illegal markets

Despite the fairly well developed theoretical framework provided by the sociologists of markets, criminologists have not used it in the analysis of markets for illicit goods and services. Part of the reason behind this seeming omission is that, since the first conceptualisations of 'organised crime' in the 1960s, the duality of 'market-based' and non-market organised criminal activities was quickly grasped. The US President's Commission on Organised Crime (Cressey 1969) focused on defining as the core definitional characteristic of organised crime 'the provision of illegal goods and services': a definition that fitted well the core activities of the US Cosa Nostra (illegal gambling, narcotics, loansharking). Shelling (1971) quickly picked on this somewhat one-sided view, pointing out that many criminal activities in which the Cosa Nostra was involved were not demand-driven (i.e. non-market based): e.g. extortion, tax evasion.

The difficulty in coming with 'activity-focused' answers to the question 'What is it that we call organised crime?' is that it gradually moves towards providing long lists of various characteristics that authors feel should be attached to 'organised crime': such as the use of force, corruption, specialisation, continuity of operations, code of secrecy (e.g. Albanese 2004, Hagan 2006).

All these efforts served different interests. While Cressey (1969) provided a description that was appropriate to conceptualise a phenomenon for the purposes of law-enforcement agencies, later authors tried to describe a social phenomena within a conceptual framework created for law-enforcement purposes. The term 'organised crime' was useful for the FBI to prioritise the criminal activities which had a larger impact on the US economy, on corruption, or on public perceptions of safety. Yet, it was hardly apt to describe a wide range of deviant practices. The 'organised crime' term was then adopted in the media and in popular, and policy and legal language (e.g. the United Nations Convention against Transnational Organised Crime).

The academic debate on defining 'organised crime' has recently focused on 'dimensions' (Hagan 2006) or 'characteristics' (Albanese 2004) of organised crime. In

doing so, it left aside the issue of 'white-collar crime' which Sutherland (1940, 1944) had evoked three decades earlier (even though he specifically implicated the Italian mafia in some activities). Sutherland explained (1944) how 'white-collar' crimes were treated in a way aiming to de-stigmatize the actual offenders (professionals and corporate managers). These approaches left aside and conceptually divorced a wide range of criminal activities from those that were attributed to 'organised crime'.

The analysis of markets for illegal goods and services shifts the focus away from trying to fit one or another complex criminal activity into an 'organised' or 'white-collar' straitjacket. A criminal enterprise may well be involved in all three market, non-market, or white-collar crimes.

The debates on the definition of organised crime and its role in the markets for illegal goods and services gradually led to a consensus amongst criminologists, who now describe organised crime as 'a continuing criminal enterprise' (Albanese 2004: 10). This *enterprise* model or paradigm viewed organised crime as an economic activity that happens to be illegal (Liddick 1999: 403-404). Smith (1980) was probably the first scholar to more seriously consider these parallels, as he talked about a 'spectrum of legitimacy' of enterprise activities. To him the governing rules of 'the legal side of the continuum apply on the illegal side as well' (Smith 1994: 130). Reuter (1985), drawing on the notion that legal and illegal enterprises function in similar ways, used the principles of industrial organisation and marketplace dynamics to analyse the 'numbers gambling'<sup>4</sup> industry in New York City.

Arlacchi (2001: 5-12) suggested that the parallels between legal and illegal enterprises are not always appropriate. He argued that illegal markets are 'artificial creations', yet are a 'threat to human dignity'. Arlacchi explained that since illegal markets have grown 'in parallel with the development of the welfare state', and 'international law', they cannot be *only* analysed from an economist's standpoint, as arising from the simple change in supply and demand. They should also be seen as an 'undesired consequence in the struggle to protect human dignity'.

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<sup>4</sup> 'Numbers game' is an illegal lottery, where a bettor attempts to pick three or four digits to match those that are later randomly drawn.



The analysis of organised crime and illegal market actors in terms of networks was a logical development in the theoretical debate on organised crime. Some authors (Mcillwain 1999, Bruinsma and Bernasco 2004) even tried to apply social network analysis. The illegal markets are populated by a range of players: from single individuals, who might act as opportunistic providers of services for different groups; to small groups of criminals (or a family) that might provide a particular illegal service, to larger illegal enterprises that might thrive in areas where there is little government control.

## 1.2 Markets and illegality

The present thesis subscribes to the above notion that the markets for illegal goods and services are populated by illegal enterprises. It assumes that theories that explain the behaviour of legal enterprises (from economic sociology, economics or related academic disciplines) can be used to explain the existence of illegal enterprises. The reality though is that the conceptual separation and distinction between a legal and illegal market is difficult, if not impossible, when it concerns a product that is not illegal per se, such as the car, the firearm, or the cigarette. One can truly speak of an 'illegal market' only in the case of products or services that are entirely banned by the law: e.g. narcotics or prostitution (in the countries where they are outlawed). In all other cases, though, one may have 'goods' that are illegally distributed on the (legitimate) market.

The structure and operation of a market, where illicit goods and services are traded, is diverse and industry specific. Very few economic analyses of markets from such a perspective have been carried out: the main reason is the lack of quantitative data that lends itself to economic analysis. The existing studies utilise the fundamental economic concepts used to describe legal markets: demand and supply curves, price equilibrium. Typically these studies focus on specific industries – such as Gambetta (1993) on private protection, Reuter (1985) on the numbers, loansharking, and bookmaking industries, Reuter and Caulkins (2006) on illegal drugs markets, Levitt and Venkatesh (2007) on the prostitution market, or Bian and Moutinho (2011), Veloutsou and Bian (2008), Wee et al. (1995), and Ang et al. (2001) on counterfeit goods.

Qualitative tools have been used to describe 'organised criminal activities' much more often, although not many criminologists have embarked on comprehensive analyses from a 'market perspective'. Some recent studies that have adopted this approach include studies on the markets for stolen art and antiquities (Korsell et al. 2006, Massy 2008, Polk 1999, Bezlov et al. 2007: 177-192), illegal arms or firearms markets (Naylor 1995, Cook et al. 2005), markets for stolen vehicles (Antonopoulos 2009, Ferwerda et al. (2005), illegal cigarettes market (Hornsby and Hobbs 2007, Lampe 2002b, 2003), the illegal drugs markets (Paoli 2000, Bezlov, T. 2003). Some authors have gone even further, not simply examining a specific market for illegal goods but entire sectors of the economy, where illegal goods and services are traded: e.g. Hobbs et al.'s (2003) study on the night-time economy in the UK, or Venkatesh (2006) on the illegal economy of a Chicago suburb.

Very few authors, though, have dared to generalise about the characteristics of illegal markets from their studies. The lack of data, particularly economic data (Levitt and Venkatesh 2007: 1) is the most obvious reason why far fewer economic analyses have been made. The above-mentioned studies that come from an economic perspective fit more closely with the industrial organisation (IO) field in economics. In IO the analytical focus is on how the size and organisation of the market, and firms' behaviour affects their competition and profits.

Few authors have suggested overarching theories and generalisations that lay down common economic principles of illegal markets, in the way conventional micro- or macroeconomics does. However, Shelling (1971), Reuter (1985), Naylor (2004) have attempted to suggest some general characteristics.

Naylor (2004: 19) states that the fundamental difference between the behaviour of legal and illegal 'firms' is that while the predominant objective of the legal firm was profit maximization (or some approximation of it) the corresponding objective for the illegal 'firm' would be risk minimization – which means it is problematic whether it should be considered a firm at all.' He argues, though, that in either case (legal or

illegal firms), profit maximisation is not an absolute rule, and many other factors exist (e.g. egos, prestige, thrills).<sup>5</sup>

Shelling's (1971) main argument was that 'organised crime' was seeking to monopolize the illegal markets, where it could establish control and regulation by levying 'taxes'. Reuter (1983) argues that a monopoly of illegal markets is quite rare, a single criminal organisation could achieve this only under specific political circumstances or with the aid of a centralised police authority. The tendency of criminal organisations is to integrate vertically within illegal markets, and to attempt to cartelise them.

Further on Reuter's (1985: 23) study of the illegal gambling, loansharking, and bookmaking industries in New York leads him to conclude that 'illegal markets are populated by localised, fragmented, ephemeral, undiversified, and rather small enterprises (not big hierarchical organisations)'.

Similarly, Hobbs (2001: 555), discusses the transformation of the local criminal neighbourhood firm from traditional family-based associations into a networked system, with 'disorganised deviant scavengers'. He describes the local drugs market as 'disintegrated criminal firms typified by flexibility and unpredictability, operating within multi-layered networks of pecuniary opportunity constituted by both personal criminal networks and specific activity networks'.

### 1.2.1 Market environment and illicit entrepreneurs

Regardless of whether an **illegal** enterprise is selling an illegal product (drugs) on the illegal market or counterfeit cigarettes on the cigarettes market it may face some similar difficulties in comparison to **legitimate** firms.

The firms in an illegal market face a market environment, where there are a number of disadvantages in comparison with legal markets (Naylor 2004):

- constricted information flows that result in :

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<sup>5</sup> For instance, in Bulgaria's stolen vehicle market, car-insurance companies are important players, some of them being in contact with car thieves, and occasionally negotiating with them, or forcing them to return vehicles.

- shortage of capital supplies; **credit** is based solely on trust, and it is difficult to enforce collection,
- objective price data are lacking,
- high search costs for alternative suppliers
- and the time horizons (indeed, the very existence) of enterprises are often coterminous with those of the entrepreneurs
- **customer retention**: the buyer is a risk; one source of economies of scale remains untapped: ‘customer loyalty remains with the retailer’, as the buyer does not know the entrepreneur.

Cook et al. (2005) describe the market for **illegal** guns in Chicago as a *thin market*, i.e. a market where there are *very few* buyers for the illicit products. In such a market advertising is not possible, and the risks associated with the *market exchange* are high (theft, arrest, injury or death). Therefore, buyers and sellers need lots of additional information about their trading partners. This seriously increases the transaction costs and leads to large mark-ups of the price of the goods. In *thick markets*, on the other hand, such as drugs, where there are multiple buyers and sellers, institutions develop to facilitate the exchange of goods, and sellers and buyers have incentives to develop their reputations.

Another key difference between legal and illegal entrepreneurs concerns **market regulation**. Unlike legitimate market players who may resort to judiciary or law-enforcement to enforce a deal, for illicit entrepreneurs the access to of government and law-enforcement authorities is either changed or missing. In some cases, criminals might use corruption and use the law-enforcement agencies (or judiciary and politicians) to regulate the market (by eliminating competition) (Naylor 2004).

In cases when the government is weak or not involved, then the use of violence or the monopoly of violence is taken over by criminals. Protection becomes a specific commodity that the mafia produces, promotes, and sells (Gambetta 1993, Fiorentini and Peltzman 1995). In some countries the services of contract enforcement, and more generally protection, come to define the core operation of organised crime, as is the case with the American Cosa Nostra (Reuter 1985), the Sicilian Mafia (Gambetta 1993), the Hong Kong Triads (Chu 2000), the Yakuza in Japan (Hill 2003), or organised crime in Russia (Varese 2001) and 1990s Bulgaria (Tzvetkova 2008). In these cases the demand for mafia’s protection services arises from the fact

that market transactions are 'unstable', because trust is scarce and fragile, and no agency is present to enforce the market rules.

### 1.2.2 Behaviour and structure of the illegal firm

The market behaviour and structure of the illegal firm is influenced by the fact that illegal entrepreneurs are constantly at risk of arrest, and from the threat of product or asset seizure by the authorities (Reuter 1985, Naylor 2004, Arlacchi 2001), or violent action by competitors.

Firms, therefore, adopt a number of economically inefficient strategies to minimise risks:

- decisions need to be highly personalised (Naylor 2004)
- information is tightly controlled (through fear or money)
- increase of **trust levels** within firms through recruitment of family members, individuals with the same ethnic background, or
- keeping the enterprise small
- building walls and isolating 'operational units' and controlling information exchange between them
- increasing the number of intermediaries or people involved in a task to reduce risks: while in legal firms the operating rule is to increase efficiency by reducing multiple layers of intermediation, illegal entrepreneurs strive to reduce direct control over the various stages in the production or distribution chain.

A number of authors have noticed that the risks force illegal enterprises to limit their geographic scope of operations. While, on the one hand one can speak of global or national markets for certain illegal commodities, such as drugs, the illegal markets are usually local in nature and could be described as a constellation of local players Reuter (1985: 21-22). Enterprises remain local in nature because:

- remote management of illegal enterprises is difficult;
- transportation and communication between multiple locations increases risk;
- multiple law-enforcement divisions might be conducting investigations, thus increasing the risk of arrest;
- remote operations make it difficult to develop 'brand loyalty'.

Naylor notes that *legal* firms are free to take their products to wherever the buyers are: in the neighbourhood or around the world. Illegal firms are often identified with a particular territorial base. For example, Koper and Reuter (1996) show that location specificity of an illegal market arises in many retail drug markets (or even with illegal gambling before phone / internet became widespread) because buyers and sellers need to be able to find each other efficiently. They note that even law-enforcement agencies often think of drug markets in terms of a specific location. On the other hand, in 'thin markets', such as the illegal guns market, location is risky and difficult to establish, as purchases are rare, customers need to be trusted, and the location becomes transaction-specific (Cook et al. 2007).

As Hobbs (1998a: 408) indicates, it is 'at the local level that organised crime manifests itself as a tangible process or activity'. The political economy of the neighbourhood provides the dynamic for 'variations in serious crime collaborations'. Hobbs notes that in localities where social conditions have disintegrated (due to immigration, workforce mobility, housing policies, etc) the notion of the 'traditional neighbourhood' and the 'family firm' model has also disappeared along with the notion of territoriality.

Another difference between legitimate and illicit enterprises is noted by Arlacchi (2001: 8) who argues that the access to violence and intimidation is a key point that differentiates the two, as it leads to the 'easy establishment of local monopolies'.

### **1.3 Illicit entrepreneurs and market entry**

Despite the fairly extensive literature on illegal markets, the entry into illegal markets in a new country has not been addressed in any depth. There are two strands of criminological literature which provide some relevant insight: the literature on crime globalisation, and the fairly small body of literature on 'mafia transplantation'. In either of these literatures one would have expected to find discussions on market entry. Yet insufficient empirical material and a non-market based analysis approach probably explain the deficit of academic work in this area.

To analyse how criminals organise themselves in different illegal markets it is necessary to examine the organisation and structure of the markets, and the technical, social, and financial barriers to entry (Levi 1993). Entry barriers into illegal

markets vary with the level as well as the type of market one is considering (Koper and Reuter 1996: 8). For instance, entering as a high-level drug dealer, where knowledge, skills, and capital are required is much more difficult: the capital required for a 500-kilo shipment of heroin represents the value of about \$10 million. On the other hand, revolving credit is available to individuals engaged in lower-level transactions (ibid). Entering a market for illegal guns, where the quantities and total value of guns sold at a local market is much smaller, and the role of wholesalers is played by legitimate stores, means that entry barriers are much lower (ibid).

### **1.3.1 Globalisation and crime**

Many authors have argued that since the 1990s there has been an increasing internationalisation or globalisation of crime (Berdal and Serrano 2002, Castells 2000:171; Naim 2006; Thachuk 2007, Glenny 2008). Berdal and Serrano (2002: 2) state that 'the scale and scope of transnational criminal activity, measured as a component of the global economy, has increased dramatically over the past quarter century'. Shelley (2006), without much supporting evidence, argues that illicit businesses branch out around the world to take advantage of cheap raw materials and cheap labour, establishing facilities worldwide for production or distribution needs, all facilitated by the communications and international transportation.

Newman (1999) claims that most illegal markets have become global in scope and, with the exception of arms and cars, involve trafficking of illicit products from the developing world or states in transition to the developed world. Castells (2000: 171) argues that the strategy has been to set up 'management and production facilities' in low-risk areas, where they could influence the institutional environment, while targeting markets with high demand and opportunity to achieve high profit margins (e.g. drug production and distribution).

Most often, the claims of the growing trans-border movement of criminals have come from law enforcement agencies whose reports on organised crime have increasingly focused on foreign, immigrant, or 'ethnic' criminal groups or networks (e.g. Europol Organised Crime Threat Assessment reports, SOCA 2010; Korps Landelijke Politiediensten 2004). Such reports, particularly the ones in the EU and North America, often portray crime groups from East European countries as having gained

a dominant position in certain types of criminal activity. In Germany, for instance, Bundeskriminalamt (2008), and in the Netherlands, the Korps Landelijke Politiediensten (2004: 184) name Polish and Lithuanian groups as being dominant in the theft and trafficking of stolen vehicles. The Belgian Police's (2007) report on sexual exploitation is entirely structured along ethnicity / nationality focused chapters (Albanian, Romanian, Bulgarian, Belgian, Nigerian, etc.). Europol's own reports (2006, 2007, 2008) discuss criminal activities in terms of foreign ethnic groups and even directly attribute crime trends to the impact of EU enlargement (2008: 23) or globalisation (2008: 28). Europol (2007: 8) even defined as the highest threat to the EU the non-indigenous criminal groups which carry out international operations.

Some authors disagree with the argument that crime has globalized significantly in the 1990s. Den Boer (1999) argues that organised crime, and in particular criminal activity associated with mobility and transnationality, has become a substitute for Cold War threats. The EU has begun to confront 'the enemy within' (Den Boer 1994 and 1997, quoted in Den Boer 1999: 17). She explains the ease with which this has taken place by the fact that many organised crime activities are 'victimless' and the difficulty in demonstrating results makes political accountability more problematic.

Some authors (Thachuk 2007: 7-15; Franko Aas 2007) have argued along similar lines, that in the aftermath of the Cold War, transnational threats were given a broader definition, and the policy focus shifted to new non-state threats, such as terrorism or organised crime. On the other hand, Thachuk (2007) argues that such threats are formed and amplified by 'major trends in the global system', including globalisation of economic activity and communications, and the growing imbalance of a small number of stable democracies and a large number of unstable countries with weak governance. For Thachuk, the key ingredient to the globalisation of crime, in particular smuggling, is corruption. Corruption allows criminals to operate fluidly across countries, while at the same time it undermines governance and statehood.

Other authors (Ruggiero 2003: 173) have argued that the analyses of proponents of crime globalisation are 'centred on the feeling of vulnerability that developed countries harbour towards criminal activity originating in other countries' and that they represent a new version of alien conspiracy theory. Taylor (2002) explains that governments' focus on 'foreign crime' is a way of shifting attention away from the 'structures of opportunity within the host society that may be conducive to the



recruitment of native citizens into locally organised crime'. Van Duyne (2004: 21-51) also suggested that the image of organised crime as a threat to society was created in countries such as Germany, the Netherlands, and the UK only in the late 1980s and 1990s. In that period police, prosecution, and the media increasingly talked about the threat of organised crime, often based on poorly substantiated reports and studies from academics and law-enforcement agencies alike (ibid.)

Regardless of the above debates, it is a fact that over the past two decades the size of immigrant populations in many EU countries has increased significantly (International Organisation for Migration 2008: 457). Certainly, many criminals immigrated alongside labour migrants. To what extent and how these immigrant criminals and criminal entrepreneurs managed to enter the local markets where illegal goods and services are sold is a valid question.

### **1.3.2 The illicit entrepreneurs and the new markets abroad**

Varese's work (2004, 2005, 2011) on the provision of criminal protection services in legal and illegal markets is one of the few attempts to address this question. His approach is not explicitly 'market based', and he uses the term 'mafia transplantation', which he defines as 'the ability of a mafia group to offer criminal protection over a sustained period of time outside its region of origin and routine operation' (Varese 2005: 7).

Varese examines how in some cases mafias succeed in setting up a branch of the organisation in a new territory, but fail in others. In essence, Varese analyses how the mafia enters the market for extra-legal private protection in one country but fails to do so in another. He has analysed two cases in more depth. First, he studied (2004) the successful transplantation of the Russian mafia 'in opening a branch in Budapest' and its failure to do so in Rome. In the second case he studied the case of 'Ndrangheta, and compares the successful transplantation from Calabria to Bardonecchia (Piedmont) and an unsuccessful one from Calabria to Verona (Veneto).

Varese's overall conclusion is that the level of demand for criminal protection was the key factor that determined whether the mafia transplantation would be successful.

The list of factors that, according to him, facilitated mafia transplantation includes the following **supply** and **demand** factors. The supply (push) factors are:

- **Presence of migrants** from mafia territories: although this is a contributing factor, it does not provide a sufficient explanation.
- **Forced relocation** of mafia groups (following mandatory law enforcement action).
- **Mafia wars** at their original location.
- **Explicit expansionist strategies** of established mafia groups.
- **Kin-based recruitment** and organisational structure facilitate transplantation, as when an entire family emigrates it quickly reconstitutes itself at the new location.
- **Lack of local supply**: when there is a time lag between the emergence of a demand for protection and the provision of a suitable local supply, groups from outside may seize the opportunity to supply mafia services.

The factors that contribute to a greater demand are:

- The **lack of trust** of local businesses in the formal local market regulatory institutions. Yet, Varese admits (2004: 13) that the Russian mafia succeeded opening a branch in Budapest, while it failed to do so in Rome, although both locations had 'low-trust societies'.
- **The weak state**: particularly its inability to define and protect property rights.
- **Incentives to form cartel agreements** in the legal economy.
- **The existence of large illegal markets**.

Gambetta (1993: 250) focuses on a different set of factors that explain (the lack of) 'mafia migration'. He observes that the Sicilian mafia has largely remained confined to Western Sicily and Catania because it is heavily dependent on the 'local environment'. Gambetta further argues that the **initial costs** of transferring mafia activities are prohibitively high, as they would include **information gathering** and **advertising**, especially when kinship, friendship, and ethnicity networks are not available.

Gambetta points out that the case of Cosa Nostra in the US mafia is not an exception, because mafia families did not move to America but emerged spontaneously there, when the supply of and the demand for protection met: a

'sufficient number of emigrants moved there [...] bringing along the necessary skills for organizing a protection market', and the Great Depression and Prohibition created demand for protection (1993: 250).

Galeotti (2000: 37-40) examines<sup>6</sup> the Russian mafiya primarily as a provider of protection services. He provides some observations on what he calls 'mafia penetration' outside the former Soviet Union (into 26 foreign countries according to Russian authorities in 1998). Galeotti explains that there are three types of penetration. 'Hard penetration' (p.38) is the establishment of a criminal network alongside or in competition with indigenous organisations. Yet in these cases Galeotti does not discuss local illegal markets, but rather argues that the Russians get involved in non-market crimes, such as fraud and money-laundering. 'Soft penetration' includes the establishment of 'legal or paralegal business' and contacts with local criminals. It involves different types of economic crime, such as money-laundering or production of counterfeit goods. Lastly, the 'service penetration' includes the provision of services to other criminal groups, 'from contract killings to cyber crime'. Galeotti (2004) attributes the successful penetration, particularly in former 'Eastern Bloc' countries to:

- Russian immigrant communities
- Contacts with local criminals
- Access to corruption / contacts with local corrupt officials.

None of these factors is examined in any significant depth, however, neither is much empirical evidence provided to substantiate these claims.

Castells (2000: 172) argues that in the post-Cold War globalisation of crime the approach has been for 'organised crime from different countries' to establish strategic alliances and cooperate locally, rather than fight for the turf. This has happened though 'sub-contracting arrangements and joint ventures'.

Balloni et al. (1999) examined the infiltration of organised crime into Italy's Emilia-Romagna.<sup>7</sup> The authors use official arrests data to show the influx of foreign crime syndicates in Italy. They put forward two explanatory factors. The 'pull' factor is the wealth of the region, compared with other parts of Italy, which has attracted the

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<sup>6</sup> His analysis is based solely on media and law-enforcement reports.

<sup>7</sup> The research was almost entirely based on analysis of law-enforcement statistics of crimes committed by foreigners (arrests and verdicts against criminals).

attention of criminals. The 'push' factor is the inability of immigrants to enter the legal labour market, which creates a pool of illegal migrants ready to participate in illegal markets and activities. Yet the authors do not explain how and what facilitated the entry into local criminal markets.

Sands (2007) and Resa-Nestares (1999: 47-62) both analyse the factors that have aided the entry of 'international crime groups' into Spain since the 1990s, a process that, according to Resa-Nestares, started in the early 1970s. Resa-Nestares' compares the penetration of the 'Russian mafia' and Columbian drug cartels in Spain. His analysis of the factors that facilitated the process includes a list of all the problems relating to the investigation of organised crime in Spain. The factors listed (but not supported by any primary empirical evidence) by Resa-Nestares (1999) and Sands (2007) almost overlap and include:

- Spain's geographical situation as natural gateway into Europe for drug traffickers.
- Legislative factors: (1) absence of specific organised crime legislation; (2) framework overly protective of the rights of criminal defendants; (3) insufficient judicial resources: only five examining magistrates dealing with organised crime cases.
- Deficiencies within the law-enforcement system: (1) multiple police forces with little coordination; (2) police corruption. Sands particularly focuses on the fact that Spain is a weak state, and draws on the above-mentioned arguments of Varese (2001) or Gambetta (2003).
- An economic and financial system that is open to proceeds of crime (1) no investigation of suspicious foreign investors; (2) banks willing to operate with organised crime finances; (3) construction and tourist industries vulnerable to criminal abuse.
- The presence of immigrant communities (in the case of the Columbians).
- The existence of local smuggling networks in border regions (such as in Galicia) or among some ethnic groups (such as Roma).

The role of immigrant communities and the country of origin have been also highlighted by Bruinsma and Bernasco (2004), who attributed the dominance of Turkish groups in the Dutch heroin market to:

- the fact that Turkey is an important **supply** country
- the relatively large size of the Turkish community in the Netherlands

- the extended family relationships between the members of this community.

The weak empirical basis (newspaper articles and police reports) of the above mentioned studies is probably their common denominator. Another deficiency is that, except for Varese (2004, 2005, 2011), other authors have not used a comparative approach (e.g. comparisons between countries of successful and unsuccessful 'market entry'). Even Varese's conclusions are based on limited evidence, as the offender perspective is missing from his work. Some of the academic work presented in the next section suffers from similar deficiencies, although the empirical basis for legitimate markets is generally much more solid.

## **1.4 Market entry: non-criminological approaches**

'Market entry' is a term borrowed from economics and largely comes from the economic field of industrial organisation. There are two strands of economic literature that deal with issues of market entry: international business studies and management strategy studies. While the former deals primarily with the issues of market entry into foreign markets ('internationalisation'), the latter examines the entry into any market. As the body of literature on either is significant, the following two sections only present some of the fundamental theoretical frameworks of each field. In later chapters some of the specific arguments will be presented in a greater detail.

### **1.4.1 International business studies**

The issue of market entry and, particularly, 'foreign market entry' has been discussed by scholars in international business studies in terms of 'foreign direct investment' (FDI). Over the past quarter century, the leading explanation about the international expansion of firms has been based within the so called 'eclectic paradigm', developed by John Dunning (1979, 1988), who built upon the works of Vernon (1966) and Hymer (1979). Also known as the Ownership-Location-Internalisation (OLI) paradigm, it was developed because of the difficulty that classic economic theories had in explaining the behaviour of multinational corporations (MNCs). Through the OLI paradigm, Dunning (2004: 8) tried to explain the 'extent, pattern, and geographical distribution of a *group of firms*' from one country or from one industry into a new foreign market.

Hymer (1979) first addressed the question of why firms initially go abroad and begin to engage in outward direct investment. Hymer argued that much FDI gravitates to business sectors where major competitors are so few that the market could be characterised as oligopolistic or monopolistic. His main contribution was that he shifted attention to the issues of 'market entry barriers' and 'market imperfections' as key factors in understanding the issues of foreign market entry (Tallman 2004: 46). Vernon focused on the local market and location characteristics, which explained why certain countries attracted companies to invest there. Vernon came up with a 'product life-cycle theory' according to which investment abroad follows a three-part cycle: (1) a firm offers an innovative product / service; (2) once established, competitors push the product price down; (3) the product reaches its zenith and is gradually displaced.

Dunning drew on a mix of theories (industrial organisation, firm theory, 'location' theory) to formulate the OLI paradigm and to explain the propensity and advantages of a firm to invest abroad. He argued that there are three types of advantages that arise, when companies invest in a different country:

- **Ownership advantages:** i.e. the advantages of owning an asset / production facility in a foreign country instead of paying a fee or hiring someone else there. There are advantages related to owning particular unique intangible assets (e.g. unique technologies) or owning complementary assets. Cantwell and Narula (2003: 4) pointed out that these advantages must be considered in relation to the behaviour of other foreign companies that try to enter the market, not simply in relation to domestic companies in the host country.
- **Internalisation advantages** include a number of factors: costs of negotiation with a foreign partner, uncertainty (e.g. in relying on a foreign supplier), insufficient level of control over foreign partners, cross-border taxes and tariffs, and opportunism. These costs could make it more profitable for a firm to expand into a foreign market rather than to rely on local partners.
- Finally, there are advantages to the **location (i.e. the specific foreign country) selected by the company:** transportation costs of goods from or to the foreign market should be considered; cultural similarities that might exist

between country of origin and destination are also a factor (e.g. Spain and Bulgaria); risks of expropriation (e.g. by an authoritarian government); government incentives (e.g. tax incentives), and factor endowments<sup>8</sup>.

Maitland and Nicholas (2003) have criticized the OLI paradigm for focusing on exclusively on external factors that explain the firm's decision to make an investment abroad and its choice of mode of entry. They explain that studies of large MNCs, such as Unilever, Kao, General Electric, and NEC have pointed to 'internal resources', 'management capabilities' and 'administrative heritage' as the firm-specific factors that lead to internationalisation of the business activities.

Maitland and Nicholas (2003) also criticized the OLI framework and the resource-capability approaches as failing to explain how the distribution of FDI differs across countries and industries. The growing influence of the resource-capability approach has meant that location-specific ownership advantages have been largely ignored. The effect of location has been reduced to a list of contextual factors, such as production costs, psychic distance, culture and government.

New Institutional Economics, which focuses on social and legal norms that underlie economic activity, has evolved around the research question of 'What explains the differential growth [including FDI] and development of societies across time and geographic space?' Within this framework, Maitland and Nicholas (2003) explain that economic activity is shaped by a web of informal norms. For example local norms may support public officials extorting bribes from MNCs, given their 'outsider' status. MNCs may not be able to utilise bribery as a competitive tool to match the actions of domestic rivals. MNCs may be forced to watch from the sidelines, while host country companies engage in bribery to manipulate public tenders and induce public officials to restrict use rights on the assets of rivals (Maitland 2001).

Another strain of internationalisation literature has examined the specificities of small and medium firms and the factors that determine, on the one hand, their propensity to internationalise (i.e. expand business activities to foreign markets) and, on the other hand, the factors that determine their market entry modes (Oviatt and

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<sup>8</sup> 'Factor endowments: In economics a country's factor endowment is commonly understood as the amount of land, labour, capital, and entrepreneurship that a country possesses and can exploit for manufacturing'. (Wikipedia.org)

McDougall 1994). In view of the fact that most criminal enterprises are small, the research on small and medium size enterprises (SMEs) is particularly relevant. Crick and Spence (2007: 207) explain that generally the academic debate on SMEs has focused on the speed of 'internationalisation', and the factors that shape the managerial decisions to internationalise.

Susman and Stites (2007: 229) specify that three main theories explain the internationalisation and selection of market entry mode. In all of them, though, the basic choice that firms face when entering a new market is whether to acquire / develop sales assets (e.g. distribution channels), or to contract them. The *stage theory* sees internationalisation as series of steps that reflect the firm's experience and 'maturity'. The entry into the foreign market is *incremental*, and based on 'experiential learning'. The *network theory* views the firm as a network of contacts and information that facilitates internationalisation. The firm's available network could determine the entry mode of the firm. For instance, if a company is following a customer who has entered a foreign market, the company might create its own 'sales assets'. If it is not following a customer, but rather is seeking new local customers, but it has no local network, it is more likely to 'contract' local 'sales assets'. Finally, the 'rationalist theory' sees internationalisation and the choice of market entry mode as 'rational calculations of risk and reward'.

#### **1.4.2 Market entry barriers and strategies**

Dunning's eclectic paradigm has partially influenced another strand of the academic field, which grew simultaneously with international strategic management studies (Tallman 2004: 43-55). The academic field that considers extensively the issue of market entry, and that in many ways also drew on classic industrial organisation (IO) theories, involves the study of competitive strategy, which since the late 1970s has most often been associated with the work of Michael Porter (2008).

Joe Bain (1954) was the first to consider in more depth the barriers to market entry:

- large economies of scale: incumbent companies usually already produce large quantities at a low price. All other things being equal, the new entrant may have to start with large-scale production to achieve the same price. Bain suggested that the large economies of scale also has a secondary effect, which is the large capital requirement;



- large capital requirements: the new entrant might need to make additional capital investments to compete efficiently

In addition, Bain identified two additional factors: 'product differentiation' (how a new entrant imposes a new / different product), and 'cost advantage' (that incumbent firms might have). For all of the above Bain's analysis showed that economies of scale and the capital requirements differed between industries. While capital requirements were high in both the steel and cigarette industries, the economies of scale were average in the steel industry, and low in the cigarette industry (McAfee et al. 2004: 4)

Porter (2008), in his formulation of the strategic choices that market entrants face, partially built upon the work of Bain. He explained that a configuration of five forces shape the strategic environment of any industry (and they differ for each industry). Porter argued that new entrants pose a threat to incumbent companies as they take market share from them, and put downward pressure on prices, costs, and the rate of investment necessary to compete. The incumbent companies naturally have certain advantages over the newcomers and pose barriers to entry:

- incumbent companies might be producing at very low cost because they produce in very large quantities (i.e. fixed costs are spread over many products), while the new entrant might not be able to right from the start producing in big quantities
- incumbent companies might be favoured by a 'network effect', where the large number of local buyers purchasing their product influence each other to buy their product
- customers might face additional costs to switching to the product of the new entrant
- higher capital investments might be needed by the new entrant
- the incumbents might have favourable access to 'material sources', good geographic locations, established brand identities, or cumulative experience
- incumbent companies might enjoy better distribution channels
- government policies might protect local players and hinder entry of new / foreign players.

Over the past few decades, economists have focused on different factors in trying to define the nature of 'barriers to entry'; e.g. on the incumbents' high profits rather than on the entrants' greater costs (McAfee et al. 2004: 10). Different authors, though,

have added to the long list of barriers: advertising strategies of incumbents, control of resources, government regulations, intellectual property, strategic use of sunk costs to increase the entrants' losses, etc. (ibid.) That led the authors (McAfee et al. 2004; Church and Ware 1999) to classify them as 'structural' and 'strategic' barriers to entry. While the factors listed by Porter and Bain above would be classified as 'structural' barriers, as they are part of the nature of the particular industry, the 'barriers' that some authors listed were the result of strategic behaviour of the incumbents (e.g. advertising strategies, or other sacrifices of incumbent firms aimed at increasing the entrants' costs.). For most authors, especially those following Stigler (1968), the strategic behaviour of firms does not constitute 'barriers to entry', and should be considered separately (McAfee et al. 2004: 10).

These academic debates on internationalisation and market strategy provide the possibility of a structured approach to the study of market behaviour of illicit entrepreneurs. The analytical core of the thesis will be to examine their parallels and differences alongside the sociological insights from the empirical material collected for the present thesis.

## **1.5 Research questions and thesis structure**

The various theoretical frameworks regarding the nature and structure of legal and illegal markets, as well as the extensive academic work on market entry barriers and internationalisation of firms leave one important question open: What factors influence the entry of illegal enterprises into a new market, particularly the one in a foreign country? To answer it, additional questions were formulated that aimed to explore the broader social contexts and their role in why criminals migrate, or why they migrate to certain countries, and choose certain markets.

The initial working hypothesis, influenced by the Spanish media reports, was that the Bulgarian car-theft networks had taken a dominant 'market position' in the 'market for stolen cars' in Spain (which quickly proved not to be exactly the case). Some key 'variables' were formulated and their impact on behaviour of criminal entrepreneurs was examined in the course of the data collection: corruption of public officials, the Bulgarian immigrant community in Spain, the 'grey economy' in Bulgaria, the anti-

organised crime law-enforcement policies, the penal and criminal justices policies, the competitive advantages (in terms of technical skills).

In the course of the research, the evidence suggested that the analysis should go on two other levels: a financial analysis of the costs of a criminal enterprise, which could help explain one aspect of the economic behaviour of criminal entrepreneurs; and a sociological / ethnographic analysis to understand the broader socio-economic environment, historical, and symbolic factors that shape their behaviour.

The thesis is organised into eight chapters. Following the present introduction, **Chapter 2** presents the research methods and instruments used in the study, comparing the approach adopted in the study to the ones used by other scholars. Most importantly, this chapter provides an analysis of the difficulties, challenges, and strategies used to collect the empirical information used in the study. Chapters three, four and five provide the specific empirical data to help understand how cars are stolen and sold.

**Chapter 3** introduces the used car market and its principles of operation, as this is the main market where stolen vehicles are sold. It examines the demand and supply factors that have an impact on the sales of used cars (including stolen ones). It also presents the used-car industries in Spain and in Bulgaria, the different categories of used-car dealers and schemes, in what is generally a sector with a significant amount of irregular economic activity.

**Chapter 4** presents the main empirical data on the operations of car-theft enterprises. Starting with the relevant statistical data on motor vehicle theft, the chapter goes on to explore the mechanics of international car-theft rings, the players, roles, and trends. The chapter focuses on the car-theft industries in Spain and Bulgaria.

**Chapter 5** builds upon the data in the preceding two chapters, showing how stolen vehicles are sold on the used car market. It looks at the different channels of distribution and the role of the different players (dealers, criminal enterprises) as well as the buyers. Again a comparison between Spain and Bulgaria is carried out. A historical account, especially on Bulgaria, helps in the understanding of present-day organisation of sales of stolen cars.

**Chapter 6** provides the broader social context within which the selling of stolen cars takes place. First it examines the role of the Bulgarian immigrant community in Spain in facilitating either car theft or the selling of stolen cars. As a point of comparison the chapter considers the social and political economy of two cities in Bulgaria, which in many ways illustrate how stolen cars are sold in Bulgaria.

**Chapter 7** considers the various factors that facilitate market entry for illegal enterprises (including the role of law-enforcement agencies, corruption) through the prism of internationalisation and market entry economic theoretical frameworks.

The concluding **Chapter 8** distils the main findings and puts them into a broader theoretical perspective, providing as well some policy implications and forecasts.

## 2 Methods and research instruments

### 2.1 Researching organised crime

Various authors have pointed to the difficulties and dangers in conducting fieldwork on organised crime (Rawlinson 2008a, Jacobs 2006, Venkatesh 2008). The list of obstacles is long: dangers of physical threats, legal threats, difficulties in accessing interviewees and establishing trust. Rawlinson (2008a: 291-292) also warns about the possibility of mystifying and glorifying organised crime, adding that coming with pre-conceptions about the objects of the study the criminologists contribute to a 'social construction' of organised crime. She points out that many studies often over-rely on secondary and official sources and data. Rawlinson also identifies as an obstacle the difficulty in clearly identifying the object of research: organised crime. Jacobs (2006: 164) pays particular attention to the issue of validity of the results: is the researcher getting the 'real story'? And argues that ethnographic fieldwork, where the researcher is present in the action, could be more distorting to the reality and influence the behaviour of the individuals observed. Research on organised crime suffers from lack of or incompleteness of data, and access to primary data is difficult.

This chapter is split in two main parts: the first part analyses the data-collection approach undertaken, while the second part presents the methodology used to analyse the data. It also describes the limitations of the method employed and the data collected.

Initially, two general methods were considered: a classic 'participant-observation' ethnography and a more conventional sociological approach, relying primarily on interviews and official data. The ethnographic method would have provided the richest information but was ruled out for several reasons, stemming from the nature of the empirical case selected:

- The study period examined spanned over a ten-year period, and many participants and potential sources were no longer involved in car theft. To a

large extent the questions under consideration refer to the period between the late 1990s and 2008.

- Many of the offenders studied were 'migrant' criminals who not only 'commuted' between Bulgaria and Spain, but once in Spain were constantly on the move, making 'participant observation' a challenging and expensive task.
- Last but not least, the only way of carrying out an ethnographic work would have involved the nearly impossible task of establishing oneself within a migrant transnational criminal network, which most likely dealt not only in stolen vehicles but also drugs, arms, credit card fraud, etc. – activities requiring a great degree of secrecy.

Therefore it was decided that a more classic criminological approach combining semi-structured interviews with law-enforcement, offenders, and other stakeholders, as well as analysis of official data would yield the best results.

## 2.2 Researching car theft

When police or criminologists refer to 'vehicle crime', this term usually concerns all categories of vehicles: passenger cars (small, mid-range, sports, luxury, etc.), motorcycles, trucks, construction vehicles, other transport vehicles (coaches, vans, etc.), even sea vessels and aircraft. The term 'motor vehicle theft ('MVT') is not used in this thesis, although this is the main police term commonly in use. Instead 'car-theft' and 'car thieves' are the terms used, although in many instances the thieves might be involved in the theft of vehicles other than cars.

A review of the research methods adopted by researchers on vehicle theft reveals that the approach selected for the present thesis is not very often employed, as only Jacobs, Topalli and Wright (2003) have undertaken interviews with active offenders. As vehicle theft is a crime that is reported to the police almost 100% of cases and also covered in victim surveys, a great number of analyses are limited to analyzing police and formal statistics. The table below presents a summary of the main methods used by academics.

| METHOD   | SAMPLE               | AUTHOR   |
|--|----------------------|--|
| Crime victims survey / police statistics analysis                                      | N/A                  | Clarke & Harris (1992); Hardy (2006); Sallybanks & Brown (1999); Paternoster & Bushway (2001)*; Tremblay et al. (1994); Tremblay et al. (2001); Batelaan & Moll (2004)*; Brown (2004)*; Engel & Prummel (2007)*; Walsh & Taylor (2008)*; |
| Interviews with law-enforcement officers   | N/A                  | Gerber & Killias (2003)*; Aldridge (2007)*; Engel & Prummel (2007)*  |
| Police reports / media   | N/A                  | Clarke & Brown (2003)*; Morselli and Roy (2008)*<br>Ferwerda et al. (2005)*  |
| Semi-structured interviews with (former) auto-thieves (imprisoned & post-penitentiary) | 56<br>100 (under 25) | Copes & Cherbonneau (2006a, b)*<br>Light et al. (1993)<br>Antonopoulos & Papanicolaou (2009)*  |
| Semi-structured interviews with active offenders                                       | 28                   | Jacobs, Topalli, & Wright (2003)*  |
| Information from police record & self-reports from participants in offender programme  | 67<br>48             | Davies (1993)<br>Galvin (1997)   |
| Evaluation of re-offending of participants in a programme                              | 30<br>10             | Procter & Townsend (1994)<br>Belton (1997)   |
| Information from police record, offender project and probation records                 | 35<br>40             | Wilkinson & Morgan (1995)<br>Leicester Community Projects Trust (1997)   |
| Self-reported telephone survey of parents, social workers, and police                  | 12                   | Edinburgh Community Safety Unit (1996)   |

**Table 1. Methodological approaches to researching car theft**

Sources: Slobodian and Browne (2001: 476-478); \*own elaboration

## 2.3 Data collection

The collection of data for this thesis consisted of three key components:

- review of police and official statistical data and reports
- review of media reports
- semi-structured face-to-face interviews.

The process lasted about two years due to the difficulties of access to interviewees, both offenders and law-enforcement officials, and was carried out between 2007 and 2009.

### 2.3.1 Police data

The starting point of data collection regarding car theft and Bulgarian criminals in Spain included the analysis of 88 summaries of police reports on operations of Spain's National Police and Civil Guard between 1997 and 2010 against organised crime groups and networks<sup>9</sup>. Of these, 55 case reports specifically concerned Bulgarian car-theft groups in Spain (or groups that included Bulgarians). Twenty two case reports were on car-theft groups not involving Bulgarians. In addition, 12 case reports involving Bulgarian organised criminals involved in other crimes, such as prostitution, drugs, credit-card fraud were analysed. The case reports prior to 2000, were obtained from the Spanish dailies *El Pais* and *El Mundo* (who normally just reprint the police press release). The rest were available from the website of the Spanish Ministry of Interior ([www.mir.es](http://www.mir.es)).

Each of these reports is 1-2 pages long and describes the car-theft scheme, trafficking routes, and structure of the criminal network or group; the ethnicity, gender, age, name, city of birth, or previous convictions of offenders; types and numbers of stolen vehicles, city or town of the arrests. After comparing the data in the case reports with the total number of arrests reported to the Bulgarian Embassy in Madrid by Spanish authorities, it was established that these cases included practically all arrests of Bulgarian car thieves reported. The list of the cases in summary format is presented in Annex 2 to the present thesis.

Several types of police statistical data were also used:

- Arrests and registered crime data (general vehicle theft statistical data from the Bulgarian Ministry of Interior, Spanish Ministry of Interior, Interpol; data on arrested Bulgarian suspects from the various police forces from around the EU, as well as several other EU countries – Belgium, Netherlands, and the Czech Republic).
- Crime victims survey data (International Crime Victims Surveys).

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<sup>9</sup> In addition one case (C-0911) was recounted by investigators in Bulgaria, as the investigation started into the sale of stolen vehicles.



- Car industry data (from Eurostat, national statistics, or business analysis).
- Migration related data (from various surveys, or official migration statistics from the Spanish Ministry of Labour).

The common problems with the analysis of these different types of data are discussed further below.

### 2.3.2 Media review

Rawlinson (2000: 355-357) has highlighted the advantages of using journalistic materials in the research of organised crime, although warning that such publications focus on easily assimilated phenomena and ignore subtle details. A more systematic review and analysis of Bulgarian and Spanish printed media was undertaken, and served several purposes:

- To obtain information about the car-theft market, roles, and players.
- To analyse the media portrayal of Bulgarian car thieves that might have influenced police actions.
- To obtain leads for possible interviews with offenders.

To this purposes key word search of online-databases of *El Pais* and *El Mundo*, newspapers was also undertaken, as well as Google-search on other Spanish media sources. Some TV footage, available on the internet, was also reviewed, yet this simply illustrated some of the police cases analysed. There were no journalist investigations into any of the crime stories in the Spanish media, and all materials simply reflected police press-releases, or were based on interviews with police officers.

A comprehensive review of Bulgarian media was carried out, using an electronic database (similar to Lexis Nexis) that includes print and electronic media records since 1990. The majority of stories in Bulgarian newspapers translated Spanish media reports on the arrests of Bulgarians. Some, though, conducted follow-up journalistic investigations and interviews with car thieves, their families, or with Bulgarian investigators.

The approach undertaken was to cross-reference three sources: the media reports, the police press-releases, and data from the interviews. As interviewees generally avoided mentioning names of offenders, once a name was in the media, it was easy to question an interviewee and to obtain further details on the media story, or to snow-ball into other stories.

### 2.3.3 Interviews

The most substantial evidence for the present research has come from semi-structured interviews that were collected over the course of about three years (2007-2009). The purpose of the interviews was broadly to seek answers to the research questions, while the specific objectives included:

- Understanding the operation of theft of vehicles and the sales of stolen vehicles in Spain and Bulgaria, as well as the broader social and market contexts in either country;
- Understanding the 'business model' of enterprises involved in stealing / or selling of stolen vehicles
- Exploring personal histories and migration related motivations of the market participants.

The broad categories into which the 79 interviewees fall are (detailed descriptions of all interviewees are provided in Annex 2 of the thesis):

- **Law-enforcement representatives** (police, customs officers): 21 law-enforcement officers were interviewed, in Spain and Bulgaria – mostly from vehicle-crime units or criminal police, but also police liaison officers in Bulgarian embassies.
- **Offenders**: 23 offenders in total were interviewed: all were active offenders and were either presently participating in various roles in car-theft or had formerly participated in car-theft rings.
- **Used-car market participants** (car dealers, mechanics, leasing company representatives): 6 car dealers / mechanics were interviewed who owned dealerships or car-repair shops in Sofia, Plovdiv, Stara Zagora, and Dupnitsa. All the interviewees had international experience and had been also involved in the import of used cars.

- **Immigrants:** 10 immigrants were interviewed, who had spent time in various parts of Spain. Some of them were recruited via informal contacts, and some were arranged by an NGO in Pazardjik (see map in Annex 1).
- **Nineteen others** interviewees were entrepreneurs, lawyers, academics, NGOs representatives. Six businessmen (entrepreneurs) were interviewed to obtain a more general understanding of customers of luxury cars or social context of luxury car market). In addition, a defence lawyer in Spain was also interviewed, who had worked with Bulgarian offenders. Finally, some of the staff at the NGO in Pazardjik were a good source of information.

The two main categories of interviewees, offenders and law-enforcement officers, deserve special attention, as each category required a special approach in development of the sample, questionnaire, and interview approach.

The issue of access to interviewees is probably the key one: the main factor that helped me overcome these difficulties was my dual identity: as a PhD student at LSE and as a researcher at the Center for the Study of Democracy (CSD) in Bulgaria. CSD, a Bulgarian think-tank where I have worked since 2003, was well known, and worked well in providing access to the 'gate-keepers': the Ministry of Interior, the various non-profits, or the journalists.

On the other hand, the publicity that CSD gives to its reports could have also been off-putting, particularly to offenders. CSD reports are quoted in media, or by law-enforcement officers as grounds for policies and actions.<sup>10</sup> Therefore, when conducting interviews with offenders, the other, less threatening identity of a London-based PhD student was emphasised.

The abbreviations used throughout the thesis to denote the information derived from these interviews are: LEI (law-enforcement interviews); OFI (offender interviews), IMI (immigrants), CDI (car-dealer interviews), OTI – (other interviews).

The recruitment process of both law-enforcement and offender interviewees gradually pushed the entire thesis in a 'ethnographic' type of study, as the majority of

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<sup>10</sup> I have also appeared several times in TV news reports, and provided newspaper and radio interviews for most major national media.

interviewees (law-enforcement, offenders, immigrants, and others) in Bulgaria ended up being concentrated in two small towns, Gabrovo and Pazardjik, as well as Sofia (see map in Annex 1). Hence Chapter 6 provides case studies on the cities of Gabrovo and Pazardjik. The two small towns both had significant number of emigrants and offenders who had gone to Spain. Many of these were either returning periodically from Spain back home to Bulgaria or had returned permanently. I took advantage of this population of labour migrants and offenders, who felt much more comfortable discussing, what seemed to be their 'far-away life' in Spain. The town of Gabrovo also happened to be where my mother was from, and I had a wide network of acquaintances that included immigrants, law-enforcement, and entrepreneurs / offenders. My family connections opened many doors and provided quick access to much information – information that would have otherwise taken several meetings was available already at the first interview.

#### **2.3.4 Law-enforcement interviews**

My introduction to the issue of car-theft was through a series of interviews with law-enforcement officers. The Bulgarian Ministry of Interior responded positively to a request and arranged meetings with the Heads of Car-theft Units in Sofia and Varna, several detectives in the respective units, officers who had participated in joint operations with the Spanish police (including working in Spain), and liaison officers (Madrid and Brussels). The majority of these interviews required several meetings, once an informal relation with the officers was established. On several occasions, I spent several hours at the unit, witnessing their day-to-day work, which usually concerned ransom-seeking car-thefts. The Consul at the Bulgarian Embassy in Madrid was also interviewed on a couple of occasions, as she had been involved in prison visits and representation of Bulgarian offenders between 2002 and 2005 and again between 2007 and 2010.

Interviews with the Spanish law-enforcement, despite a four year effort, and several official letters, and the personal help of several Spanish diplomats were not possible. It was explained that although the heads of car-crime units had agreed to speak to me, 'a higher level political decision was taken' forbidding them from providing me with interviews. Despite this, several informal interviews were undertaken in the course of other research I did on behalf of the European Commission, which

provided me with access to Customs officers, Civil Guard, and National Police officers.

The key challenge of the law-enforcement interviews in Bulgaria was their unwillingness (or inability) to discuss the higher levels of car-theft / stolen-car sales networks in Bulgaria. It stemmed partly from the fact that these levels were rarely targeted by the law-enforcement officers, and that all arrests were of middle- to low-level car thieves. Some of the high-level names were mentioned reluctantly, and it was explained that they had solid high-level protection (by either law-enforcement officials or politicians) and that it would be better not to discuss them. For instance, in Varna, a local criminal syndicate that within a decade had been transformed from a racketeering operation into the largest holding of legal companies, was clearly a factor that local police officers took into account during the interviews. While detectives from other towns claimed that this criminal syndicate was involved in protecting, and even directly smuggling stolen cars from Western Europe / towards former Soviet Union, the local officers interviewed denied all these claims. The most plausible explanations for this position, suggested by other interviewees, were either fear or influence (if not straightforward corruption).

The issue of police corruption does not figure prominently in methodological issues of conducting organised crime related research. Venkatesh (2008) notes the dangers that corrupt police officers can pose, as they feel threatened by offenders who could be a source of information about corruption schemes.<sup>11</sup> With the exception of two offenders, most of the offender informants and investigators I interviewed were located in different towns, so this danger did not exist. In addition, the focus of the interviews was Spain, so there was no direct threat to the particular interviewees from any of my other respondents.

Another issue that I faced in the course of the interviews was the curiosity that a couple of my law-enforcement interviewees expressed about my offender sources of information. In part this problem was avoided, as the majority of my interviews with investigators took place before the offender interviews. I used the fact that I was not

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<sup>11</sup> Venkatesh was in fact directly threatened by corrupt police officers, who closely monitored his research in a Chicago suburb.

aware of the offenders' identities, or that they did not reveal names, as a way of rebutting questions from the police.

Despite these difficulties, overall a level of trust was established with several of the police officers, and they were quite willing to share their knowledge on 'Spaniards' (as car thieves working in Spain are known). Issues of police or judicial corruption were gradually shared as well, further indicating an increased level of trust from the interviewees.

Although a structured questionnaire was used only during the initial interviews, the subsequent meetings were generally held to discuss the findings from the interviews with offenders, analysis of data, and the various tables and figures that were produced.

### **2.3.5 Offender interviews**

Offender interviews are tricky and difficult. A special issue of *Trends in Organised Crime* (2008/11) provides a number of aspects on the challenges: access to interviewees (Antonopoulos 2008), safety during interviews (Arsovska 2008, Rawlinson 2008b), social distance with offenders (Antonopoulos 2008); the value of offender interviews and the validity of data (Antonopoulos 2008, Arsovska 2008, Siegel 2008).

The present research faced many of these difficulties. A total of 23 interviews were conducted with offenders, of which 20 were with males and 3 were with females (prostitutes). Four of them were from the capital Sofia, while the rest were from Pazardjik. The majority of the interviewees had 'worked' in Spain, while the rest had experience in Italy, France, and Germany, Austria, Belgium, or only in Bulgaria. Almost all offenders had something to do with car-theft: they were either professional car thieves, drivers (who drive the stolen cars, including cross-border), or other types of specialist roles. All of them had other criminal careers as well: as drug (mostly heroin) dealers, low-level pimps, burglars, petty thieves, credit card skimmers. All were professional criminals: very few had ever had legitimate jobs or even considered a legitimate job as a future alternative.

Much could have been written about the social background or criminal careers of individual offenders, but the issue was left out as it was outside the focus of the thesis. What probably is worth mentioning is that there was a great variety of social backgrounds: the majority of offenders were older (in their 30s) and grew up as kids during communism. A few came from very poor or marginal backgrounds, but the majority came from, what before 1990 was considered, 'normal middle income families'. These families quickly became poor after the 1990, when the offenders were in their late 'teen' or early 20s during the chaotic 1990s.

### ***Recruitment and access***

The initial idea of the research was to conduct interviews with imprisoned offenders. The indication from investigators that it would be very difficult to identify such offenders for two reasons: (1) Many offenders are not in prison on car-theft related charges – therefore the Prison Services administration would not have been able to approve a specific request for car thieves. (2) Interviews with the general Consul general at the Bulgarian Embassy in Spain identified a similar situation in Spain, adding that very few such offenders are extradited to Bulgaria.

The interviews were arranged through three other channels:

- **Police assisted:** the Sofia Police Department arranged two interviews with offenders who were known to have been operating in Spain and Italy. The Bulgarian police regularly conducts a 'prophylaxis' of offenders: a procedure, in which known offenders are summoned to the police station and questioned, usually a way of extracting intelligence information. The two offenders were apprehended and brought to a police station by the police as part of a routine visit. Following their meeting they were asked if they would mind talking to me in coffee shop near the police station. Naturally, although this was supposedly a voluntary meeting, in practice it was most likely that the offenders had felt obliged to agree. They were quite cautious, and not sure about what criminological work was about. This meeting was of interest as, during the first 20 minutes, three investigators, the two offenders and I sat around a table in a coffee shop. The conversation between cops and offenders went on in a friendly manner about recent news from the car-theft world, and the

vehicles and thieves involved, and so on. It was striking how difficult it was to distinguish, the offenders from the investigators (who were plain-clothes detectives), either by their appearance or their speech. They all seemed to be equally fascinated by how great the particular vehicle or motorbike stolen was, by how skilfully it was stolen, or by the rumours of who was the 'lucky winner' who stole it.

- **Journalist assisted:** one interview in Sofia was arranged through a journalist, who had published an extensive interview with a 'former' car thief. The journalist had assured the car thief about the confidentiality of the meeting, and therefore the interview lasted several hours in the relaxed atmosphere of a half-empty restaurant in the suburbs. This interviewee had agreed to talk in exchange for a small payment (50 euros).<sup>12</sup> In addition, four interviews with three prostitutes and one pimp took place in the context of a two-day documentary film shooting, in Pazardjik that was being undertaken by a French TV film producer. The film crew managed to obtain access and film some of the interviews inside the home of one of the prostitutes / pimps. I conducted most of the interviews off-camera. These interviews were aimed at establishing the broader social context of prostitution in Pazardjik, but it provided very good insight into wider social context, as well as criminal networks in Pazardjik (several of the car-theft offenders interviewed were also pimps).
- **NGO-assisted:** The majority of interviews were arranged with the assistance of representatives two NGOs – one based in the town of Pazardjik (112 km east of Sofia) and a second one in Sofia. Over a two-year period, the NGOs arranged meetings with 16 offenders, a number of which were interviewed several times. Some of the interviewees had been 'clients' for some time to the NGOs, receiving help or services from the organisation. One additional interview was arranged with a former car-thief who worked at a non-profit providing social assistance to offenders in Sofia.

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<sup>12</sup> Payment of interviewees and focus group participants is a standard practice in Bulgaria. Even though the pay is not significant, most social organisations and sociological / market agencies pay small fees to motivate participants.



- Two other interviews took place **by chance**. On a flight from London to Sofia, I sat next to an offender from Pazardjik, who was living in Barcelona, had also spent time in Madrid, Marbella, and Milan, had much knowledge of drug dealing South America, Africa, and Amsterdam; had keen interest in the UK's penal policies on drugs; had a background as a judo athlete from a sports school; and most importantly detailed knowledge about the car-theft business. The three-hour long interview was one of the most insightful in terms of understanding the higher-level negotiations of the drugs and car-theft businesses. The second incidental interview took place after a long taxi drive, where the taxi-driver admitted that he had been international truck driver who had driven platform trucks with stolen vehicles from Italy. He then agreed to a short conversation discussing his experience.

### ***Trust and sincerity***

The key challenge of obtaining fairly credible information in the short few hours that the interviews lasted was establishing some level of trust. In the case of the interviews arranged by the police, this was clearly missing and hardly possible to achieve. In all other cases, the gate-keepers became the guarantor of this trust. Multiple interviews conducted with some offenders also increased the level of trust significantly.

The main gatekeeper used to arrange the interviews in Pazardjik was an NGO worker who often served as mediator, and provided support to offenders in trying to solve some of the problems they faced with the local police. They trusted him, and he was able arrange numerous meetings with them in exchange for a small payment of €20. These interviews were used to 'snowball' additional ones, as some interviewees agreed to bring along their offender-friends to participate in further interviews. One of the major advantages of using a local gatekeeper was that he had access to 'itinerant criminals': the majority of these offenders were migrating, constantly changing their mobile SIM cards, and the most likely way to find them was by spotting them accidentally in the centre of town when they were back from 'work' abroad.

The interviewees had little idea about the exact topic of the interview: the only agreement was that their identity would not be revealed to me, or that they would not

be asked to reveal any names. This condition worked to our mutual advantage as it also shielded me from any possible legal complications around my knowledge of particular crimes.

In the beginning of the interviews, I clearly identified myself as 'a student from London, with a scientific interest in vehicle theft in Spain'. Nevertheless, by the end of the first year almost all the interviewees had revealed their first names, and even gave me their mobile numbers (or one of these numbers). They also referred at least to the names of other offenders that were known from the local press.

Some of the interviewees were understandably nervous, and tried to work out whether I was a cop, or they would ask me if I had recording equipment. Some would observe me carefully and conclude that I had the posture of a police investigator. Usually with these suspicious individuals, little was shared during the first interview. In the subsequent interviews more information was revealed, particularly about the specific countries or towns where they had worked. Obviously for all the above reasons I did not use a tape recorder. Sometimes offenders felt uncomfortable and carefully observed what was recorded as notes. I even avoided taking any notes during the first 30-40 minutes of the interview, until the respondent felt more comfortable. Recording equipment was not used in law-enforcement interviews either. Most of the time, therefore, the quotations throughout the thesis are approximations of what was said.

Most interviews took place in a cosy meeting room at an NGOs offices in the centre of Pazardjik, a location with which the interviewees were familiar. Some of the follow-up interviews took place in a nearby downtown bar, where local pimps and cops hung out (according to the interviewees, who were also pimps).

The gatekeepers were well familiar with the criminal background of most of the interviewees. This proved to be useful, as I could then compare the level of sincerity of the interviewees. The facts that were most often hidden related to the interviewee's participation in other criminal activities, especially drugs and prostitution. The interviewees attempted to strictly stick to the topic of car theft. Nevertheless, in almost all interviews they spoke of other criminal activities (as these were part of the questionnaire), and on several occasions they recounted stories about their own participation in these criminal activities.

The main issues which the interviewees usually lied about were:

- **Their relation to car-theft:** although the fixer of the interview had some idea about the background of the interviewees, many of them might have had only contacts or friendship with car thieves. As car thieves also engage in many other crimes, other offenders hear stories and know about car-theft even without having been directly involved in it. These types of lies emerged only after additional interviews, and more detailed questions, and once a stronger relationship of trust had been established.
- **The people they knew:** they often claimed that they knew or had worked with people who they considered to have power or reputation. Two well known car-thieves – brothers were most often mentioned.
- Their participation in other criminal activities (particularly denying involvement in drugs distribution).
- Their position in the car-theft group: some would claim that they were ‘thieves’ whereas on closer examination it became clear that they did not know technical specifics, and were in fact only assisting car-thieves with auxiliary tasks.
- Money: boasting about how much they made. Usually the most effective way of finding out the real cost of something was to ask how much others make (e.g. asking the thief how much would a mule makes).

### ***Paying interviewees***

The issue of paying respondents was considered carefully, and as it was established that there were precedents, it was considered appropriate. The payment did not seem to reflect significantly on the level of sincerity of the respondents, as there was no significant difference between the quality or the openness of interviewees who were paid and those who were not paid. The offenders who were paid were promised 20 euros upfront, regardless of what they were to reveal. Several interviewees started the interviews saying that ‘they have very precious information that they can share with me’. My approach, though, was to tell them that ‘precious information’, such as names of other thieves or specific technicalities of auto-theft were of no interest and that the conversation was to be more general.

Nevertheless, some difficult issues arose. Several interviewees saw an opportunity to make more money from the interview. Several offered to demonstrate the theft of a car. One tried to sell a CD with mobile phone recordings of the abuse of victims of human trafficking. Another orchestrated an elaborate scheme, where for 100 euros he 'arranged' a number of meetings with his friends in Barcelona and Madrid, all of which turned out to be hoaxes. Both had tried to defraud the NGO's staff on previous occasions as well, by 'borrowing' money or selling stolen goods. The second person was detained and imprisoned shortly after that for petty theft. In both cases, I managed to avoid any complications (even though I ended up in a coffee shop in Barcelona waiting for people who never showed up). Two other offenders invited me to join them on a trip to Spain, where they offered to introduce me to other offenders, and 'drive together a stolen car back to Bulgaria'. The advice of several investigators was not to take advantage of these invitations. The offers were unlikely to have been genuine, as the offenders had known me for only a few hours when they made the offer, and it was more likely to have been seen as an opportunity for a free trip to Spain, without any real intention to be of assistance to me.

### ***Representativeness and validity***

Although the number of interviews with offenders seems too small to establish any level of representativeness, there are a number of arguments to counter this argument:

- The total number of Bulgarian car thieves in Spain is approximately several hundred. The individuals that were interviewed worked within different criminal networks and in all the main areas where Bulgarian criminal groups have been detected (Madrid, Costa del Sol, Valencia-Barcelona).
- The structure of car-theft networks is fairly flat, therefore all interviewees were exposed to (or at least were well aware of) the different aspects of the car-theft operations and market.
- There were no significant discrepancies between offender accounts and other sources of information.
- Even though most offender interviewees were from the same town (Pazardjik), they did not work only within 'Pazardjik groups', but joined groups and networks with other offenders from across Bulgaria. In cases where the

city of origin of individuals arrested by Spanish police was provided, there did not seem to be groups of participants from particular towns.

### ***Gender issues***

The involvement of women in the car-theft market should not be understated. Although no evidence was found that women are in high-level positions within the networks, in the majority of cases discussed, and in the networks dismantled by the Spanish police, there were women involved. Women are used as drivers (e.g. of pilot vehicles) or to accompany mules transporting stolen vehicles (i.e. being disguised as a 'couple'). They could also have various auxiliary functions in transferring money or forged documentation. In addition, prostitutes that were related to car-theft networks could play different roles. From the offenders interviewed, only one female prostitute had had involvement in car-theft networks. None of the investigators interviewed were female; only one other law-enforcement official and one government official were female. The subject matter of the present research is not 'gendered' to an extent that suggests that under-representation of women in the interviewee sample poses analytical problems. Therefore, no specific efforts were made to interview female offenders or law-enforcement officers.

### ***Interview structure and questionnaire***

The structure of the questionnaire used in the offender interviews was developed in two phases. Some of the first interviews took place while the operational data of the Spanish police was still being analysed, and some of the interviews with the law-enforcement officers were still under way. As a result their quality was generally lower. The quality of the interviews also increased over time, as I became more familiar with the topic, the interviewees seem to treat me with more respect and I was able to ask more specific questions.

All the interviews were semi-structured: although all the questions were asked in all the interviews, the conversation was open and each one followed its own unique pattern. Usually, by a way of introduction, an oral history approach was undertaken, asking interviewees to reflect on the period 1999 – 2006, or around the time they

entered the car theft industry. Elements of life histories were also infused, as more general considerations, such as emigration, were discussed. The similar ages of the author and the interviewees allowed for an easy-going conversation, and reduced social distance. In an effort to reduce this distance further, I used a language that matched theirs, involving lots of derogatory expressions and swear words that the interviewees used. For instance, when referring to prostitutes, the offenders (and often even police officers) usually used the words '*sluts*' or '*cunts*'; they also added derogatory adjectives when discussing police officers (particularly corrupt ones).

### 2.3.6 Other interviews

Using informal connections, ten interviews were done with Bulgarian immigrants in Madrid, Marbella, and Barcelona. Interviews with immigrants, who had returned from Spain were also arranged with the help of the NGO based in Pazardjik.

Arranging the interviews with car dealers proved as challenging as those with offenders. These were all arranged via informal networks, through acquaintances, and via the NGO in Pazardjik. Any attempts to use the snow-ball method for further interviews with car-dealers proved unsuccessful. As one police officer noted 'You should not be surprised, no used-car dealer is really clean' [LEI-4]. Informal personal relations were also used to arrange several interviews with entrepreneurs and academics.

### 2.3.7 Anonymity

The protection of interviewee identity was a key factor in either achieving some level of openness or protecting their safety, both in law-enforcement and offender interviews. Some offenders preferred to remain anonymous, and did not reveal even their first name.

In addition, an extensive effort was made to make anonymous a number of individuals, mostly for legal purposes. Their names are widely known and published in the Bulgarian media. Their role in the car-theft or used car industries was confirmed by offenders or law-enforcement officers. Yet, none of these individuals have ever been convicted for car-theft, and some have never even been prosecuted

(despite the numerous stories about them in the media). In the thesis, either fake names have been created, or nicknames have been used.

## 2.4 Data Analysis

### 2.4.1 Overall approach

The two approaches that were considered included *analytic induction* and *grounded theory*. Analytic induction implies that a hypothesis needs to be developed (Bryman 2001). As the research topic was little explored and multiple hypotheses were to be tested, it was decided that an inductive approach would not be appropriate. Therefore, a grounded theory approach, as defined by Glaser and Strauss (1967) was undertaken.

Bryman (2001: 391) as well as Glaser and Strauss (1967) suggest that there is a range of tools which inform the grounded theory approach: theoretical sampling, coding, theoretical saturation, constant comparison. Bryman (2001: 391-393) also suggests a number of outputs of the grounded theory approach, such as concepts, categories, properties, hypotheses, and theories.

The present research used a few of these tools. A *theoretical sampling* approach, where data was continuously collected and analysed, and influenced further data collection steps, was considered a more appropriate approach for two reasons. Firstly, the lack of an initial hypothesis that could be tested and the general dearth of knowledge on the empirical case of car theft, made it more appropriate to gradually accumulate knowledge, conduct additional theoretical research and test different variables. Secondly, for practical and financial reasons, it was difficult to arrange a continuous field study in Bulgaria and Spain, with back-to-back interviews, particularly with car thieves. The main data-collection process of interviewing was a slow and opportunistic process that spanned more than two years.

The coding, being another central tool of the grounded theory, was used to develop a range of concepts. The interview output was coded to distil the key concepts of the research. The process, as suggested by Strauss and Corbin (1990:61) involved 'breaking down, examining, comparing, conceptualizing and categorizing data'. The coded concepts were used to develop the 'key categories of the research': the role of

immigration or access to product-distribution outlets. These categories were used to develop some initial hypotheses that were further tested in interviews.

The present research, particularly its empirical analysis, does not aim to create a *formal theory* but rather a *substantive theory*. The difference between the two follows Bryman's (2001: 392) definition, where *substantive theory* refers to a 'theory in a certain empirical instance or substantive area', while *formal theory* refers to a 'higher level of abstraction' and has 'wider applicability to several substantive areas'.

There are certainly criticisms of the grounded theory approach that need to be taken into account. Coffrey and Atkinson (1996) suggest that the coding process could result in a loss of the sense of context and the narrative flow. This would be particularly the danger if the interviews focused solely on the years of market entry. This was avoided by broadening the scope of interviewees to include immigrants, entrepreneurs, and other market participants. Charmaz (2000) argues that grounded theory is objectivist and aims to uncover a reality that is external to social actors. The constructivist approach that she suggests 'assumes that people create and maintain meaningful worlds through dialectical processes of conferring meaning on their realities and acting within them...Thus social reality does not exist independent of human action' (Charmaz 2000:521). This criticism is certainly well grounded, given that the interviewees were asked about events that took place some time ago, as well as about events that it was difficult to be entirely open or honest about.

#### **2.4.2 Considering official data**

As noted in the first part of this chapter, two types of official data were used: (1) official police / judicial statistics; and (2) Spanish police report summaries of investigations of organised crime. Hobbs (2000) and Rawlinson (2008a) have outlined a range of risks in considering official data on organised crime. Hobbs (2000) points to the dangers of using witness testimonies, such as Joseph Valachi's before the Kefauver Committee, which informed many (Cressey 1967, 1969) wrong impressions about the structure of Italian organised crime, and were later disproved. Hobbs, though, explains that legal cases and case histories could be useful in reconstructing cases that 'cross international and legal jurisdiction' (Hobbs



2000:173). The use of court case files was also considered, but it was decided that it would be of little value to the research, as no landmark trials were known to have taken place against car-theft enterprises. In addition, there were practical difficulties, as access to case files is available only to qualified lawyers in Bulgaria and in Spain. Also, in Bulgaria information gathered through special reconnaissance (e.g. wiretaps) is not made public, i.e. the access to the cases would have been only partial and patchy.

The warnings of Hobbs and Rawlinson were well founded. On the one hand the police interviews showed that the police usually have a partial view on the issue. The Spanish police had a limited view of how the sale of stolen vehicles in Bulgaria is organised. Similarly, the Bulgarian law-enforcement officers had a very patchy view of how Bulgarians operated in Spain, usually being limited to a few transnational cooperation cases they had worked on. In Spain, particularly, an attempt to analyse the Bulgarian criminals had led to certain stereotyping of how 'criminal groups are structured': often this being only one of their numerous possible modes of operation. Yet these police stereotypes were a useful starting point for the questions to the offenders, and to test their accuracy.

A range of **official statistics** on car theft and arrest of Bulgarian suspects were considered: data on motor vehicle theft rates, arrests, and criminal groups. Police or crime victim survey statistics tell little about the volumes of stolen vehicles that are sold in a country or a given geographic area because:

- The number of stolen vehicles exported outside the area, and not sold locally is not known.
- The number of stolen vehicles imported from abroad and sold locally is also unknown.

At best, statistics from surveys or police records provide only one piece of the market puzzle.

Nevertheless, a limited review of the statistical data was considered useful, as it showed the level of activity of criminal networks. Both police statistics and victim surveys are fairly reliable, as the theft of a car is considered significant enough by most victims, who report it in over 90% of cases (Nyiri 2005; Gounev et al. 2006: 56-59). In addition, insurance requirements often stipulate that a police report is needed when filing an insurance claim for a stolen car. As a result, vehicle-theft data from

police statistics, particularly in Western Europe, are reliable. In addition, police data on *non-recovered* vehicles was considered (Van Dijk et al. 2007: 52-53) to be indicative of the level of involvement of organised crime in car theft<sup>13</sup>.

Some authors, though, have warned (Hardy 2006, Batelaan and Moll 2004) that international statistical comparisons of motor vehicle theft (MVT) could be problematic. The vehicle theft statistics of countries like Spain are based on registered crimes, as they are reported by the victims, while in other countries, such as Germany, Italy, or Austria, statistics include crimes for which there has been already an initial investigation. There are also other differences, for example in the use of terms such as 'joy-ride' thefts, which some countries classify not as car thefts but as 'unauthorized use'. (Hardy 2006, Nyiri 2005).

One general issue concerns the use of statistics from Bulgaria. Before 1989 the communist propaganda claimed that crime would gradually disappear, and statistics were not made public.<sup>14</sup> Therefore, the crime statistics used in this thesis make little reference to the period before 1989.

Other official police data that was considered included a comparison of arrest rates and the statistics on Bulgarian suspects in Spain or other EU Member States. Several caveats about this data should also be pointed out:

- Such rates do not present any indication of the total population of Bulgarian suspects in a given country.
- They could reflect police priorities or effectiveness, rather than increases or falls of the actual suspect population: making analysis of crime trends misleading
- Suspects often have fake passports or stolen identities, underestimating or overestimating the actual number of Bulgarian suspects in police statistics.

In Bulgaria no public reports on data on organised crime are published. In Spain, the data on organised crime is collected by multiple agencies. Their purpose is not to give statistics on organised crime, but rather to analyse the problem and prepare Spain's contribution to the annual Europol Organised Crime Threat Assessment. For

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<sup>13</sup> The cars that were recovered were presumably stolen for joy-riding.

<sup>14</sup> Political changes in Bulgaria started in November 1989 with the resignation of Todor Zhivkov, who was the head of state between 1962 and 1989.

a first time in 2011, the Spanish Ministry of Interior published an very short and general statistical overview of the 2010 organised crime situation in the country (some previous year versions of that analyses have also been partially leaked in the media or to academics in previous years, and were also used).

### 2.4.3 Considering offender data

Hobbs also highlights the dangers of relying solely on incarcerated criminals' accounts, and the risks of producing studies of inmates. Hobbs (2000: 168) points out that that most research on professional and serious crime is biased, as it focuses too much on 'the lower orders'. This was certainly one of the dangers with this research; with the exception of three interviewees, all the offenders were at the lower levels of the criminal networks. This did not present a particular problem, however, because the organisational structures involved in car theft and trans-border smuggling are fairly flat. In addition, interviews with 'customers' (businessmen) and law-enforcement provided much insight about the higher levels involved in car-theft rings.

### 2.4.4 Considering crime victims surveys

Crime victim survey data complement official police statistics. In terms of international comparison, the European Crime and Safety Survey (EU ICS) and the UN International Crime Victim Surveys (ICVS) data was used. The second type of data came from crime victim survey data from Bulgaria (National Crime Survey – NCS data set): the Bulgarian equivalent of the British Crime Survey. It includes a set of questions on vehicle crime.<sup>15</sup>

The crime victim surveys have been useful in trying to estimate the actual numbers of vehicles not recovered by the police. They are also a useful tool to study particular types of vehicle thefts, such as the ones for ransom that occur in Eastern Europe and

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<sup>15</sup> The questionnaire is largely based on the International Crime Victims Survey (ICVS) questionnaire. The sample is nationally representative random samples of 2,000 – 3,000 adults of over 16 years of age. Over the years a number of questions have been added to the survey, aiming to capture problems specific to Bulgaria, such as the ransom-seeking car thefts. Methodological details and relevant English-language publications can be found at [www.csd.bg/ncs](http://www.csd.bg/ncs).

Greece. The comparability and methodologies of crime victims surveys, in particular the ICVS, are riddled with problems, but they remain the most appropriate data for making comparisons between countries. The present thesis does not rely much on the use of crime victim surveys, neither are major conclusions based on data where fine differences between data could make comparability problematic. Therefore, no further statistical analysis was undertaken and the data is used as presented in the reports of EU ICS, ICVS, or the NCS.

#### **2.4.5 Scope and consideration of the case study approach**

Studies on organised crime are often done by focusing on well-defined geographic areas: cities, countries (as most law-enforcement agencies do); or regions (e.g. various regions in Italy). Despite the cultural and historical specifics into which the particular criminal market is embedded, some authors have tried to generalise their conclusions, seeking to derive broad theoretical conclusions. Reuter (1985: x) has suggested that the results of his study could be generalised, as there are various economic factors that are likely to produce similar results in illegal markets. Similarly, Gambetta (1993) used the empirical evidence on Sicily to argue that protection of illegal markets is the main commodity in which mafias trade. The claim to universality of results is a challenging task that requires multiple tests of the hypothesis beyond the particular context of the market examined: something that the above authors have failed to do convincingly.

In international business economics, 'market entry' is usually studied by using quantitative analysis of various databases of company data. To mention just a few examples: Bryce and Dyer (2007: 90) analysed the Compustat North America database of 24,178 companies, to identify 889 companies that have entered the ten most profitable industries between 1990 and 2000. This data analysis was supplemented by additional research and interviews with industry experts to analyse privately owned companies (the Compustat database is only of publicly traded companies), or to identify major players who entered several industries. There are various other examples, such as Crick and Spence's (2007) study of foreign market entry of UK and Canadian small and medium enterprises (SMEs) (where a sample of firms was drawn from the respective databases in the UK and Canada); or Lu and Wu's (2007) study of 164 Japanese SMEs' entry into new geographic markets.

Such datasets are certainly not available for illegal enterprises. Therefore a case study approach was considered as the most appropriate one. The few studies on illegal market entry, such as Varese (2004, 2005), Galeotti (2000) have relied mostly on media and law-enforcement reports to carry out their analysis.

The empirical research in this thesis focuses on the case of markets for stolen vehicles in Spain, and the attempt of crime networks and groups dominated by Bulgarian nationals to enter this market between the late 1990s and 2008. As a point of comparison, the thesis considers the operation of the market for stolen vehicles in Bulgaria.

The selected case study could serve as a ground for some limited generalisations to other contexts and markets for two reasons. First, the market for stolen vehicles is in many ways similar to the markets for the distribution of other stolen / illicit goods (illicit cigarettes, alcohol, oil, counterfeit goods, or cultural goods) that thrive on informal and deviant economic activities, fused into legitimate markets. Second, the comparison of a failed market entry in Spain with a successful one in Bulgaria is a methodological approach, which allows one to seek broader validity of the conclusions of the thesis.

## 3 The used-car market

### 3.1 Demand, supply, and distribution in the used-car market

Stolen vehicles are sold mainly on three markets: the market for used car-parts, the market for used cars, and the fairly small illegal market for stolen vehicles. While the first two markets are 'legal' and legitimate products are sold alongside stolen ones, the third one is illegal, as the vehicles there never become legitimate. Bulgarian criminal networks in Spain steal and sell the stolen cars almost exclusively on the second market, the one for used cars.<sup>16</sup> Therefore the main research questions in this thesis focus on how these criminal networks attempted to enter the market for used cars in Spain, and what were the advantages of selling them on the Bulgarian used-car market. The present chapter examines how the used-car markets and industry function both in Bulgaria and in Spain.

The regulatory environments and local socio-economic specifics create specific local car markets – either on a local, regional, or national level. There are three main markets that could be discerned, where the stolen vehicles are sold:

- **Markets for used cars:** either domestic (where the vehicle was stolen) or internationally – in another country. Most of the used-car markets are usually country based: national regulations on vehicles or vehicle imports or production, or local economic conditions, determine the demand and supply.

The stolen vehicles could be sold within **different segments** of the used car market, depending on the type of vehicle (cars, motorcycles, commercial vehicles, etc.): There are separate market segment for: passenger cars (which in turn is further segmented into small, medium, luxury cars); construction vehicles; passenger transport vehicles (busses, vans, etc.); commercial cargo transport vehicles (light or heavy trucks); and motorcycles. Each of these has its own

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<sup>16</sup> Selling the stolen cars to a 'chop shop', 'a quick sale in the Gypsy neighbourhood', or to other criminals, seems to be more of a sideline for additional income for some car thieves, but not the main business of criminal entrepreneurs in Spain. (OFI-16)

specific supply and demand drivers. The type of the vehicle that is stolen determines the mode of distribution (as it relates to different buyers), the type of theft skills needed, organisation of the theft, support infrastructure, trafficking logistics.

- The market for **vehicle parts** is usually the second most likely destination for stolen vehicles, after the used car market. The distribution methods and networks there are generally different from the ones through which used cars are sold, as they involve 'chop shops' / repair shops (where the stolen vehicles are disassembled), junk yards, or car-parts stores where the vehicles are sold (Herzog 2002; Tremblay et al. 2001). The internet has also become a preferred place to sell engines of stolen cars (Dimitrov and Yochev 2010). There is no indication that Bulgarian car thieves in Spain have been involved in this market<sup>17</sup>. Bruinsma and Bernasco (2004: 86) argue that for the international market the 'whole car' is valuable, while for the domestic market (in their case the Netherlands), the car's 'components are more valued'.
- **Market for vehicles stolen for committing other crimes.** This is certainly a smaller market as the number of potential buyers (i.e. other criminals) is far smaller. Stolen vehicles could be sold to other criminals involved in robberies, burglaries, contract killings, transportation of illegal goods (e.g. drugs) or migrants, etc. The supply and demand factors of this market are different from the above-described markets. In Spain, the main buyers (of mostly stolen light trucks) in this market have been drugs distributors involved in smuggling of hashish or cocaine. In Bulgaria, contract killers or kidnappers have also used such vehicles.
- **Market for scrap metals.** In recent years, with the increase in the price of metal, older vehicles have increasingly become targets for scrap-metal thieves who steal old vehicles and sell them both to scrap yards and for used car parts. (e.g. BBC 2008, Dimitrov and Yochev 2010)

As explained, the Bulgarian car-thieves have been involved primarily in the sale of stolen vehicles for the used car market. Defining the limits of the used-car industry

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<sup>17</sup> When concerning high-end models, some customers in Bulgaria might order a vehicle to be stolen only for its parts. Such thefts mostly take place domestically. [OFI-20]

and describing the used-car market is fairly complicated as it is fused with the well-structured new-car industry, on the one hand, and the entirely chaotic consumer-to-consumer (C2C) market for used cars on the other. The present chapter consists of two parts. The first part describes how the used-car market generally operates, reviewing academic studies and data from the US and Europe. It describes how the distribution of used cars works and the factors that shape distribution channels. It provides some industry characteristics and reviews the regulatory environment. Finally, it examines the demand and supply factors that shape the used-car market. The second part analyses specific characteristics that differentiate used-car markets in Spain and Bulgaria.

### 3.1.1 Supply and distribution in the used-car market

The retail car distribution, or the ‘motor trades’ sector is characterised by a great number of small enterprises. In Europe, according to Eurostat, in 2004 there were 709 000 enterprises involved in the motor trades sector, with a total of 3 578 000 people working in them. Although of these only 182 000 enterprises were involved solely in ‘sale of motor vehicles’ (see table below), the actual number of enterprises is difficult to establish, as some maintenance and repair shops also sell used cars. In countries like Bulgaria, where the market has a number of ‘grey-market entrepreneurs’ (see section on Bulgaria below), sole-entrepreneurs often do not even register dealerships, but function more as private sellers or intermediaries.

|   | No. of enterprises | Employment |
|---|--------------------|------------|
| Total motor vehicles and motorcycles distribution | 709 000            | 3 578 700  |
| Sale of motor vehicles                            | 182 000            | 1 587 400  |
| Maintenance & repair of motor vehicles            | 396 500            | 1 315 000  |
| Sale of motor vehicle parts & accessories         | 95 000             | 577 800    |
| Sale, maintenance & repair of motorcycles         | 35 000             | 98 400     |

**Table 2. The Motor Trades sector in the EU (2004)**

Source: Eurostat

The second hand vehicle dealers usually specialise in particular types of vehicles – motor-bikes, light trucks, commercial vehicles, construction vehicles, and passenger



cars. The 'used car' segment of the industry is difficult to discern, as the 'new' and 'used car' sales are often carried out by the same firms. Used car dealerships may specialise in selling low-priced, mid-range or luxury cars. The dealers who sell luxury cars, though,<sup>18</sup> are very few as they serve a much smaller customer base.

There are three main distribution channels for used cars:

- franchised dealers<sup>19</sup> (who also sell new cars, and offer to 'trade-in' customers' old cars, which the dealers then sell)
- independent used-car dealers (some of which, especially those selling exclusive luxury cars may also sell new such cars if there is no franchised dealer)
- private sales.

The supply of used cars to each of these distribution outlets differs greatly across national markets.

- Franchised dealers, i.e. the ones that sell new cars, usually encourage the customers to trade in their used vehicle, and their main source of used cars is the ones 'traded-in'.
- Independent dealers have three different sources of used cars:
  - They might purchase them at auctions where firms (either franchised dealers, or car-rental companies), might be selling large fleets of vehicles, usually ones that have been leased for some time.
  - Private individuals might directly approach a dealer to sell their car.
  - In under-developed new-car markets (such as the ones in Eastern Europe), the main source is import from other countries – vehicles might be acquired either from auctions, private sales (through the internet) or, most commonly, from other dealers.

Stolen vehicles are also an option for both types of dealers, but particularly for the independent ones, for whom the supply of vehicles is more constrained.

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<sup>18</sup> There is no universal definition of 'luxury car', but car-dealers interviewed agreed that normally cars that cost over 30,000 euros are considered luxury cars. There are different ranges within the luxury segment as well, with the high end usually considered as those costing over 100,000 euros.

<sup>19</sup> The manufacturers are interested in having only a few big franchised dealers rather than many small dealers. The rationale is that this would lower the degree of intra-brand competition: i.e. there will not be many small dealers selling the same car make and competing against each other by offering lower prices. In major European car markets, the number of franchised dealers has shrunk by about 25% between 1997 and 2003, while the market has grown (Buzzavo and Pizzi 2005:3)

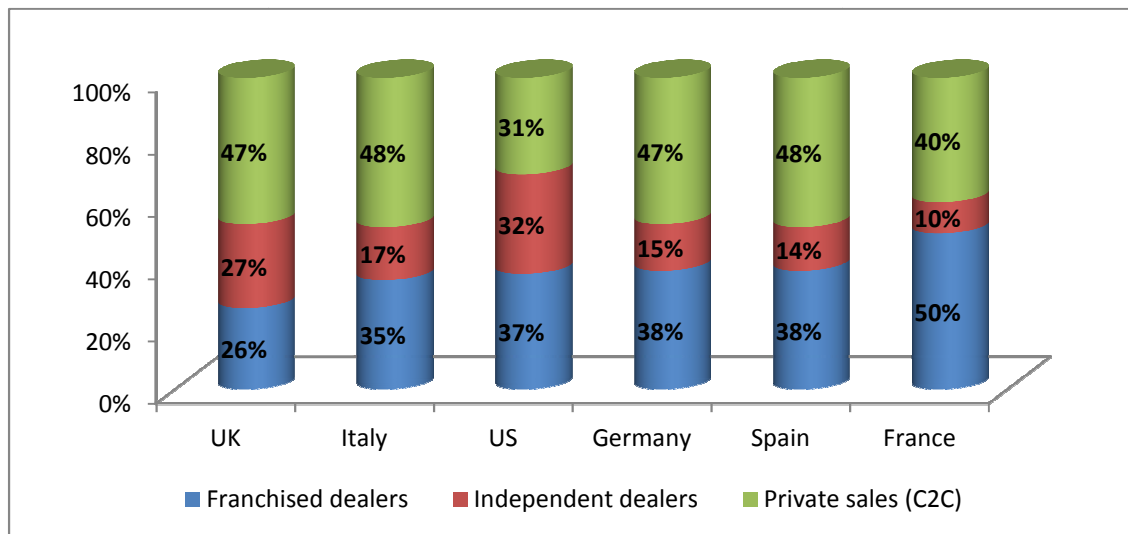


Figure 1. Used-vehicle market shares by distribution channel

Source: Navarre et al. (2007: 11)

The exact market share of each distribution channel differs from country to country (see graph above) and depends on a number of factors:

- government regulations
- availability of warranties and certification schemes (mostly offered by franchised dealers)
- the average age of the cars in the country: as Navarre et al. (2007: 11) explain, the oldest cars are considered by customers as riskier to buy, and they prefer to turn to their personal social networks for purchase instead of using dealerships. Therefore, in countries such as Spain, where the average age of the cars is greater than in Germany, the number of old vehicles (e.g. over 5 years old) sold on the used-car market is higher. As a result, more people rely on informal networks for a purchase, and private sales have a greater share in the market than car-dealer sales.

The point made in the previous paragraph is only an illustration of a much larger academic debate that has drawn the attention of economists and economic sociologists since the 1970s. The specific aspect of the used-car market that drew academic attention is the issue of **asymmetry of information** in the used-car market. **Akerlof's 1970 article** on the used car-market as a market with asymmetric information turned into a classic theoretical example on market theory. Akerlof pointed out that in the used-car market buyers were not aware of the quality of the

used car they were buying, while sellers knew of any possible defects. This asymmetric knowledge that buyers and sellers had of the product's quality set two possible directions in which the market develops.

One possibility is that bad used cars will drive out good used cars from the market: if buyers do not know the quality of the car until after they buy it, there will be no incentive for sellers to provide good used cars or to reveal to the buyers problems with the cars. If used-car buyers discover that they have purchased a 'lemon' (i.e. a used car with problems) they will attempt to sell it to another unsuspecting buyer. Therefore, Akerlof suggests, the average quality of the market will decline: it will become a 'market for lemons'. A second possible outcome suggested by Akerlof, is that institutions may develop to counteract the effects of information asymmetry: warranties, certification schemes, developing brand and reputation: all helping the buyer tilt the balance of information of the quality of the used car.<sup>20</sup>

The theoretical debate on the asymmetry of the market inspired a number of scholars to empirically test Akerlof's hypotheses. Most of this empirical research suggested that Akerlof's first hypothesis about 'adverse selection' that leads to a market decline, was not observed in more empirically grounded studies (Genesove 1993, Bond 1982, Emons and Sheldon 1985). Bond (1982), for instance, studied the used pickup trucks market in the US, showing that the market has developed mechanisms (e.g. warranties) to counteract the effects of uncertain quality. As a result, market quality is generally good. Emons and Sheldon (2002) carried out some analysis of the used-car market in Switzerland. They used the ownership biographies of all 1985 cars registered in Basel for the period 1985-1991. The authors examined Akerlof's hypothesis showing that lower-quality cars tend to be resold more often than higher-quality cars. They argued, though, that the 'lemons' issue was not widespread and did not create a general market decline, as only 10% of owners resold their cars within the first year after the purchase.

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<sup>20</sup> Wilson (1980) has further examined Akerlof's model of the market equilibrium in the used car-market. He argues that in the absence of information on the quality of, for instance, a range of used cars that include some good ones and some 'lemons', there is no need for the market to have one average price. Instead a range of prices may exist, depending on the mechanism through which the prices are set. Kim (1985) also considers some situations under which the market equilibrium suggested by Akerlof does not hold, and the quality of traded used cars may be higher than that of non-traded cars.

There is much evidence to support Akerlof's theoretical point of the tendency for market to be infused with strategies to change the 'asymmetric information'. It is increasingly prevalent for car dealers to include a warranty on a used car: this usually covers a short time-span (3 to 12 months). In the US, where the certified vehicle market is strongest, sales of manufacturer-certified vehicles have more than tripled between 1997 and 2006, totalling approximately 1.5 million units in 2005. American used-vehicle buyers were the most likely to use independent car valuation services (e.g., Kelley Blue Book, Edmunds.com) in the shopping process (62%), compared with 34% of German, and only 11% of French used-vehicle buyers (Navarre et al. 2007). In the US, another approach to building trust with customers is to provide a 'vehicle history' (i.e. the number of owners, accident record, etc).

Sociologists DiMaggio and Louch (1998) carried out the most relevant empirical research to examine Akerlof's hypotheses. They focused on the mechanisms that customers develop to counter information asymmetry. They used the United States General Social Survey (GSS) data to examine how buyers and sellers in the used-car market in the US manage the asymmetry of information. In the GSS, persons who had purchased cars from used-car or new-car dealerships, or from private individuals, were asked about their relationship to the seller or to the owner of the dealership. The respondents were asked, when purchasing the car, whether they used (1) a relative, (2) a friend or acquaintance, (3) a friend of a friend or of a relative, (4) or a relative of a friend, or (5) 'not a friend, but someone with whom they had previous business dealings'. Respondents were also asked about their level of satisfaction with their purchase.

DiMaggio and Louch argued that the greater the risk that a transaction poses to consumers, the more likely *consumers* are to seek out sellers to whom they have pre-existing social ties. They showed that car transactions between private sellers and buyers entail more intensive use of social relations and networks (i.e. are 'within-network exchanges') than do purchases of cars from dealers (See Table 3 below). This relates back to the point made about the market share of different retail distribution channels.

| Transaction              | (n) | Relative | Friend / Acquaintance | Friend of a friend | No prior dealings | No relationship |
|--------------------------|-----|----------|-----------------------|--------------------|-------------------|-----------------|
| All car sales            | 646 | 7.5%     | 15.9%                 | 6.2%               | 8.8%              | 61.6%           |
| Any new car              | 207 | 2.4%     | 11.1%                 | 3.9%               | 9.2%              | 73.4%           |
| Any used car             | 439 | 9.8%     | 18.2%                 | 7.3%               | 8.7%              | 56%             |
| Used car from individual | 250 | 15.6%    | 23.2%                 | 7.2%               | 6.4%              | 47.6%           |
| Used car from dealer     | 189 | 2.1%     | 11.6%                 | 7.4%               | 11.6%             | 67.2%           |

**Table 3. Within-network exchange by type of transaction: General Social Survey (US) 1996**

Source: Adapted from DiMaggio and Louch (1998)

DiMaggio and Louch explained that consumers use social relations to reduce risk in two ways: by asking friends about their experiences in order to determine the dealers with the best reputations. They try to identify and assess the reliability of potential transaction partners to whom they have no direct or close indirect social ties. DiMaggio and Louch called this 'search embeddedness'. Second, they may purchase a car from a dealer or a person with whom they have an ongoing personal relationship that the dealer may feel unwilling to jeopardize. They call this 'within-network exchange'. The main regulatory mechanism within this exchange is the 'reputation', whose effects are quickly and accurately communicated across the network. (Williamson 1991:291, quoted by DiMaggio and Louch 1997)

The GSS also surveyed private individuals who had sold their used cars to private buyers. The analysis showed that sellers were *less likely than buyers* to prefer to transact with people to whom they are socially linked, and more likely to prefer to transact with strangers (ibid. p.627).

One of the explanations that DiMaggio and Louch gave for the reason why embedding of transactions in social relationships is preferred is that it leads to more positive outcomes of the transaction. Of people who bought used cars from dealers, 15.3% without ties but only 5.0% with ties describe themselves as 'not so satisfied.'

Finally, DiMaggio and Louch explained that that the intensity of use of social networks reflects not only buyers' preferences for using personal networks, but also the size and composition of the networks that they have *available* to them. For

instance a purchase of a home in the US is often associated with moving to a new town or place. At such new locations, the social network is limited and home buyers are less likely to engage in transactions using their social contacts.

### 3.1.2 Industry characteristics

The analysis shows that small and medium-sized enterprises (i.e. those with fewer than 250 people) employed 88.5% of all people working in the motor trades sector. In fact, a survey of the largest association of used-car dealers in the US (NIADA with more than 20,000 members) showed that in 2009, 59% of dealerships had fewer than 5 employees.<sup>21</sup> In addition, the same survey in the US showed that 75% of these enterprises had only one location / outlet. This sets the motor trade sector apart from other distributive industries or the non-financial sector in general, where respectively SMEs provide employment to 73.7% and 67.1%. This leads analysts to describe the motor trade as having 'atypical employment characteristics' (Eurostat 2007: 274).

There are two other characteristics of this sector: First, the gender balance is heavily shifted towards men; 82% of the employees in the motor trade sector are male (30.5% above the average for other non-distributive trades). In the course of the research for this thesis, the car-dealerships visited rarely employed women and only in secretarial and supporting roles – none of them were dealers. Secondly, the workforce is much younger – on average the number of younger employees is 20% higher than in the non-financial sector (although in line with the distributive trades sector). From a criminological point of view, all these factors suggest that the industry employment profile is vulnerable to criminal involvement. (Ibid.)

The industry's structure is partially shaped by the regulatory environment as well. The regulation of the 'motor trades' industry in the EU, and particularly car distribution, differs from the regulation of other industries in the EU as it has been granted some exclusivity, as well as from the way the motor-trade industries are regulated in the US and Japan. In the EU, unlike in the US and Japan, car manufacturers have been exempted from free-trade and market competition

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<sup>21</sup> 21.9% had 6-10 employees, and 19.1% had over 10 employees; 9% stated that they had only 1 employee. (NIADA 2010: 6)

regulations<sup>22</sup> and have been allowed to impose a number of requirements and limitations on franchised car dealers. These have included:

- Quality requirements for the set-up of the dealership. Often these have implied significant investment, and have therefore presented a 'market entry' barrier.
- Exclusive assignment of territory: i.e. dealers were limited to setting up showrooms in a specific geographical region or country.
- After-sales service by the dealer was mandatory.
- Brand exclusivity: dealers were allowed to sell only one brand (or one manufacturer's brands).
- Sales to other car retailers (i.e. resellers) were not allowed. (DaimlerChrysler 2003).

These regulations started to change gradually only after 2005, and even further after 2010 with the new EU legislation coming into force. This new legislation allowed dealers to be permitted to build additional customer delivery points, in addition to their contracted sales location, anywhere in the EU.

### 3.1.3 Demand for used cars

The reasons for change in demand for new and used cars generally could overlap. The overall health of the economy is the most reliable predictor (growing GDP, rising incomes, falling unemployment). The income distribution within the population, though, could determine the specific market segments that are likely to grow. For instance, if average incomes are fairly low, demand growth will be concentrated in the lower-priced vehicles segments of the market, as opposed to higher-priced ones.

Demand for cars could also change for other reasons:

- Taxes strongly influence demand (taxes for vehicle registration, as well as annual road taxes).
- Growth in industrial output, as well as an increase in consumption, could lead to increased demand for commercial vehicles (e.g. lorries).

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<sup>22</sup> The existing regulatory system has maintained an exemption from EU competition rules via a Block Exemption 1400/02 which runs until 2010. The Block Exemption provides for various measures of dealer protection to be included in all franchise contracts, for example, a minimum notice period for termination of franchise contract.

- High fuel prices or insurance costs may discourage customers from buying a car.
- Replacement demand cycles: the average time over which consumers replace their vehicles with new ones.
- Market saturation (e.g. the average age of the vehicle fleet in the country; the number of cars per capita).
- Improved road infrastructure may encourage the purchase of cars.
- Environmental standards (lax regulations could encourage the import of old used vehicles) (Bresnahan and Yao 1985).
- Population growth: the growth of demand for used cars in Spain, for instance, has been explained partially with the growth of immigrant population (FECAVEM 2006)

Other factors affecting new car sales include changes in style, engineering, safety, and quality (which hasten the obsolescence of existing models). The demand for both new and used cars is also subject to seasonal and cyclical economic patterns. For most motor vehicles, sales are strongest from March through June, and weakest from November through January. The cyclical patterns usually coincide with the economic ones: during strong economic times demand for cars is high, and during downturns it is low.

The demand for different categories of vehicles market could be differently affected by the economy. Growth in international trade might lead to an increase in demand for light trucks, while not affecting necessarily the demand for construction vehicles or motorcycles. Different categories of vehicles also have different demand elasticity: for instance, luxury vehicle markets have different demand specifics from the markets for low-priced small cars. For instance, higher gasoline price could increase the demand for small vehicles, it might not have any impact on the demand for high-end luxury cars.

The relation between demand for new and used car demand is complex. Purohit (1992) showed that in the mid-priced car market segment, for instance, only significant innovations in new cars may affect and lower the demand for (and price of) used cars. Smaller innovations such as design changes, do not affect the price of used cars, and they can be a 'substitute good' (i.e. direct competition) for a new car. Certain new models of one brand of cars could directly compete with older models



(i.e. used cars) of another brand. Some new models (that for instance follow environmental standards and have less powerful engines) could even create bigger demand for some used-car models with more powerful engines. (Berkovec 1985).

The luxury segment of the car market shows even more peculiar relations between new and old car demand, as it is a market segment with very few customers. For instance, during the economic crisis in the US, when new luxury vehicle sales dropped 31% in 2008, luxury car producers, such as BMW, Daimler, and Toyota Motors, supported used-car sales in an attempt to maintain ‘brand loyalty’. That led to a sales increase of 4.6% in luxury used cars (Green 2009). The support relied on a ‘certification scheme’, which eliminated the ‘asymmetric information’ issue but lowered significantly the profit margin – to 3%, i.e. making it similar for new and used cars.

The complexity of the demand between used and new cars becomes apparent when one compares seemingly similar national markets (US, Japan, France, Germany, Spain). For instance in Japan (where the purchasing power is similar to Western European markets) the purchase of a used car is associated with lower social status and it is avoided (resulting in 1/1 ratio of new and used car sales) (Navarre et al. 2007:7). On the other hand, in Bulgaria, where purchasing power is much lower, the demand for used cars is much greater than for new ones.

|                           | UK    | US     | France | Germany | Italy | Bulgaria | Spain | Japan |
|---------------------------|-------|--------|--------|---------|-------|----------|-------|-------|
| Used car / new car ratio  | 3     | 2.6    | 2.6    | 2       | 2     | 5.8      | 1.4   | 1     |
| New car sales (thousands) | 2,567 | 16,995 | 2,070  | 3,320   | 2,262 | 65       | 1,517 | 5,852 |
| Used car sale (thousands) | 7,701 | 44,138 | 5,400  | 6,650   | 4,586 | 380      | 2,080 | 5,984 |

Table 4. New to used car ratios

Source: Navare et al. (2007)

The demand for used cars has also been influenced by the greater role that the **internet** has started to play. The internet has levelled the market place, as all companies and private sellers compete on the same websites for used cars. Buyers can now potentially gain the upper hand. They are increasingly knowledgeable about cars, their quality, residual value, prices applied, finance charges, availability – and,

more and more frequently, the profit margin that the dealer makes in closing a deal. The internet has also allowed for the creation of a common EU market, as customers may not only compare prices between countries but may also purchase and sell cars across the EU. Navarre<sup>23</sup> (2008: 12-13) shows that between 2001 and 2007 the proportion of consumers<sup>24</sup> who stated that it is likely or very likely that they will purchase a car over the internet increased from 2% (2001) to 20% (2007). In European countries the proportion was even higher – 25%.

Consumer behaviour regarding the use of internet for used-car purchases differs significantly between countries, depending not only on the level of access to the internet, but on broader consumer attitudes towards online trade. French used-car buyers, for instance, are less likely to consult information websites: only 35%, compared with 46% in Germany and 47% in the US. Independent e-tailer sites were much more likely to be used by German customers. As many as 47% of German used-car buyers planned to consult independent e-tailer sites for their next purchase, compared with only 16% of French and 19% of American used-vehicle buyers. (Navarre 2007:18)

The lack of a direct interdependency between the demand for used and new cars explains why dealers, especially franchised ones, sell both new and used cars, without the two necessarily competing with each other. Yet, for certain models and situations, new and used cars could compete.

Finally, one issue which would be discussed later in this thesis is the question of whether there is specific *demand for stolen cars* that has its own dynamic different from the ones for used or new cars. The answer is not straightforward and has many caveats that could be best explained after the empirical evidence in this thesis is presented. Generally, the demand and distribution channels and modes of stolen cars coincide with the ones of used cars. Therefore, comparable data on the volume and trend in these new and used car markets provides much insight into the sale of stolen cars.

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<sup>23</sup> This research was carried out for Capgemini, an international consultancy company.

<sup>24</sup> The consumer survey was carried out with 2,600 consumers in UK, Germany, France, US, and China.

### 3.2 Bulgaria's car market

Following the above analysis of the general principles of organisation of the used car industry, the next two sections aim to present the car markets in Bulgaria and Spain, the trends in demand and supply, structure and organisation of the market, the characteristics of the main players in these markets: dealers and buyers. The car markets in Bulgaria and Spain have some significant differences in terms of the income levels of customers, and the overall maturity of the market. Yet, as the data below shows, there were also quite a few similarities, in terms of trends in demand, and 'market saturation', during the period analysed.

Bulgaria's automotive market is much smaller than Spain's by any measure but its growth between 2001 and 2008 was much more robust: the used car market tripled in size, while the new cars sales increased 5 times (Figure 2 below). The majority of these cars were imported, although the data in Figure 2 excludes private sales.<sup>25</sup> According to the Association of Car Importers in Bulgaria, about 80% of the cars sold domestically are through 'private sales' (*Capital* 17.08.2007). A significant proportion of such 'private sales', though, are in fact done by used car dealers, who are sole entrepreneurs (see more on this below). Bulgaria's per capita ownership of cars doubled between 1994 and 2007 from 223 to 413 per 1,000 people (EIU Markets and Indicators database). With the economic crisis hitting Bulgaria, in 2009 the market for both new and used cars crashed by 41% (National Statistics Institute 2009): a process that continued well into 2010.

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<sup>25</sup> Annual imports of used cars almost quadrupled, from around 100,000 in 2000 to an estimated 370,000 in 2008.

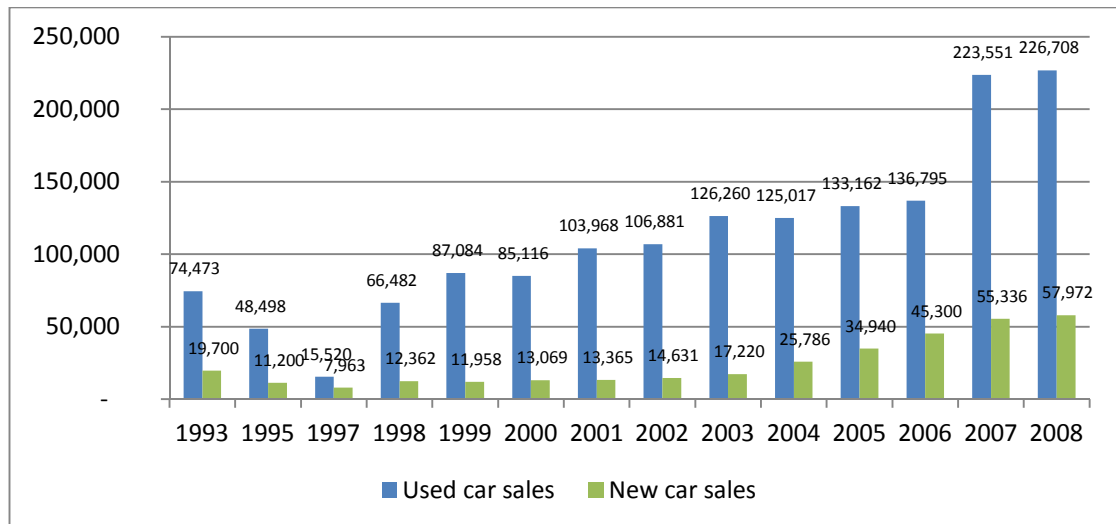


Figure 2. Bulgaria: New and used car sales (1993-2008)<sup>26</sup>

Source: Based on Ministry of the Interior data and Association of Car Manufacturers and their Authorized Representatives for Bulgaria<sup>27</sup>

The demand and sales of **luxury-class** vehicles increased even faster: between 2001 and 2007 the sale of luxury brands increased seven-fold. The data in the table below are confirmed by the sales data of one of the big luxury used-car dealerships, Kapitolia (see more on it below), which reported that its sales grew by 30% between 2005 and 2006 (Autopress.net 2007)

<sup>26</sup> The data for 2007 is an estimate, as no reliable data are available; administrative changes by the Ministry of Interior more than doubled the official new-car registrations from 182,095 in 2006 to 348,887 in 2007. The reason was that in 2006 new registration plate requirements forced many owners to suspend their registration, reducing the total stock of registered cars in Bulgaria by more than 30% (770,000); most were old cars from the socialist period that could not pass safety and environmental standards, or stolen cars that could not be re-registered. Some of these car-owners eventually decided to register their cars again in 2007 and 2008, therefore inflating the actual number of 'new registrations'.

<sup>27</sup> Data on second-hand vehicle imports was provided on request by the Mol; Data on new car-sales: Association of Car Manufacturers and their authorized representatives for Bulgaria (<http://www.svab.bg>).

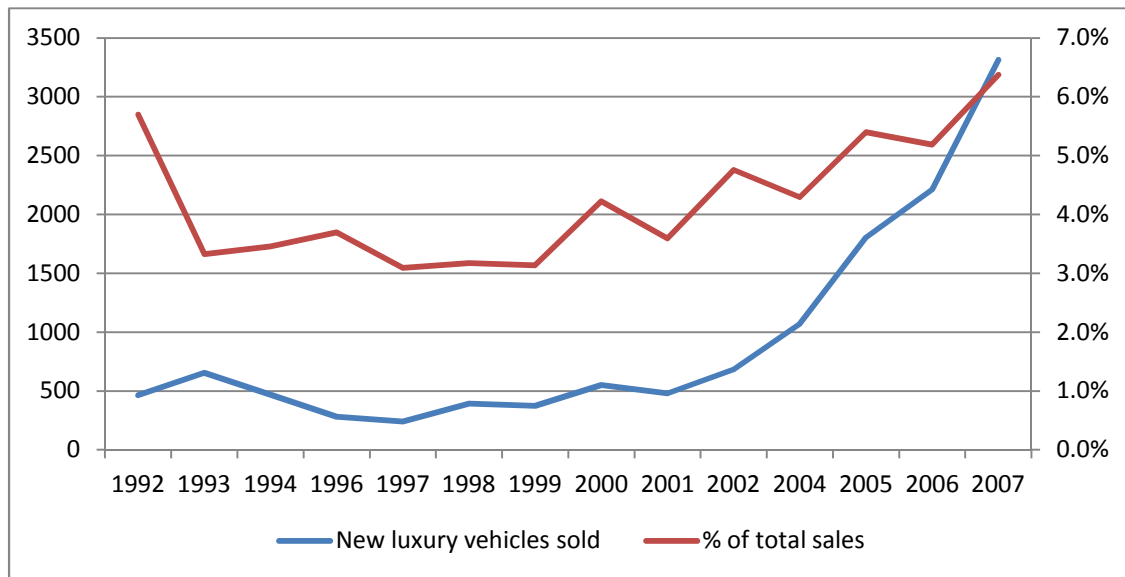


Figure 3. Sales of luxury vehicles in Bulgaria (1992-2007)<sup>28</sup>

Source: Own calculations based on the Union of the Importers of Automobiles in Bulgaria data (UIAB)

In addition to income and economic growth, another significant factor that helped spur the growth in vehicle sales, and in particular the luxury ones, was the growth of the financing opportunities for both new and used cars (See Figure 4). In Bulgaria the main financing scheme is through leasing contracts. The lease, though, is structured more like a bank car-loan. The residual loan amount at the end of the lease, regardless of the term (it could be a one- or two-year lease), is less than 20% of the value of the car, and for longer-term leases less than 10% (even though during this period the car might have depreciated by only 50%). Therefore close to 100% of customers choose to purchase their cars from the leasing company at the end of the lease. This is quite different from some other countries, where the monthly lease payments are similar to the depreciation of the car, so that at the end of the lease the customers do not buy the car, but lease another car. The car is then sold by the leasing company on the used-car market. Therefore, the supply of used cars generated by leasing companies in Bulgaria is insignificant.

<sup>28</sup> Luxury vehicles are calculated based on sales figures for the following makes: Audi, BMW, Jaguar, Jeep, Land Rover, Lexus, Mercedes, and Mini. Other luxury brands, like Cadillac, Hummer, or Corvette did not have any official sales figures until 2008, and might have been purchased and imported informally by buyers. Numbers of other car makers' luxury models could not be extracted from the general numbers provided.

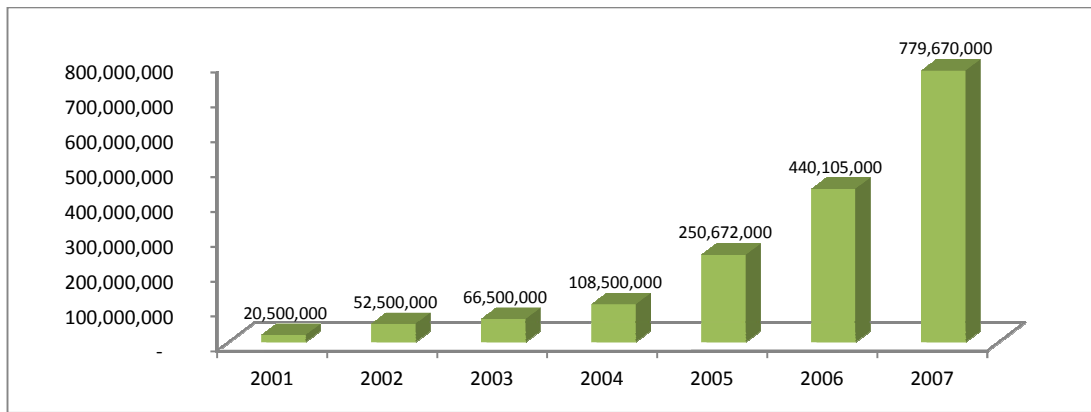


Figure 4. Value of leased cars and commercial vehicles 2001–2007 (in euros)

Source: Bulgarian Leasing Association<sup>29</sup>

The leasing companies are an important player in the used-car markets as well. Although the above data do not show the proportion of used cars, an interviewee from one of the largest leasing companies in Bulgaria explained that around 15% of the leased cars were used ones (CDI-4). The next chapter provides a more detailed description on car-theft schemes that involve leasing companies.

### 3.3 Bulgaria's used-car industry

#### 3.3.1 Industry structure

In Bulgaria the motor trades sector numbered 8,700 enterprises, in which at least 49,000 were employed in 2004.<sup>30</sup> With the growth of the market, towards 2008 the market employed as many as 70,000 people. Only a quarter of these enterprises are involved solely in car sales (NACE Division 50, Eurostat). These statistics, though, do not say much about the way the sector is structured.

#### *Import*

The market in Bulgaria is somewhat localised — Northwest, Western, Burgas region, the Dupnitsa area, Petrich, Sofia. The reason is that the majority of used cars that

<sup>29</sup> <http://www.leasing-bulgaria.org>

<sup>30</sup> According to the Economist Intelligence Unit (2006), around 2001 there were approximately 1,500 car dealers in Bulgaria, many of them dealing only in new cars. This number seems to be understated and does not account for sole entrepreneurs.

dealers sell are imported mostly from Germany or Italy. On the one hand, geographic proximity to the countries from where the cars are imported shapes the profile of the regional market. On the other hand, local demand also plays a role: e.g. the poorer regions of the country generate a demand for lower-class cars.

Since the mid 1990s, when the import of used cars started to pick up, small entrepreneurs travelled to Central or Western Europe. Bulgarian entrepreneurs would go to the areas with concentrations of car-dealerships – large cities like Milan, Munich, or Vienna – and purchase one or two cars and drive them back, sell them, and go back for more. Sometimes the connection between Bulgarian and local dealers are friends or a relatives who might have known the local dealer from whom they purchase the car, sometimes it was just a matter of shopping around dealerships for a good deal. By the early 2000s, good relations between Bulgarian importers and local dealers were well established, the internet became more and more of a medium in the used-car trade, car-transport companies developed, and larger shipments of cars started to flow towards Bulgaria. Entrepreneurs would go abroad and select the cars, store them in large parking lots and transport them to Bulgaria. By around 2005-2007 the transport companies were hardly managing the huge flow of cars, as transporter trucks were working around the clock (CDI-1, CDI-2, CDI-3).

Bulgarian importers often used each other's connections to dealerships in Western Europe. Therefore, informal regional networks developed where dealers in certain regions of Bulgaria worked mostly with dealerships in particular towns in Germany or Italy. There are no strict boundaries, but dealers could generalise that: South-western Bulgaria (Pernik, Dupnitsa, Sofia) mostly imports cars from Italy. Milan (Italy) hosts a significant immigrant community from Dupnitsa (CDI-5). Dealers in Montana (in northwest Bulgaria), for instance, have established connections with towns in Southern Bavaria (Munich, Rosenheim) and Austria.

### ***Distribution***

The retail distributors of used-cars in Bulgaria could be placed into three categories: private sellers, franchised dealerships, and independent dealers. The independent dealers, in turn, are of two kinds: (1) dealers who run their own dealerships (with a physical infrastructure) and (2) small dealers, often one-man operations, who do not have their own dealership space but sell the cars on open-air market exchanges. All

these categories act in the single market space created by the internet (the biggest websites are cars.bg, mobile.bg, avtomarket.bg).<sup>31</sup>

The sale of used cars through **franchised dealers** of new cars is very new in Bulgaria and represents a very small share of used car sales. The franchised dealerships until 2003–2004 were only concentrated in the seven cities with populations of 100,000 (Sofia, Plovdiv, Varna, Burgas, Ruse, Stara Zagora and Pleven – see map in Annex 1. It was only with the steep growth of the new-cars market after 2003, that franchised dealerships opened in some of the smaller towns.<sup>32</sup> Most franchised dealers have a very limited selection of used cars and have only recently started selling them. The main reason is that when a new car is purchased the ‘trade in’ of a used one is rarely offered, or is only part of an ‘exclusive offer’.

In terms of the sale of luxury cars, the small number of luxury used-car dealers has provided an opportunity for franchisers of luxury brands to sell used cars, and almost all of them do. In addition, some of them offer a trade-in. What sets these franchised dealers apart from the luxury used-car dealers is that they are exclusively reputable multinational companies. BMW / Mini is represented by Kamor Auto (an Israeli company), while Mercedes is presented by Balkan Star Group, owned by German multinational corporation Willi Betz. The German company Hugo Pfohe owns the Moto Pfohe dealership network in Bulgaria that sells Jaguar, Land-Rover, Volvo, and Ford. The Austrian-based Porsche Salzburg (owned by the Louise Piëch and Porsche families) has operated the distribution network (Porsche Bulgaria) that sells VW and Audi since 2005.

In Bulgaria almost every major city has an **open-air market** (called *avto-borsa*, or ‘car-exchange’ markets) where sole entrepreneurs and small dealerships sell second-hand vehicles. To the outsider these may just look like a concentration of car-dealerships or a big parking garage with used-cars for sale (see Figure 5 below)

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<sup>31</sup> In addition, leasing companies sell both on the wholesale market to dealers, and directly via the internet to ultimate buyers. They are still a very small part of the market.

<sup>32</sup> Several of these smaller towns are within 20-km radius of cities, so opening a dealership does not make sense (Pernik is near Sofia, Pazardjik and Asenovgrad are near Plovdiv).



In reality, what on the outside looks like a single car-dealership is a parking lot, where sole entrepreneurs pay a monthly 'parking fee' to display their cars. Almost none of these dealers have registered companies. They sell the vehicles simply as 'private individuals'. Some dealers might have only one car at a time or might have 20 or 30. Some could be just part-timers, showing up to sell vehicles only at the weekend. It is noticeable that the parking lots also have a number of small caravans, out of which the dealers work.

There are a number of open air markets in Bulgaria that function as 'wholesale' markets. Such markets exist in Montana (Northwest Bulgaria), where every Monday morning for over a decade dealers have parked their stock; Dimitrovgrad, in Southeast Bulgaria is another regional market. The markets in **Dupnitsa and Gorublyane** (Sofia) are the biggest, though, and they serve as wholesale points for much of the rest of the country. The market in the town of Dupnitsa,<sup>33</sup> for instance, consists of around 60 car dealerships and open-air 'exchanges' with approximately 250 dealers. The other market is 2010 Gorublyane (Sofia) and had about 10 officially registered used-car dealerships and a number of 'exchanges' hosting an estimated 2,000 dealers. In 2007, the year with the highest number of sales, there could have been 4,000-5,000 traders, according to some estimates<sup>34</sup>. Most cars there are imported from Germany, Austria, Switzerland and Italy. Both markets attract not only Bulgarian, but also Macedonian used-car dealers.

Some car dealers import used cars from Western Europe and sell some directly to buyers while others are resold to smaller dealers. The smaller dealers, who purchase cars in bulk from Gorublyane and Dupnitsa, usually resell them in smaller towns around the country. One feature that sets the open-air markets apart is that they are largely selling cheaper vehicles, normally those worth under 3,000 euros. The markets of Gorublyane and Dupnitsa are quite closely related: first, because some dealers from Gorublyane also sell their cars on the Gorublyane used-car market; and

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<sup>33</sup> Dupnitsa has population of 35,000 and is located 60 km south of Sofia and 60 km east of the main border crossing with Macedonia, Gyueshevo. Until December 2009, Macedonians needed entry visas. The importance of the Dupnitsa market gradually started declined as the Macedonian government introduced some import taxes, and Macedonian dealers started buying directly from Italy, once visa restrictions were lifted in 2010.

<sup>34</sup> The calculation is based on the fact that, at the time of the research, there were at least 5,000 cars at the Gorublyane markets, while many traders had only a few cars each.

second, because some dealers on the Gorublyane market purchase cars in Dupnitsa and resell them at Gorublyane.



Figure 5. The Gorublyane car market in Sofia

Photo credit: *Sega and Trud*

Two characteristics make the open-air markets special: the large share of informal economic activities, and their relationship to organised crime.

In terms of the first characteristic, there are a number of business practices aimed at hiding revenues and avoiding payment of taxes (income tax or VAT) and import duties (prior to the 2007 EU accession of Bulgaria). The result is that the majority of the used-car dealers operate in the 'informal economy'. The schemes they use are the following:

- Monthly 'parking fees' at open-air market are always paid in cash. The parking-lot holders, therefore, do not declare much of the revenue. They generally impose the requirement of cash payment on the dealers. For the tax authorities it is difficult to establish the actual number of cars or dealers at any time. The parking fee varies according to the city and the general market situation (i.e. the demand for cars). On average in Sofia the parking fee has been in the range of 25-50 euros per 'parking spot' per month. In smaller towns it could be as little as 10 euros per month.
- The dealers do not transfer the title of the vehicle to their name when they acquire the vehicle from the foreign dealer or private seller. Instead, when they find a buyer, they arrange for the title to pass directly between buyer and the original seller (even when this person / dealer is in Italy or Germany). They may also purchase and import the vehicle as a private person, and then resell to a buyer as a private person. The final result is that the deal is declared to be between two private persons. VAT (20%) is not paid. The

dealers collect their profit in cash. No income tax is paid either. (CDI-1, CDI-2, Standard Daily 2008)

- The declared car-sale value is many times lower than the real one. The dealers might offer an additional discount to the buyer to convince him / her to agree to such purchase. This is usually irrelevant to the buyers, and most agree; they are asked to pay in cash. Again, the actual VAT or income tax paid is significantly lower than it would be otherwise.
- Document fraud: one practice that is common for dealers on the 'open-air markets', but also for some independent car-dealerships, is manipulating the year of production of the vehicle, and tampering with the odometer. This could serve two purposes: either charging the buyer a higher price, or defrauding the regulatory authorities (for instance, there are maximum age requirements for taxis). These schemes often require some level of organisation, as they involve car-repair shops, document counterfeiters, and printing shops.<sup>35</sup>
- Registering the car as being owned by a disabled person. An analysis from Customs showed that until 2007, some 30% of the imported cars were imported as if they were owned by disabled persons. The reason was that the disabled did not pay import duties. As the majority of cars come from the EU, this problem subsided after Bulgaria joined the EU, but it is still an issue as there are other tax advantages.
- A new scheme that attracted especially the buyers of luxury vehicles has become widespread since 2007. The government introduced a tax advantage measure to benefit small businesses, allowing them to purchase small commercial vehicles by paying lower VAT. The importers started 'remodelling' luxury 4x4 vehicles by removing the back seats and selling them as commercial vehicles (They would readily re-install the seat after the vehicle was purchased and registered).
- A VAT fraud scheme used mostly by luxury car dealers works in the following way: the importer registers a company, which imports the car; the imported car is sold to a leasing company or to another dealer; the company, which has only nominal owners, then just goes bankrupt, owing lots of VAT to the government which it never pays. For instance, for a single 100,000 euro

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<sup>35</sup> In the town of Kyustendil (population 50,000, 40 km west of Dupnitsa) 100 out of the 170 taxis in the town were found to have counterfeit car documents. The investigation found that it was the used-car dealerships near Dupnitsa, where the taxis were purchased, that had arranged the document fraud. (Kirilov 2009)

imported car, the company owes 20,000 euro to the state. It can therefore sell the car at an attractive price.

The influence of organised crime over open-air car markets goes back to the 1990s. The largest open air market in Gorublyane is on land owned by the municipality of Sofia. In the 1990s, the land was leased by the municipality<sup>36</sup> at under-market prices to several individuals. Some sources claim that one racketeering insurance firm, VIS-2 (see next chapter), used its close connections with the Sofia municipality to take the contract in 1996 even though the other main racketeering firm, SIC, also made an unsuccessful attempt to do the same (Angelov 2007:127). At present (2010), two of the main owners of the largest parking lots are in many ways representative of the Bulgarian transition to democracy. One is a well known businessman / oligarch, and athlete, as well as former mayor of Gorublyane. The second one is an individual founder of another former private security / insurance company Apollo and Balkan (see next chapter).

The second big used-car market, the one in Dupnitsa, has been under the control of two former law-enforcement officers-turned-criminals. Their case took on national prominence and even attracted the attention of the European Commission. They were both former officers of the National Service for Combating Organised Crime,<sup>37</sup> and were allegedly involved in drug-distribution and extortion rackets (Bulgaria: Parliamentary Committee on Internal Security 2008)<sup>38</sup>. The two officers initially met in the early 1990s at the National Anti-Terrorist Squad. Many members of this squad became leading organised crime figures, including some of the founders of SIC, Lev Ins, and Apollo and Balkan – the major racketeering insurance / security companies. In 1996, they moved to the National Service for Combating Organised Crime's drugs unit, from which they were fired on allegations of connections with organised crime. They came to national prominence after 2006, when a series of journalists' investigations and local politicians revealed that the 'brothers' and their associates had gradually taken over the town of Dupnitsa, providing protection rackets to most

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<sup>36</sup> The mayor from that time has been prosecuted for five major deals (sales of municipal assets) where corruption was suspected. His personal responsibility was never proven, and he was not convicted. As an example of how the mayor is connected to the parking lots deals, one interviewee pointed that the restaurant that sits at the end of one of the parking lots is run by a former head of the mayor's security.

<sup>37</sup> The main law-enforcement agency tasked with fighting organised crime in Bulgaria.

<sup>38</sup> Although the two were arrested they were later released and none of the charges, brought by the prosecution were successful.

businesses and controlling local government (the two were officially advisors to the mayor). Their admitted involvement in the car-trade business includes only 'import of exclusive client armoured limos, which are then exported to Russia and the Arab world' (*Capital* 2006).

The way the Dupnitsa open-air market operates is similar to the one in Sofia. The land on which the parking lots are situated is leased to firms controlled by the two former officers, either by the municipality or the Rila Monastery at below-market prices. Much of the land is classified as agricultural land, which makes the existence of the dealerships illegal. Every car sold at the market pays a monthly parking fee to the firms related to two ex-officers. [LEI-19, CDI-5] In addition to the monthly fees, car-dealers are forced to advertise on billboards controlled by the firms. (*Dessant.net* 2010) In 2008, the Minister of Interior, was forced to resign, after it emerged that he had met secretly with the two former officers (*Capital* 2006, Parliamentary Committee on Internal Security 2008).<sup>39</sup> Following this, a night-raid by tax, customs, and police in November 2008 checked 3,038 vehicles in the car-dealerships around Dupnitsa. Twelve cars were seized, and 80% of the car dealerships were found to be operating without the necessary licenses (*Banker* 2008).

The second category of independent dealers, those with their own dealership, could be placed in three categories in terms of the market segments in which they operate: dealers of luxury vehicles, of mass-market vehicles, and of mid-range cars. The last category, might sell in addition to mid-range cars, an occasional luxury or low-cost car.

During the 1990s, and until 2001–2002, such dealerships were rarely allowed to function independently, particularly in small and mid-size towns.<sup>40</sup> Until the used-car market boom after 2000, such towns had only a few used-car dealerships. Even today, the 14 towns with population of 50-100,000 have on average between five and 15 used-car dealerships. In the 1990s, these small-town used-car dealerships (and criminal enterprises selling stolen vehicles) were either directly run by, or paid

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<sup>39</sup> The Minister of Interior was forced to resign because it became clear that he had tried to settle a dispute between the two former officers and their competitor in the drugs-distribution business (who was another former Anti-terrorist Squad officer).

<sup>40</sup> In addition to the capital, Sofia, with a population of around 1.2 million, Bulgaria has only six other cities with a population of over 100,000, and 14 others with a population of over 50,000 people.

protection to, the *grupirovki* (e.g. SIC, VIS-2, Apollo and Balkan, etc.). The majority of dealerships, though, were (and continue to be) concentrated in the six cities with populations over 100,000; in particular the capital Sofia, Plovdiv, and Varna.

Unlike the franchise dealerships, there are no chains of used-car dealerships with offices throughout the country. Although the market entry barriers to the used-car business are fairly low (a plot of land and a small caravan), there were so few sales in small towns that it made little business sense to set up independent car dealerships until after 2000.

Unlike other independent car dealers, the **luxury used-car dealerships** require a substantial investment – not necessarily in infrastructure (building) but in the purchase of the vehicles. Such dealerships appeared in Bulgaria only at the end of the 1990s, and multiplied with the growth in demand for luxury vehicles after 2002–2003, when the demand for cars picked up sufficiently. Until then, the few luxury cars that were purchased were imported from Western Europe, only after an order was made from a customer in Bulgaria.

The luxury used-car dealerships are concentrated exclusively in the six big cities, but the majority are concentrated in Sofia, where a dozen exclusively luxury car dealerships exist. They not only sell used cars, but also import new cars, which do not have officially franchised importers or import models with special extras and features, which the franchised importers generally do not import (e.g. high-end limited edition Mercedes or BMW series).

The social background, history, and business practices of this top tier of used-car dealers in Sofia says much about the luxury car business.<sup>41</sup> The most direct generalisation to be made about them would be that they are related to corrupt political circles, illegal entrepreneurs and money laundering. A short profile of these car dealers provides the details:

- **Kapitolia Group** includes the *Kapitolia* dealerships and *Premium car*, and it is the first and largest luxury used-car dealer in Bulgaria. Kapitolia has been

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<sup>41</sup> The data about company ownerships of these companies and businesses are from the official register database of companies in Bulgaria maintained by Ciela.net.

allegedly related to organised crime for a long time. In the 1990s many of the cars on offer were importer stolen cars [LEI-4, LEI-6, OFI-20]. Its first dealership showroom is situated on a piece of land situated in the main city park in central Sofia.<sup>42</sup> For about a decade the land was rented from the municipality of Sofia for a below-market price, and was later acquired by the dealership again at a below-market price. The owners of the showroom were initially related to VIS-2<sup>43</sup>. 'I know the guys that work in Kapitolia today, because they are the same guys who worked for VIS-2 before: they were accountants, or the type of people who were not publicly visible, but now that Kapitolia does not sell stolen cars they came upfront' [OFI-20]. The present owner is co-owner of a construction company; he is also a co-owner of a major yacht dealership, where his business partner is a former security services officer and arms-dealer).

- **Sofavto:** The two owners of this dealership are also owners of a construction company. Until 2007 they were also officially co-owners with the owner of Kapitolia in Sofavto-Avtotransport. For some time it was claimed that Sofavto was part of the same group of companies controlled by the circle of people around Kapitolia.
- **A2:** the ultimate ownership of this dealership, though, is not very clear, as the main stakeholder is a Swiss-based company. The A2 key owner is a minority owner of a construction company and a car-leasing company, again with the Swiss-based company. Similarly to the Kapitolia owner, he is a partner in another one of yacht-dealing companies with the same arms-dealer. What is more intriguing is A2 owner's sudden career change, from a car-dealer to a politician. The opening of his A2 new showroom in 2006 was blessed by the (then Sofia mayor) and present Prime Minister Boyko Borisov. The owner then became involved in politics, and was elected as Sofia city councillor, becoming the head of the Economic Commission of the Sofia City Council and the Specialised Municipal Privatisation Fund. He presently enjoys much high-life coverage in the gossip media.
- **Ontario A & A:** The two brothers, who own this dealership, also own a construction company, as well as a private security company (which boasts

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<sup>42</sup> The equivalent in London would be acquiring a piece of land from the borough of South Kensington and setting up a car-dealership on a portion of Hyde Park.

<sup>43</sup> VIS-2 is the racketeering insurance company into which the racketeering-privates security company was transformed.

on its website that it is run by former Ministry of Interior and National Security Service officers). The main owner also had a sudden career change, when in 2009 he joined the Ministry of Transport (leaving behind his ownership in any companies), and became high-level officer at the Executive Agency 'Automobile Administration' (government salaries in Bulgaria for this grade are between 800 and 1,000 euros per month). This position, though, means that he is in charge of much of the permit regulation for commercial transport in the country, as well driving licence exam administration. In September 2010, a number of the agency's employees publically announced that he was involved in schemes for the sale of driving licences (Mediapool 2010a).<sup>44</sup>

- **Avtolux:** the ownership of this company is unclear. The two nominal owners have no other business in Bulgaria, and within two years of registering, the company had revenue of over five million euros.
- **F1:** This dealership is owned<sup>45</sup> by a well-known corrupt customs officer. The owner was also involved mainly in car dealing until he had a sudden career change, becoming a customs officer with a monthly salary of 250 euros. In a 2003 leaked report of the Ministry of Interior he was pointed to as one of the main organisers of contraband of consumer goods in Bulgaria. He rose to public prominence in 2006 when he was dismissed from the Customs Administration and was investigated for a large-scale mobile phone smuggling scheme through Sofia airport. When in late 2008 he was kidnapped and later released it emerged that he was the beneficial owner of the F1 car-dealership in Sofia. As mentioned in the next chapter, he is also being investigated and is at the bottom of scheme that involved a major Austrian leasing company.

There are several common characteristics that can be discerned in the descriptions of the dealerships listed above. First, the connection with politicians; in almost all of these cases there is a connection either to local politics or to national politics. Although they seem to involve merely medium- or lower-level civil servant posts, in

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<sup>44</sup> For many years the agency has been rife with corruption. In 2009, the Ministry of Transport revealed that only in the period 2006–2009, 60 public servants of the Agency were fired on corruption charges. There were allegations that positions at the Agency (for driving licence examiners) were sold for 30,000 euros. One in seven driving licences in the country was sold, according to the Ministry of Transport estimates quoted by the media (Mediapool 2010b).

<sup>45</sup> The dealership is formally registered on the name of a front person, who according to some journalist owns 24 other companies, all heavily indebted due to various fraud schemes. (24 Chassa 2010a)



Bulgaria these are in fact political appointments. The reason is that these particular government posts control some significant source of bribery income<sup>46</sup>.

The second common feature of these luxury car dealers is the connection to money-laundering schemes. Although it seems to be just circumstantial evidence: most luxury car dealers co-own luxury yacht dealership, leasing and construction companies. These are the main types of businesses used in money-laundering schemes. Three of the dealerships were clients of the leasing company Private Finance Union (AD), which was the target of one the biggest money-laundering investigations (for €50 million) in Bulgaria.<sup>47</sup> Several interviewees confirmed that a number of investigations, focused on dealers of luxury yachts and cars, were initiated by the German authorities (most luxury cars are imported from Germany). This partially explains the unclear ownership structure and suspicious 'business model' of some of the dealers. [LEI-10, LEI-11]

The main segment of the used-car industry is the **independent dealerships dealing in low-priced cars** (under €3,000). It is difficult to generalise about the profile of this category of used-car dealer. Almost all of them at some point participate in the same tax-avoidance schemes as do the dealers that sell through the open-air market exchange.

Some of these dealers are simply small entrepreneurs. Another group, though, are various types of criminals or local 'grey' entrepreneurs who use used-car dealerships as part of a money-laundering scheme, and investment opportunity, or a front company to other illegal activity. Research on laundering the profits of sexual exploitation showed that, along with luxury goods stores, used-car dealerships were the preferred method of laundering profits from prostitution networks abroad. The profits from Bulgarian prostitution networks, operating, for instance, in Italy or Germany, are invested in buying used cars in these countries. The cars are then imported and resold in Bulgaria. In this way the profits are laundered (Petrunov 2009: 98; LEI-1, LEI-2, OFI-19). As in these cases the dealers' main goal is not higher

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<sup>46</sup> It is much talked about that key customs posts used to be sold to candidates, who after need to share the bribery income with their supervisors and political protectors.

<sup>47</sup> Several individuals related to this investigation (the nominal director of the PFU (Konstantin Deshliev), his mother, and one of the suspected ultimate beneficiaries, Ivan Todorov, aka The Doctor) were murdered between 2005 and 2007.

profits but quick turnover, these dealerships are very competitive, as their prices are usually lower (ibid. p.99). Such dealerships are clustered in towns where prostitution networks are largely concentrated (e.g. Sliven, Varna, Bourgas, Pazardjik, Sofia) (Gounev et al. 2009). In Pazardjik, for instance, the head of one of the main women-trafficking networks (exporting women to France) was the owner of at least one used-car dealership in the town (OFI-18, OFI-19), and allegedly his network operated several such dealerships in the Pazardjik region (*Banker* 2007). One investigator from a car-theft unit estimated that probably 'several dozen, but not more than 100' dealerships in such towns (LEI-3) were owned by individuals at various levels of the prostitution networks.

The drugs trade also involves used-car dealers. To drug dealers, used cars serve not only as a way to launder profits, but also to smuggle drugs (inside imported / exported used or stolen cars) and enable the wholesale distribution of drugs. There have been a number of cases involving drug seizures at used-car dealerships (*Trud* 2009); the burning of a dealership's used-car stock where the dealership belonged to a drug dealer (*Netinfo* 2004); or the murder of a drug dealer who owned a car dealership (*24 Chassa* 2009). In Sofia, two well known drug dealers who control part of the drug distribution network in Sofia (Bezlov et al. 2007: 90-91) also own a car dealership (OTI-14). One well-known case relates to a Varna municipal councillor, businessman, and former anti-terrorist unit officer, who was arrested on allegations of controlling the drugs and prostitution trade in Bulgaria's second largest city, Varna. His used and luxury car dealership was also central to his business activities, as the dealership also owned a city stadium. Similarly to other dealers he was partner in construction companies, oil trade, and in one of the city's main football clubs. (Spasov 2008)

### **3.4 The used-car market in Spain**

For the past two decades Spain has been a relatively unsaturated car market compared with Italy, France, Germany, or the UK. Between 1990 and 2004 the number of cars per 1,000 people increased by 63% to 454, but this was still fewer than the other big Western European markets (Eurostat database). While the average age of cars in Spain is around eight years, they remain slightly older than

other EU countries (the average age in France and Germany is seven years). By 2006 31.9% of registered passenger cars were more than ten years old, which was close to most other West European countries (Asociación Española de Fabricantes de Automóviles y Camiones - ANFAC (2006: 62, 78).

This has made Spain an attractive market for automotive companies, and until the 2008 crisis, vehicle sales were increasing rapidly, as demand remained high. The combined numbers of new and used car sales in Spain was on average between 2.5 and 3 million vehicles per year (see Figure 6 below).<sup>48</sup>

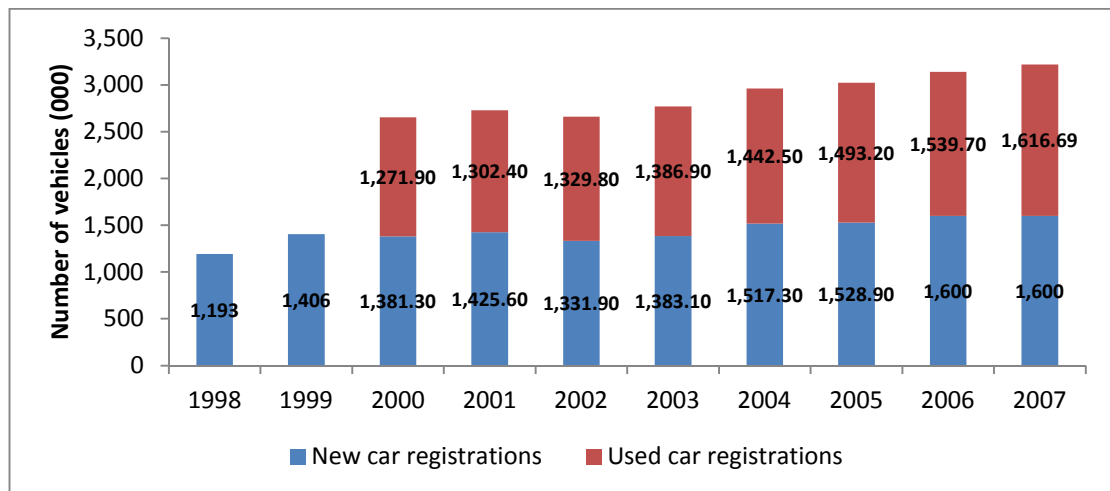


Figure 6. Spain: new and used car sales

Source: Datamonitor, Economist Intelligence Unit (2005: 303)

With revenues of \$20.1 billion, and 2.1 million vehicles sold in 2007 only through dealerships, and about the same number sold through private sales<sup>49</sup> (Datamonitor 2007) Luxury cars represent only 1.2% of all new car sales (Datamonitor 2002: 8)<sup>50</sup>, and about 3% of used car sales (Fundación Instituto Tecnológico para la Seguridad del Automóvil (FITSA) 2002: 99).<sup>51</sup> As in Bulgaria, in Spain the demand for such vehicles grew much more quickly than the demand for medium and low-priced cars.

<sup>48</sup> Spain is also a producer of vehicles, 82% of which are exported (e.g. in 2006, out of 2.7 million vehicles produced, 2.2 million were exported). (Anfac 2006: 58).

<sup>49</sup> Private sales grew from 38.8% in 2004 to 53.6% of all used-car sales in 2007 (Datamonitor 2008).

<sup>50</sup> Sports (2.7%) and executive categories (8.4%) add another 11.1% of total car sales. (Datamonitor 2002: 8)

<sup>51</sup> For comparison, in the US the NIADA (the National Independent Automobile Dealers Association) survey showed that only 4.6% of the dealerships declared that the average price of a used car sold was over \$20,000. In addition, only 11.4% of dealerships sold vehicles that were on average 1–2 years old (NIADA 2010: 8).

For instance, annual sales of new all-terrain vehicles (generally falling in the luxury category) almost doubled from 82,978 in 2003 to 135,563 in 2006, while overall car sales grew by less than 10% in the same period. Similar trends are noticed with high-end luxury vehicles (costing over €100,000). In 2004, 3,563 such luxury vehicles were sold; by 2006, sales almost doubled to 6,644 (Anfac 2006: 57).

### 3.5 Spain's used-car industry

In 2004, in Spain around 390,000 people worked in 76,200 enterprises involved in the sale, maintenance and repair of motor vehicles and motorcycles (Eurostat 2007: 273). As Figure 1 (at the beginning of this chapter) showed, the structure of the used-car industry in Spain is similar to that in other EU countries: approximately half the used-car sales are done by private individuals (48%), 38% by franchise dealers, and only 14% of through independent dealerships. As noted above, the franchise dealers in Spain operate much like the rest of the EU – they usually sell only one brand of cars; they offer to trade in the old one for a new one, and they offer some type of limited warranty.

In Spain there are no 'open-air market exchanges'. The closest equivalent is that in some towns near the centre or near the train station there are small parking-lots or entire streets, where private sellers simply park the car with a 'for sale' sign and a contact number.

In Spain, the independent dealers are of three types. There are **small dealerships**, where the risks of the buyer are similar to those described above in Bulgaria. The second type are the **bigger dealerships**, some of which have been established for up to 30 years, and which have a well-developed local or regional client base and reputation. Each of these might sell a few thousand cars per year. These dealerships might have several showrooms, and might run separate dealerships for used and new cars. Some of the well known names include Yamóvil, Canalcar, Autos Vilaza o Autocasión in the Madrid area.<sup>52</sup> An even more developed form of these dealerships are the 'integrated service centre' types of dealerships (e.g. Mundiauto, Ciudad de Automoción), which offer a number of additional services for the car (diagnostics, repairs, car-parts) and amenities (restaurants, child-minding, and free parking),

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<sup>52</sup> As the market in Spain is very big, it is difficult to provide an exhaustive account of specific dealerships as was done for Bulgaria.

therefore transforming the entire used car shopping experience (FITSA 2002: 100). Some of these dealerships might have a network only in some provinces of the country and have a strong regional presence. The common feature of all these dealerships is that they rely on branding and reputation, which usually makes the prices higher than in small dealerships. In addition, they provide warranty schemes and after-sales service.<sup>53</sup> Lastly, some **rental car companies** also sell their old fleet of cars.

Similarly to dealers in Bulgaria, in Spain used-car dealers tended to engage in various fraud and tax-evasion schemes:

- **Fraud:** tampering of odometers seems to be widespread practice in Spain and there is 'common knowledge [of its existence] amongst dealers' (Guardia Civil source quoted in Bague 2006). An investigation in 2008 in north-western Spain (Galicia, Asturias y Castilla y León) found that at least 120 used-car dealers used the services of a company (Truck and Car Technology Systems) to change the odometers of 35,000 vehicles. Truck and Car Technology Systems also sold at least 33 machines to dealers, and an unknown additional number of vehicles were tampered with (Laopinioncoruna.es 2008).<sup>54</sup> In all the major schemes uncovered, it was not only independent dealers, but major franchisers that took part as well.
- **VAT fraud schemes** amongst car dealers in Spain are common as they are in Bulgaria, but the scale is far bigger (LEI-20, C-1108, C-0504, C-1009). In Spain VAT paid in the sale of a used car is 16% (in 2010), but even if the transaction is between private individuals a 4% tax needs to be paid. One common scheme has been to declare to customs authorities the imported vehicle as scrap. One of the big cases in Spain involved a criminal network that imported thousands of luxury vehicles worth €365 million over a four-year period, defrauding the state of €60 million worth of VAT [C-1009]. In these more complex cases, the scheme involves the setting up of a front company 'A' (usually limited partnerships) with no capital and registered on the name

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<sup>53</sup> In Bulgaria, at the very end of 2010, warranties were introduced for the first time by a small number of independent dealers as a measure against the economic crisis and plummeting sales.

<sup>54</sup> North-west Spain is not an exception: in 2004, 30 dealers of luxury cars in Seville were investigated for the same practices (Autopista.es 2004). In 2006, 51 dealers in Girona and Barcelona were also accused of altering odometers (Bague 2006).

of insolvent individuals. Company 'A' transfers the vehicles to company 'B', using invoices that include the VAT. Company 'B' serves as buffer: it has no assets and is owned by the same owners as company 'A'. The vehicles are then passed on to another company 'C' that either sells them directly to the client or to car dealerships around Spain. Company 'A', though, does not pay the VAT to the state and if it is investigated the nominal persons behind it are declared insolvent. These savings are used to reduce the final price of the vehicle. These schemes also often involve used-car dealers in Germany, France, Belgium, or Italy, from where cars are most often imported, as well as those in Spain through which the vehicles are distributed. In one of the cases, the cars did not even reach Spain, as Company A was in Germany or Belgium, and Company C (the final sellers) was in France, while only Company B, the one that actually committed the fraud was in Spain [C-1009].

- In another scheme, three dealerships defrauded at least 150 customers by declaring bankruptcy after having collected money for the vehicles but did not transferred the title. (*Car and Driver* 2008)
- **Money-laundering:** As one of the main trafficking gateways for cocaine and hashish, and a country with relatively lax anti-money laundering control over the sale of real-estate,<sup>55</sup> a significant amount of laundering of drugs-related profits takes place in Spain. Almost all investigations into drugs-related money-laundering schemes include schemes that launder some of the profits via luxury vehicles. These usually involve importing used cars from other countries (e.g. Germany) and then selling them through dealerships in Spain. One of the big investigations, regarding the laundering of some 380 million euros, of drugs-related profits involved the investigation into two car dealerships (in Santiago and in Villanova) owned by the individuals running the money-laundering of the drugs rings. The dealerships were also involved in some of the VAT fraud schemes described above. (Abella 2007)

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<sup>55</sup> Reporting obligations of realtors to anti-money laundering authorities only entered into force in 2005, and dealers in goods where cash-payments of over 15,000 euros are made were only made to report such payments in 2010. (Financial Action Task Force – FATF- 2010: 25-27).

### 3.6 Comparing market entry conditions

In Spain, the used and new car markets combined are approximately ten times bigger than these markets in Bulgaria. The Spanish market is bigger in overall volume as well as on a per capita basis. In 2007 there were 503 cars per 1,000 of the population in Spain, compared to 413 in Bulgaria (Economist Intelligence Unit Markets and Indicators Database), which was lower than most other big EU countries (Germany, UK, Italy, France). Bulgaria had a much older car fleet than Spain, although both countries had car fleets that were older than the EU average.<sup>56</sup> The overall trends of the car market were very similar for both countries in many respects. Both were unsaturated markets, with a lower per capita car ownership and relatively older car-fleet. Economic conditions were similar – booming economies, rising incomes, and growing construction and transport sectors. There was strong demand for cars, especially luxury cars. On the other hand, the new to used car ratios in Spain ranged from 1:1 to 1.4:1 while in Bulgaria it ranged from 1:8 in 2003 to 1:5 in 2008. In Spain, the ratio differed significantly from other West European countries, where it is 3 (UK), 2 (Germany), or 2.6 (France) (Navarre et al. 2007: 7). Such low ratios in Spain (which is also the case with Japan) indicate the existence of socio-cultural factors that make the used car less desirable, as used goods are ‘linked to lower social status (ibid.).

The structure of the used-car industry in Bulgaria differs in many ways from that of Spain, and has a business environment that facilitates the entry of (illegal) enterprises into the used-car market. First, in Bulgaria the market is dominated by independent car dealers who are much more likely to engage in tax fraud or illicit activities. This also facilitates the sale of stolen cars. The VAT-avoidance scheme where the buyer purchases the car from a foreign private person, and the dealership’s name is not even involved in the transaction reduces the legal risks for dealers, who become more willing to facilitate the sale of a stolen car. The second difference is the relations with, and control over, dealerships or open-air car markets in Bulgaria by individuals involved in organised crime (including car theft). In this way criminal entrepreneurs may easily tap into a distribution network for the sale of stolen cars.

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<sup>56</sup> The average age of passenger cars in Bulgaria in 2008 was 12.7 years, dropping from 14.4 in 2003 (the highest average age in the EU).

The sale of luxury cars in Spain takes place mostly either through franchise dealerships or via independent 'supermarket' type independent dealerships that sell the entire range of cars, including luxury cars. In addition, the average annual sales per dealership in Spain are 10 times larger (498 cars per year per dealership) compared to the average sales in Bulgaria – only 49 cars per year per dealership. In Bulgaria, luxury car dealerships were a relative novelty, concentrated in a few cities. The established way of buying luxury cars until such dealerships became widespread after 2003–2004 was by using informal networks of dealers, or 'ordering a car' which is purchased in Western Europe and delivered in Bulgaria. Franchise dealers in Bulgaria still account for an insignificant part of used-car (luxury) sales.

There is also a significant difference in the average sale price of used cars in Spain. Most used car dealers in Bulgaria import used cars which they buy from used car dealerships in Europe (as the Bulgarian new car market is too small and cannot supply enough second hand cars). All car dealers interviewed explained that they do not import used cars from Spain, because their prices are much greater than in Italy or Germany. In Spain, the average prices for used cars sold via dealerships in 2006 started from around €10,000 for small cars, and reach as much as €29,000 for high-end vehicles. (Federacio Catalana de Venedores de Vehicles a Motor – FECAVEM quoted by FIRA Barcelona 2006). In Bulgaria, on the other hand, a 2004 marketing survey showed that 75.3% of the people who intended to buy a car in the next 12 months planned to spend €5,000 or less on their purchase, and only 1.4% intended to spend over €7,000 (Vitoshar Research 2004). The high prices in Spain explain another difference in the used car market. While in Bulgaria only luxury used cars are financed via leasing [CDI-4], in Spain 65% of used cars sold via dealerships are purchased via some type of financing (FECAVEM 2006).

The dominance of small independent car-dealers makes the Bulgarian used-car market much more fractured, and prone to 'informal' arrangements. In Spain, on the other hand the majority of sales pass through established corporations (either franchises, or dealerships with multiple showrooms) which are unlikely to engage in the sales of stolen cars.



The next chapter provides an in-depth look at how international car-theft enterprises operate, and how they relate to a number of legitimate industries, including the used-car industry.

## 4 The car-theft industry

The aim of the present chapter is to provide the background to the empirical focus of the thesis: the car-theft industry. The chapter lays out the available data on the size of the car-theft industries in Spain and Bulgaria, their trends, and geographical specifics based on statistical and victim survey data. It then provides a description of the car-theft industry and the illegal enterprises and players around which the industry is structured. Where possible, the data provided concerns both Bulgaria and Spain. Its relation to the legal used-car market and the sale of stolen vehicles are considered in greater detail in the next chapter.

Many authors have commented in general about the thefts and smuggling from Western Europe into Eastern Europe, explaining the flow by the East's demand for cheaper goods (Europol 2004, 2005, 2006), Gerber and Killias (2003), Clarke and Brown (2003). Very few studies, though, explain how the car-theft industry works and how it relates to vehicle markets. Clarke and Brown's (2003) overview of the knowledge gaps about international trafficking of stolen vehicles demonstrates the need for further research in this area. The few studies that specifically examine aspects of organised crime (Wallace 2004; Morselli and Roy 2008, Hardy 2006, Bezlov et al. 2007, Antonopoulos and Papanicolaou 2009, Bruinsma and Bernasco 2004) provide only partial views of how car theft relates to the legitimate used car markets. Morselli and Roy (2008) focus only on the various activities associated with the car-theft 'criminal script'. Bezlov et al. (2007) examine in depth the operation of the car-theft industry in Bulgaria but their primary focus is on the theft of vehicles that are then returned to the owners for ransom. The same issue is also the main focus of the Gerber and Killias (2003) study on Kaliningrad (Russia).

Brunisma and Bernasco (2004) provide a short analysis of Eastern European car-theft networks in the Netherlands, but they do not discuss in any detail the *sale* of stolen vehicles. Nevertheless, their study is insightful, as it examines the 'social networks' that structure the car-theft 'industry'.

The analysis by Ferwerda et al. (2005) of car-theft in the Netherlands is probably the most comprehensive study on organised crime aspects of car-theft published to date. It is based on the analysis of 25 cases between 2003 and 2005, but again it focuses mainly on the 'upstream' side of the crime, i.e. the stealing, but not the selling of stolen cars (considering nature and structure of groups, and organisation, methods of stealing, etc.) The study mentions the issue of sales of stolen vehicles in the Dutch market for used cars, explaining that the 'brokers' (as the study calls the individuals responsible for placing or arranging the sale to the final customer) were almost always of Dutch descent. Only in cases where the 'demand' came from a foreign country, were the brokers of non-Dutch descent. The cases analysed showed that in the majority of cases these brokers had some type of official import-export company for used vehicles. Antonopoulos (2009: 487) also explains that no evidence was found that any foreigners, including Bulgarians, were involved in the sale of stolen vehicles in Greece.

Other studies (Batelaan and Moll 2004, Europol 2006, Prummel and Engel 2007) are based on the analysis of official statistical data, and do not consider the market structure or players. Similarly, the UK Home Office studies on car theft (Brown and Saliba 1998, Brown and Billing 1996, Brown 1995, Houghton 1992) focus on specific aspects of UK car-theft prevention policies. The methodologies do not go beyond examining law-enforcement databases or victimization surveys, and do not address aspects of organised crime at any considerable length.

Much other research focuses on explaining changes in MVT rates, yet none of it provides a comprehensive analysis of the relationship with the used-car market. Clarke and Browne (2003) have provided anecdotal evidence about the global changes in demand and supply for stolen vehicles, including those in Europe, with a long list of factors that facilitate cross-border stolen car trafficking: patterns in the legal trade in used cars, quality of customs and border controls, levels of corruption, migration flows, and law-enforcement priorities.

The analysis of the car-theft industry in Bulgaria and Spain, presented in the next sections, includes many of the aspects that have been partially analysed in the studies listed above. Certainly, there is some variation in terms of structures, organisation of criminal groups or background of criminals. Such differences are not analysed or compared, as the research methods used in this thesis (particularly the

active offender interviews) make comparison with preceding ones difficult. None of the studies considered specifically address the selling of stolen cars in Spain or in Bulgaria.

#### 4.1 Defining the car-theft industry

Before describing the complex dynamics of the car-theft industry, it is necessary to define its boundaries and characteristics. Traditionally 'vehicle theft' has been analysed in terms of 'types of vehicle theft' (Jacobs, Essers and Meijer, 2002; Batelaan and Moll 2004; Clarke and Harris 1992: 6). These authors distinguish between the following three vehicle theft activities:

- *Vehicle theft for recreational means (temporary use)*: stolen vehicles are used for joy-riding, and are usually recovered by the police.
- *Vehicle theft for transport use (often in relation to other crimes)*: stolen vehicles are used as a means of transport in burglaries, robberies, contract murders etc.
- *Vehicle theft for financial gain*: the stolen vehicles are either sold on the used-car market or stripped down and sold for parts.

The above typology is based on the intended use of the stolen vehicle. If one takes a market-based approach: the analysis would only concern the third category, **vehicle theft for financial gain**. Only these types of thefts supply the used-car markets on which stolen cars are also sold.

The thefts from cars, or of cargo from commercial vehicles (Engel and Prummel 2007), although classified as 'vehicle crime', constitutes part of a different market: the one for stolen goods (from robberies, burglaries, or thefts from cars). The theft of vehicles **to extort a ransom** rarely appears in any general typologies, as it does not exist as a phenomenon in Western Europe or in the US. Such thefts, though, represent a significant proportion of the vehicles stolen, particularly in countries where trust in the police or insurance companies is low. The vehicles are stolen, and a ransom is requested from the victim, via intermediaries, for the vehicle to be returned. This market has been described as a phenomenon of Eastern Europe (Gerber and Killias 2003 in Kaliningrad (Russia), Bezlov et al. 2007 in Bulgaria; Interviews show that it exists in Bosnia and Herzegovina (OTI-8), Czech Republic (OTI-6), Greece (OTI-7), and, to a limited extent in Southern Italy (OTI-9). In Spain,

this type of theft has not been observed. Nevertheless, Bulgarians involved in the ransom-seeking thefts in Bulgaria have certainly made their way to Spain, and the distribution networks for the sale of stolen vehicles in Bulgaria partially overlap with the networks used in obtaining ransom from victims – e.g. repair shops, garages, etc. (LEI-4, OFI-4, OFI-20).

The analysis of Spanish police cases, and all interviews confirmed that Bulgarian car-theft enterprises in Spain were primarily engaged in thefts for financial gain, and in particular theft of luxury cars for resale. Therefore, throughout the thesis, the focus of the analysis is on this category of vehicles. Motorcycles or sailing boats are excluded, wherever possible, from statistical data analysis.

## **4.2 Bulgarian vehicle thieves in Spain**

With the removal of visa restrictions for travel in 2001, a growing number of Bulgarian vehicle thieves moved westwards, including to Spain. Until the early 1990s Spain was primarily a destination or a transit country for stolen vehicles, as Italian, French, Belgian or German networks imported most stolen vehicles. With its economic development and a growing sales of new and luxury vehicles, after the mid 1990s Spain started to become a source of stolen vehicles (Gomez 2005: 210). Since 1980s and in the early 1990s the primary foreign criminal networks involved in car theft in Spain were Polish. (ibid.)

In Bulgaria there is little institutional memory about when the first vehicle thieves moved to Spain. Law-enforcement interviewees in Bulgaria pointed to the years around 2000.<sup>57</sup> Some of the offenders went to Spain on fake passports in the mid-1990s, reporting that there were already established groups of Bulgarian car thieves there at that time. The first sporadic Spanish media reports of Bulgarians being involved in vehicle theft in Spain are from 1993-94, but they argue that at this period the involvement was more sporadic as the main car-theft groups were still run by

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<sup>57</sup> This could partially be explained by the fact that the Vehicle Trafficking Unit at the specialized National Service 'Fighting Organised Crime' (the equivalent of SOCA) was disbanded in 1999, and many of its officers moved to other departments.

Spaniards.<sup>58</sup> (Alvarez 1994) By 1994, a number of Bulgarian, Polish, and Russian groups have established themselves and have started stealing and trafficking out a significant number of vehicles (ibid.) The analysis of Spanish police cases shows that after 1997 the Bulgarian criminal groups seemed to have established a consistent and, after 2000, a growing presence.

Since the late 1990s there has been a shift in the categories of vehicles stolen by Bulgarians in Spain. In the early to mid-1990s, reports indicated that Bulgarians were also involved in the theft of mid- and low-range priced cars, such as Fiat, Volkswagen, or Lancia (Alvarez 1994). After 1997, police reports and interviewees increasingly point to the fact that the involvement of Bulgarians is almost exclusively in the theft of high-priced vehicles:

- **Luxury cars** (in the jargon of some Bulgarian car thieves ‘*топалка*’ [*topalka*]): e.g. BMW, Mercedes, Audi, as well as luxury models and 4x4 models of various makes (e.g. Jeep Cherokee, Toyota Landcruiser)<sup>59</sup>. There is a range of luxury cars: starting at the low end from over €30,000. Some Bulgarian groups targeted only high end vehicles, starting from €100,000 (C-0903).
- **Commercial vehicles**: light trucks, vans, and construction vehicles.

Police sources indicate that already around in the mid-1990s Bulgarian car thieves were shipping stolen vehicles towards Bulgaria and Northern Africa (C-0495, C-0497, C-0897, C-1197, C-0298, C-0798). By 2000, Spanish police sources claimed that Bulgarians, Moroccans, and Poles were dominating car-theft in Spain. Since 2001, though, the Spanish police data show a growing trend in the number of operations against Bulgarian car-theft ‘groups’ or ‘networks’. According to descriptions of police operations from that period, in the first three months of 2000 three different ‘groups’ of Bulgarian vehicle thieves, operating in Madrid and Costa del Sol, and stealing mostly light commercial vehicles, were ‘dismantled’.

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<sup>58</sup> One police officer interviewed in 1994 explains that Bulgarians took advantage of the fact that licence plates from Sofia were similar to the ones from La Coruna, and under the pretence of being tourists returning home would smuggle vehicles out (ibid.).

<sup>59</sup> The very top end luxury vehicles are not very often an object of car-theft for various reasons, not least because there are very few of them and could be easily spotted by the police.

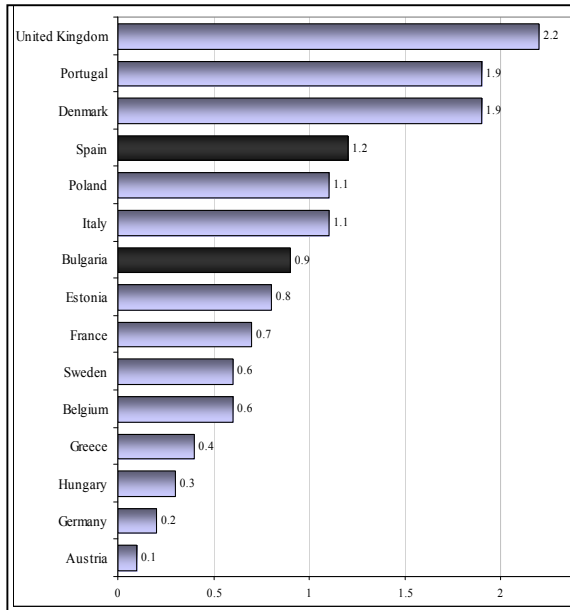
### 4.3 The supply of stolen vehicles

There are a number of reasons why information on trends in the supply of stolen vehicles is important. First, as there is lack of credible data on demand, supply data (i.e. police statistics on reported car-theft) can be used to examine trends in the demand for stolen cars. Second, it illustrates the impact that Bulgarian car thieves might have on the used-car market in Spain. The trend data also help to analyse how various factors (immigration, socio-economic factors) that influence market entry might have changed over time.

Several obstacles to estimating the actual supply of stolen cars to any used-car market should be noted:

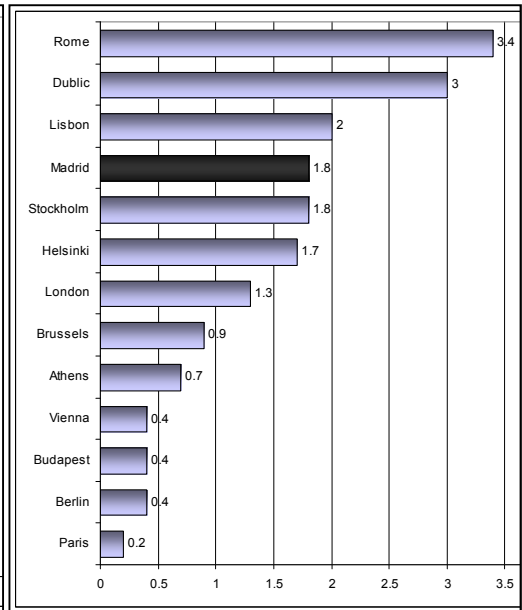
- Although one might know the number of stolen vehicles in a given country or region (from police statistics or crime-victim surveys), and use the rate of non-recovered vehicles as a proxy to establish the likely number of vehicles stolen for resale, there is no reliable data as to how many vehicles are exported and how many are resold on the local market. There is also no information about vehicles that are smuggled in from abroad.
- This makes estimating the actual size of the market for stolen vehicles rather difficult. Although there are various estimates of legitimate used or new vehicle sales, for the above reasons it is difficult to know what proportion of sales are stolen vehicles.
- The market for stolen vehicles for committing other crimes is entirely underground, and some of the cars might be later recovered.

Estimating the market share of stolen cars in the used car markets in Bulgaria and Spain is even more difficult, as intra-EU trade in stolen vehicles is widespread, and both countries are known to be destinations for stolen cars in other Member States. The data from the police statistics and victims' surveys (see figures below) shows that there is little that makes Spain or Bulgaria special in comparison with other countries in Western Europe. Neither has extraordinarily high levels of victimization or reported vehicle thefts.



**Figure 7. One-year victimization rates for car owners (2004)**

Source: EUICS (2005: 27), CSD (2005)



**Figure 8. European capitals: average prevalence rates of car-theft victims (2001 - 2004)**

Source: EUICS (2005) quoted in Van Dijk et al. (2007: 34)

#### 4.3.1 Trends and geography of car theft in Spain

Spain is both a destination and a source country for stolen vehicles. According to Europol (2007: 26) it constitutes part of the so-called ‘South-West criminal hub’ in Europe, and as such it is a destination for stolen vehicles from other EU countries (Europol 2007). Several major operations by the Spanish police in recent years have contributed to these conclusions. For instance, only one police investigation discovered that between 2004 and 2010 more than 600 cars that had been stolen or fraudulently imported from Western Europe (Germany, Belgium, Luxembourg, Holland, Italy) were sold in Spain (C-0504).

The police statistics show that Spain was one of the few countries in the 1995–2001 period to experience an increase in the number of stolen vehicles (measured in terms of the number of stolen vehicles as a percentage of the country’s car fleet). During



the same period most West European countries, including the UK, Germany, France, Italy, Belgium and the Netherlands experienced declines. (Batelaan and Moll 2004<sup>60</sup>).

The overall trend, though, for the decade between 1997 and 2007 was downwards except during the 2001–2002 period (Figure 9).

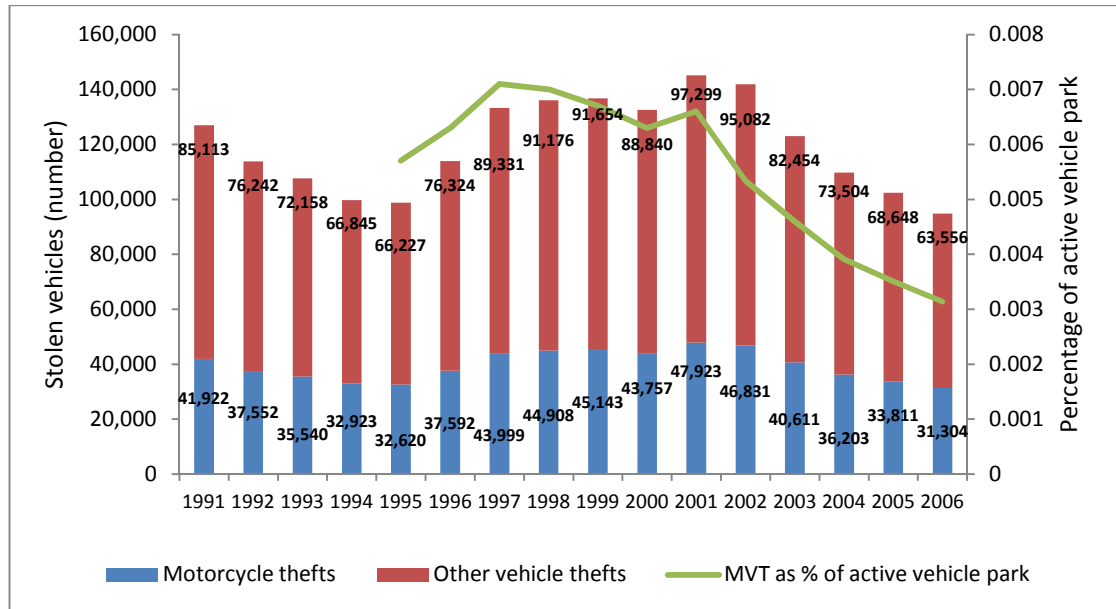


Figure 9. Spain: car-theft and the car market (1991 – 2006)

Source: Based on Batelaan and Moll (2004); Spanish Ministry of Interior statistics

There are some regional specifics of the car theft in Spain (Figure 10): thefts in the regions where the Bulgarian vehicle thieves are most active—Madrid, Costa del Sol and Valencia—constituted between 45% and 47% of all thefts in the 2003 - 2006 period. The police data also shows that while the rest of Spain experienced a 25.29% fall in MVT between 2003 and 2006, in these three regions MVT fell only by 20.09%.

<sup>60</sup> Their calculations are based on WODC/European Sourcebook on Crime and Criminal Justice Statistics 2003 and Anfac.

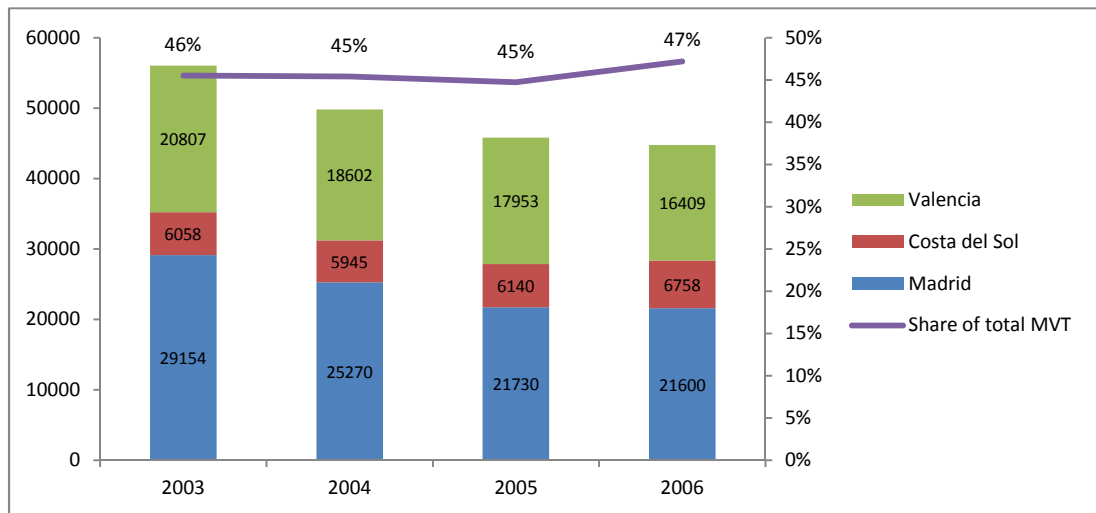


Figure 10. Regional specifics of vehicle theft

Source: Spain Ministry of Interior annual statistics / own calculations

Further insights into the dynamics of the vehicle-theft market could be gleaned from the vehicle recovery rates (Figure 11). The calculations of organised crime income are usually based on the share of stolen **vehicles that had not been recovered**.<sup>61</sup> At the regional level, comparable data were not publicly available. Therefore any calculations of the size of the car-theft industry need to be based on: (1) the fact that annually around 30% of vehicles are not recovered; and (2) that 20% of the non-recovered ones are older models that are dismantled and sold for parts (LEI-12).

<sup>61</sup> The recovery rate of stolen vehicles in Spain is not part of the officially published annual statistics of the Ministry of the Interior, and breakdowns by makes are not provided. The only official EU publication that provides Spain's recovery rates is Europol (2006), and that seems to be reported in error; for 2004 out of 122,248 vehicles, 85,001, or 70% were not recovered: this seems to be a mistake. All police or Ministry of Interior public statements in the Spanish media contradict these numbers. In fact this mistake makes Europol's own estimate of the organised crime revenues in the EU from vehicle theft, to be overvalued by almost half a billion Euros.

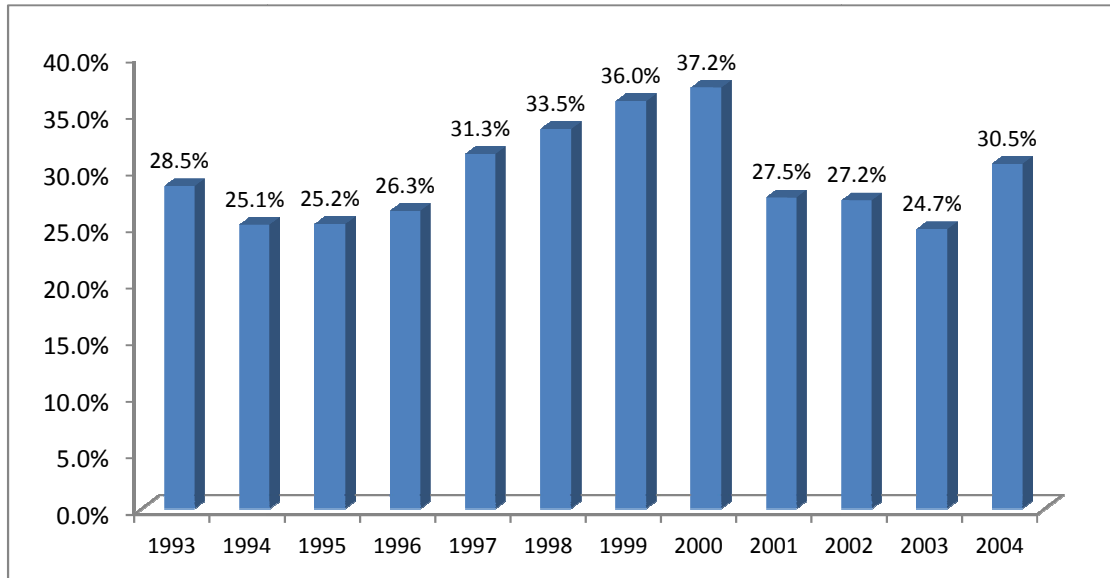


Figure 11. Non recovered vehicles in Spain (1993- 2004)

Source: Spanish Ministry of the Interior; Europol (2004)

This number, though, excludes the vehicles that are trafficked into Spain from abroad. Spain is also a transit country for vehicles stolen in Western Europe and transported to Morocco or other African countries (Europol 2005: 23). Therefore, police seizures of vehicles in Spain often reflect these transnational trafficking flows originating from Northern Europe, France, or Belgium, and are not a reliable indicator for imported stolen cars.

In addition, keeping in mind that Bulgarian vehicle thieves in Spain steal primarily cars and light trucks, one should further analyse the data on **types of stolen vehicles in Spain**.

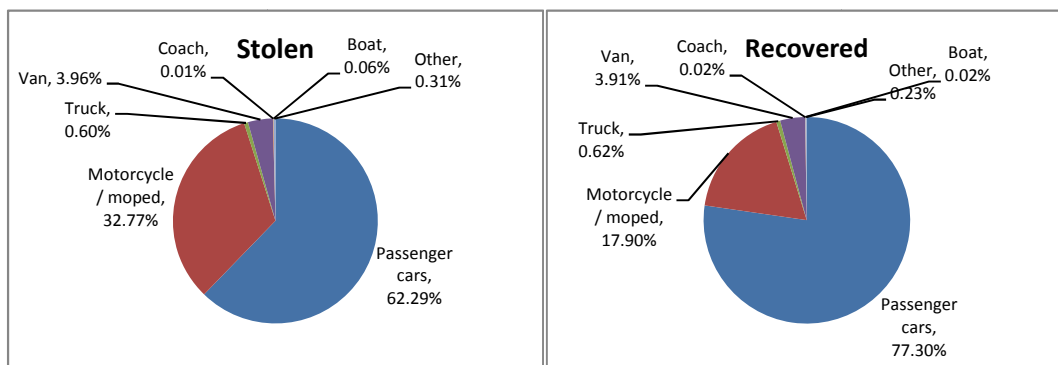


Figure 12. Stolen and recovered vehicles by type in Spain (1999)

Source: Spanish Ministry of Interior quoted in El Mundo (2000)

The data on the breakdowns (Figure 12) reveals one very important fact: two-wheelers, which (motorcycles / mopeds) comprised 32.77% of all registered MVT, had a very different recovery rate<sup>62</sup>:

- The **recovery rate** for motorcycles was only 38%, while that for cars was 86%; for trucks it was 71%, and for vans 68%. Therefore, due to the significant proportion of motorcycles in the overall number of stolen vehicles, the overall recovery rates reported are significantly different for cars: a factor that needs to be taken into account in any market analysis.
- Motorcycles constitute 13–14% of registered vehicles<sup>63</sup> but 32.77% of all stolen vehicles: i.e. they are much more likely to be stolen.<sup>64</sup>

What the above statistical data does not show is what proportion of stolen cars are luxury-class stolen vehicles, and how this share has changed over the years. In the Netherlands, for instance, the proportion of thefts of expensive cars (over €22,000) of overall thefts increased from 14% in 1995 to 24% in 2003. (Ferwerda et al. 2005: 22) The explanation that Ferwerda et al. put forward is that this increase is partially explained by the fact that there was a greater number of luxury cars available.

The above data leads to the conclusion that Spain's used-car market is huge in comparison to the number of stolen vehicles sold: most likely less than 15,000 stolen vehicles are sold in Spain annually, less than 0.5% of the total number of used cars sold. On the other hand if the majority of the stolen cars luxury ones, then their share of the market for luxury vehicles is probably more significant.

#### 4.3.2 Bulgarians and the supply of stolen vehicles in Spain

The role of Bulgarian car-thieves in Spain seems to be widely exaggerated by the media, mostly led by the active law-enforcement public reporting of almost every case that involves the arrest of members of Bulgarian criminal networks. A review of the national newspapers *El Mundo* and *El Pais* (for the 1990–2010 period) illustrates

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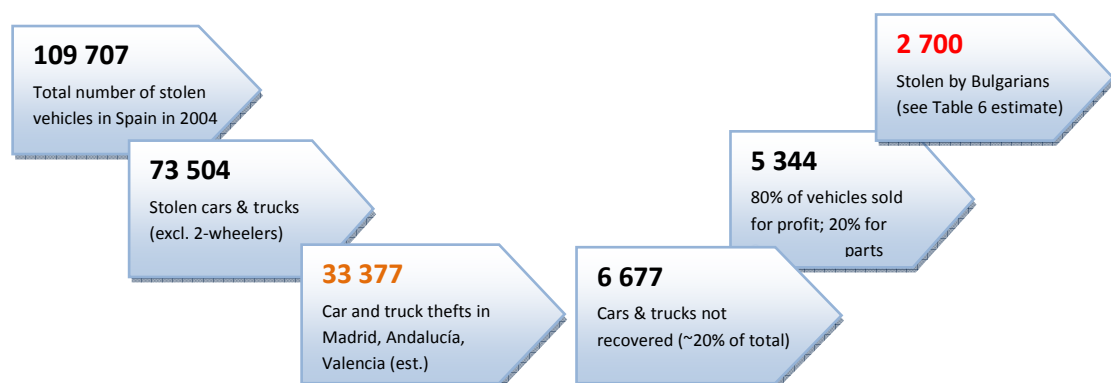
<sup>62</sup> In none of the analysed Spanish police operation reports were Bulgarians connected with the theft of motorcycles or mopeds; neither was it mentioned by any of the interviewees.

<sup>63</sup> Own calculations, based on Euromonitor-compiled statistical data.

<sup>64</sup> Reports on stolen motorcycles imported to Bulgaria concern mostly imports from Germany and Austria, Italy, or Canada (Mol 2003).

this approach: usually the articles present general statistical data about the ‘tens of thousands of vehicles being stolen by car-thieves in Spain every year’, and then go on to explain particular schemes or cases, most often related to Bulgarian car thieves (e.g. Cerdan and Rubio 2003). Such media representations leave readers with the impression that groups of foreign criminals steal over 100,000 cars every year in Spain. ‘In 2002 we did a study in Madrid: 2700 Audi cars were stolen in 2.5 months. More Audis were stolen than purchased in that period. ‘The average ‘life’ of an Audi A6 between its purchase and theft was 6 months’ comments one police investigator when asked about Bulgarian car theft networks. (Gómez 2005: 214)

The total number of vehicles stolen for resale from the regions where Bulgarian car theft enterprises were active (Madrid, Costa del Sol, and Valencia) was an estimated 5 344<sup>65</sup>. More on the geography of activity of Bulgarian car-thieves is provided in Chapter 6.



**Figure 13. Estimate of the share of vehicles stolen by Bulgarian car thieves**

Source: author calculation based on Spanish Ministry of Interior 2004 car theft statistics.

Estimating the actual level of involvement of Bulgarian car thieves could shed light on the extent to which law-enforcement action might have influenced their entry into Spain’s market for stolen vehicles. To do this, two pieces of information could help in the analysis: the number of criminal enterprises and their average annual activity. Car thieves generally agree that in the 1990s theft of cars was quick and simple and a dozen cars could be easily stolen in a single day. By 2004, though, when Bulgarian

<sup>65</sup> The calculation is based on several assumptions and estimates made by police: (1) the ratio of cars / trucks to motorcycles in the three regions is the same as nationally – 67% of the total number vehicles. (2) Only 30.5% of the cars stolen were not recovered – based on the 1999 figures. (3) 20% of the non-recovered vehicles were sold for to ‘chop shops for spare parts. The 1999 Ministry of Interior was quoted in El Mundo (2000)

car thieves were most active, almost all interviews with offenders indicated, the one criminal enterprise on average stole and cloned between 2 and 3 cars per week.

Bulgarian car-theft networks, though, had only a share of 5344 cars stolen in the three regions, as other groups were also involved. One police official stated in 2003 that 'the police was aware of 7-10 Bulgarian car theft groups', which 'dominate the trafficking of luxury vehicles'. In his opinion at the time, the number of people directly involved in all these groups was no more than 60 individuals (ABC 2003). Another police source, Alfredo Marijuan, the Head of the Criminal Investigation Unit at the Malaga Police Directorate, believed that in the Costa del Sol region alone (Malaga, Marbella, Benalmadia, and Torremolinos) there were five or six Bulgarian car-theft groups, while the total number of Bulgarian car-theft offenders exceeded 1,000 (this most probably included repeated arrests, however, often under different names, over a long period of time) (*24 Chassa* 2007).<sup>66</sup>

Most offenders were aware of 4-5 other Bulgarian 'illegal enterprises' (in addition to the one they were involved in) operating in big cities like Barcelona or Madrid. But there were also groups operating out of smaller towns, such as Alicante, Valencia, Costa del Sol: indicating that possibly between 10 and 20 'illegal enterprises' were operating at any one time. Some interviewees indicated that they changed 'enterprises', depending on where there was 'work'. This estimate corresponds to the statistical data provided by the Spanish police on arrests of Bulgarian car-thieves (see figure and table below).

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<sup>66</sup> The Spanish police cases indicate that between 1999 and 2009 there had been at least 428 arrests of Bulgarians involved in car theft. This data says little because: (1) The Spanish police often tends to arrest a wider range of participants – 'anyone present in the apartment' at the time of the arrest [LEI-9]; (2) many networks / offenders operate undetected; [OFI-4; OFI-5] (3) the data includes repeated arrests of the same individuals.

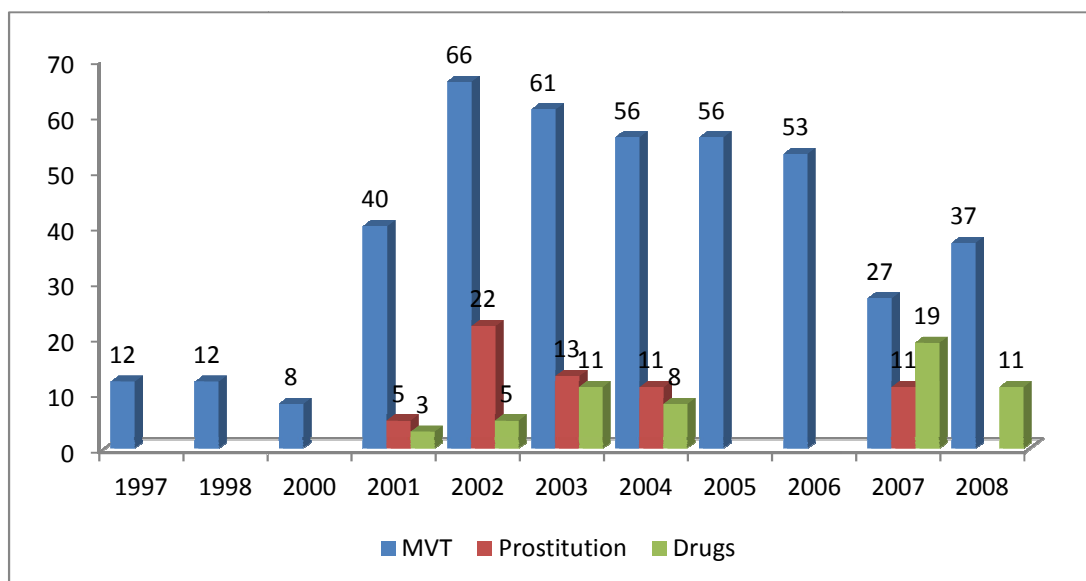


Figure 14. Number of Bulgarian nationals arrested in Spain (1997–2008)

Source: Policia Nacional; Guardia Civil; Bulgarian Consulate - Madrid

|  | 2001 | 2002 | 2003 | 2004 | 2008 |
|--|------|------|------|------|------|
| Organised crime groups investigated    | 15   | 17   | 20   | 24   | n/a  |
| Total crime group members investigated | 66   | 124  | 95   | 135  | 298  |

Table 5. Bulgarian suspects and crime groups in Spain

Source: Spanish National Police quoted in Jimenez (2005); Cosido 2010

A speculative estimate based on the above data, could lead to the conclusion that, at their height in 2006-2007, there were 10-20 Bulgarian car-theft entrepreneurs, even working at full year-round capacity and stealing 2-3 vehicles per week (which is highly unlikely) by about 10-20 enterprises, could have stolen not more than 2,700 vehicles per year (Table 6). This estimate is a far cry from the 'tens of thousands' that the Spanish media usually implied, and corresponding closely to the estimate in the previous figure of around 5000 stolen for resale in the regions where Bulgarians were most active.

| Total illegal enterprises | at 1 vehicle per week | at 2 vehicles per week | at 3 vehicles per week |
|---------------------------|-----------------------|------------------------|------------------------|
| 10                        | 450                   | 900                    | 1,350                  |
| 20                        | 900                   | 1,800                  | 2,700                  |

Table 6. Estimated annual number of vehicles stolen by Bulgarian car theft enterprises in Spain

### 4.3.3 Trends in the supply of stolen vehicles in Bulgaria

The car-theft industry in Bulgaria is more than a criminal phenomenon. It comprises the history of local organised crime and the country's transition to a market economy. The history of this industry (since 1990) is important, as it explains the present day structure of the market and the behaviour of its participants.

Until 1990 car theft was almost non-existent in Bulgaria, and car theft was carried out by 'generalist' criminals.<sup>67</sup> The borders were tightly controlled by the Communist government. There was a very small used-car market only between private sellers. Most people could afford only one car in a lifetime. The last decade of the communist period in Bulgaria (1980-89) saw a severely constricted domestic vehicle market. The waiting period to buy a new car often exceeded 10 years and prices were 2.5 times the average annual salary. Imports of used cars from Western Europe were not allowed. Immediately after the political changes of 1989, and the opening of trade to the West, this high demand for cheap second-hand cars (including stolen ones) was satisfied by the immediate mass import of cheap used cars and the opening of the first official dealerships for new cars.

The newly created class of *nouveaux riches* and their growing conspicuous consumption created the demand, particularly for luxury vehicles. This growing demand was strangled by the stringent import regulations and high import duties, which provided incentives for the growth of domestic thefts and smuggling of stolen vehicles from abroad. The domestic criminal justice system was corrupt and had abdicated, while international law enforcement cooperation between East and West was yet to be established, and broader international instruments to fight trafficking of stolen vehicles were still in their infancy. All these factors made trafficking and registration of stolen cars a very low-risk and relatively cheap undertaking that yielded attractive profits.

Police figures support these observations, since between 1989 when political changes began and 1992, vehicle thefts in Bulgaria rose by 224%. A secondary

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<sup>67</sup> Some cross-border trafficking of stolen vehicles from Western Europe towards the Middle East passed through Bulgaria, and that was tolerated or 'taxed' by the Communist regime. (LEI-11)



market for stolen car parts also developed quickly. By 1991–1992 the used-car market already existed mostly in the form of open air markets rather than dealerships and stolen cars (trafficked or locally stolen) were sold on it. [CDI-1] The theft of vehicles to extort a ransom<sup>68</sup> also increased rapidly. [LEI-1, LEI-2, LEI-7, LEI-11]

In this early period there was relatively little organisation either of the used-car market or the car-theft industry. Between 1992 and 1994, though, the used-car market (including the domestic distribution of stolen vehicles) and the car-theft industry (local car thefts, ransom-seeking car thefts, international trafficking), came under the control of the major ‘mafia-type’ crime groups in Bulgaria known as *grupirovki*. [LEI-1, LEI-3, OFI-1, OFI-2, OFI-7, Tzvetkova (2008)] Even if the *grupirovka* was not directly running the particular car smuggling network, they still imposed a protection racket of 10% to 20% of the profits [OFI-20].

Much has already been written about this period of organised crime in Bulgaria (Tzvetkova 2008, Center for the Study of Democracy 2004b, Bezlov et al. 2007). The *grupirovki* were initially set up by former athletes, police or military officers as **private security firms** (e.g. VIS-1, Group 777). They imposed protection rackets both on smaller criminal groups (e.g. car theft or drugs distribution) and on legitimate businesses through violence and intimidation. Subsequently they expanded their racketeering services to include protection rackets of private luxury or new vehicles. A refusal to accept the protection service led to theft, damage, or bombing of the vehicle [OFI-1, OFI-2, LEI-3]. Due to their connections with the police and the politicians and their capacity to use violence or the threat of violence, the *grupirovki* controlled and provided protection (from prosecution) of the car-thief groups. They used their services to steal or traffic stolen cars.

In the mid 1990s, the value of vehicles stolen in Bulgaria reached €75-80 million annually (Bezlov et al. 2007: 155). This accounted for nearly 1% of GDP. If one adds the vehicles trafficked from abroad, the car-theft industry revenues vehicles probably represented an even bigger share of the country’s GDP. In 1994, according to Mol

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<sup>68</sup> The ransom-seeking thefts are described in detail in Bezlov et al. (2007) and will be further analysed in Chapter 6. In this scheme the stolen vehicle is returned to its owner for a ransom via a complex network of intermediaries that includes mechanics, repair shops, used-car dealerships, insurance agents, and even compromised police officers.

data, the number of vehicles stolen in Bulgaria surpassed the number of new vehicle sales (see Fig. 15 further in text).

In 1995 the Law on Private Security Companies (PSCs) was amended and such companies had to be re-licensed by the Mol. All known racketeering PSCs were not licenced and they had to look for a new form of legitimate organisation. They found it in registering as **insurance firms**<sup>69</sup>. This began a new period in the car-theft industry.

The provision of insurance became a new form of protection racket, targeting not only businesses, but private citizens, especially owners of the growing number of Western cars.<sup>70</sup> Gradually many people simply chose (without being subject to any racket) to buy auto-theft insurance from these companies, as it provided them with assurance about the security of their cars. These companies (VIS-2, SIC, Levski-Spartak, Apollo and Balkan) insured about 90% of all new imported vehicles, but also controlled the domestic car-theft and sales of stolen cars, and all aspects of international trafficking to and from Bulgaria.<sup>71</sup>

If a vehicle was not insured by one of the main racket-insurance companies, it could be stolen or damaged. The method of recognition for the thieves was an **insurance company sticker**, identifying which company had insured the vehicle. Since the insurance companies were closely related to or directly controlled car-theft groups at the local level, the car was 'theft-proof'. If a car was stolen, that was usually done by groups controlled by a rival insurance company. As it was more problematic to retrieve the car from the rivals, the stolen insured vehicles were often recovered by importing an identical stolen model from Western Europe [LEI-2, LEI-3, LEI-5].

The entire auto-theft insurance market was split amongst the main racketeering firms, which extended their services of retrieving stolen cars to all other insurance companies. Representative of Sofia Ins. (an insurance company owned by Multigroup) described in the following way their alliance with VIS-2: 'This is

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<sup>69</sup> VIS split into two and two insurance companies VIS-2 and SIC appeared. Club 777 registered Sila. Apollo and Balkan and Spartak were set-up by former anti-terrorist unit.

<sup>70</sup> The insurance racket also spread across many other forms of property, from small shops or restaurants to street kiosks. Even municipalities were forced to insure public bus stops, and each stop had a sticker identifying its insurer.

<sup>71</sup> The control methods were brutal and violent. Groups of former athletes were using violence against rival companies, car thieves, or individuals resisting extortion and racketeering practices. (Gounev 2006)

something like a co-insurance contract regarding certain makes of cars' (Capital 1996b). Companies that had no such an arrangement with one of the racketeering insurance companies either had prohibitively high insurance rates or simply did not offer insurance for certain models of cars which thieves targeted (Capital 1996c)

*'The only to recover a stolen car, which your company had insured, is to be related with the criminal groups and channels for export of stolen cars. Otherwise you are [your company is] in the insane situation of making insurance pay-outs for each stolen car, which would mean that your company is doomed to bankruptcy'* [insurance industry representative quoted by Capital 1996]

As results in the later 1990s all car thefts were controlled by these companies. Whereas VIS-2 had a more significant presence in the big cities, SIC controlled the thieves in the small towns. In 1995, SIC's insurance premium revenues alone were around €40 million, approaching those of the largest insurance companies (Capital 1996e). In 1997, VIS-2 and SIC's combined revenues were 10.5% of the total insurance market, and much greater share of the car-insurance market, which was their main source of revenue. In 1996 SIC insured 40,000 cars: the majority of them luxury or new cars (unpublished police report quoted in Tzvetkova 2008: 240). Only 62 of these cars were stolen (and not retrieved) in 1996 (ibid.), while in 1995 the number was only 34 (Capital 1996e). The following year, 1997, the number of cars insured with SIC increased to 50,000 insured via the company's 340 offices around the country (Tzvetkova 2008: 240, Capital 1996e). SIC also owned its own chain of repair shops, where all insured vehicles that had been in an accident were supposed to be fixed (they also served to facilitate money laundering and financial fraud schemes (Capital 1999).

*'Around 1996-97 I was working for a brigade in Sofia...we were [related] with SIC. These were crazy times...man...I get nostalgic when I think about these times! We used to steal sometimes 40 cars per day...We didn't touch any of the cars that had stickers, and we stole only uninsured cars. We paid [SIC] 10% in the beginning...but then the rate went up to 20%. But we only told about 2 out of 3 cars we stole...the others we used our own connections to sell...Every car could have been returned for a ransom...but you remember that during these years you didn't even had to steal the car to get the*

*ransom<sup>72</sup>... usually we would first wait for a couple of days to see if the owner would look for the car, and if no one looked for the car, we sold it for parts or to someone...SIC rarely provided the clients, one of our guys was the one with connections and sold the cars' [OFI-20]*

*'I worked from 1997 to 2001 as car-thief....This was crazy time...The police was some kind of a criminal organisation...but not very well organised...hardly organised at all...' [OFI-22]*

*'There are a couple of cases that I remember well from this time. The first one was with a Head of Parliament...her car got stolen, and she called me: 'Mr. Minister, could you please help me, it's a new car, my husband put so much into it'. I was quite sceptical, I could do anything, because you know once a car it's stolen for resale it's gone. But I called the police district where the car was stolen, and I instructed them to put some effort. The next morning they called me 'Minister, we found the car!' [laughing] It was pretty clear to me that they knew all the thieves. In another case, I heard that Mr. X's car [a prominent politician] was stolen. I was expecting him to call me, but he never did. He didn't even bother to report it to the police, he simply called the head of VIS, and the car was returned immediately' [LEI-17]*

By 1998 the scale of the car-theft insurance racket had reached epidemic proportions, not seen elsewhere in Eastern Europe. VIS-2 and SIC each employed over 2,000 people and had country-wide coverage. The two firms were hierarchical and their presidents were publicly known as 'organised crime' bosses. With their influence continuing to grow, the government came under foreign and domestic political pressure for change. In 1998, all insurance companies had to be re-registered and specific provisions in the 1998 Law on Insurance banned insurance companies from providing 'protection services'. A special change in the 1998 Law on Road Traffic made it illegal for vehicles to display any insurance stickers, due to 'obstruction of the driver's vision'.

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<sup>72</sup> That was how the protection / insurance racket worked. The crews of racketeers would go around neighbourhoods and would look around for expensive cars. They would wait for the owner to show up, and ask for a ransom, or threaten to steal the vehicle.

As a result, insurance companies abandoned racketeering practices. Nevertheless, VIS-2 and SIC managed to find ways to transform themselves, and preserved their control over the car-theft industry [LEI-3, LEI-5, LEI-7] (see section on present-day role of insurance companies below). SIC was renamed into SIC-Union, and it merged its operations with the licensed insurance company Bul-Ins. VIS-2, renamed Planeta, became an insurance broker, but gradually disappeared. Spartak (renamed Levski Spartak) managed to remain in the insurance business under the name Lev Ins.

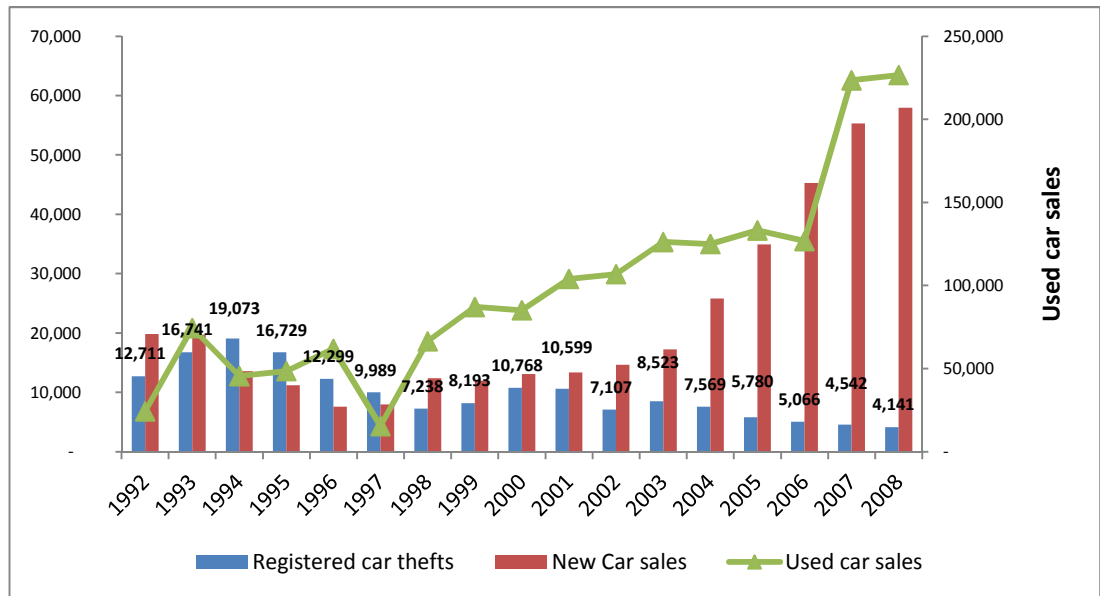


Figure 15. Car theft and car sales in Bulgaria (1992–2008)

Source: Based on Ministry of Interior data and Association of Car Manufacturers and their authorized representatives for Bulgaria

Between 2001 and 2002, the car-theft rate dropped by 30% and despite the slight rise in 2003, the downward trend remained steady, marking an average 12.8% decrease for the period between 2003 and 2007.<sup>73</sup> The crime victim surveys showed a less robust downward trend (Gounev et al. 2006: 56)<sup>74</sup> and a falling recovery rate, particularly in the 2001–2004 period.

Until 2006-2007 **ransom-seeking thefts** continued to dominate car-theft, although in absolute terms, and as a share of overall MVT, they also declined. Police estimate

<sup>73</sup> Since the National Crime Survey was first conducted in 2002, the data indicate that 95–100% of the victims of car-theft report the crime to the police.

<sup>74</sup> Interviewees who state that their vehicle has been stolen are then asked if it has been returned, and whether they had to pay a ransom.

that up until that period 60% of car-thefts were related to ransom seeking (LEI-1, LEI-2, LEI-5, and Ministry of the Interior 2002). The victimisation surveys support such an estimate, although due to fear, fewer victims admit to having been asked for or paid a ransom (see table below).<sup>75</sup> For instance, in 2005 only 31% of victims admitted to having been asked to pay a ransom (National Crime Survey 2006 data set).

|   | 2001 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|------|------|------|------|------|------|
| Victims whose cars were recovered (by paying a ransom or by the police) | 70%  | 67%  | 52%  | 58%  | 51%  | 56%  |

**Table 7. Recovery rates in Bulgaria (2001–2007)**

Source: National Crime Survey data set.

The continuous drop in the MVT rates, particularly after 2001, does not indicate a shrinking market for stolen cars. The majority of stolen vehicles sold in Bulgaria in that period started to come from abroad. This was facilitated by the fact that during that period the used car imports were liberalised and low-cost Western cars started to flood the used car market. Another key explanation for the post-2001 drop is that many well-known car thieves – particularly those able to work with luxury and well-protected vehicles – migrated, or worked primarily abroad (LEI-1, LEI-4).

#### **4.1 Structure and business models in the car-theft industry**

The structure of any market and industry depends on the relevant production and distribution processes. The present and next sections describe the operation of the car-theft industry from two different angles: ‘processes’ and ‘actors’. First, it presents the most common ‘business processes’ [criminal script] followed by Bulgarian criminal entrepreneurs involved in theft, trafficking, and sale of stolen vehicles. Second, it presents the roles of the different actors involved in these processes, and the way they are interrelated in the market for stolen cars.

Stealing a vehicle and selling it has become an increasingly complex task over the past two decades, due to growing number of vehicle-security and law-enforcement

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<sup>75</sup> The average ransom was around €1,100, while the average price of a stolen vehicle was €3,050. (Gounev and Bezlov 2005)

measures. Since the 1990s a vast vehicle security industry<sup>76</sup> has sprung up across Europe: much of it driven by the insurance industry<sup>77</sup> which has made certain car-alarms mandatory. Since 1998, all new cars are produced with engine immobilisers, making joy-riding thefts by non-professional thieves less and less frequent. Van Dijk et al. (2007) attribute the falling MVT rates between 1989 and 2005 across the EU to such new security measures. The International Crime Victims Survey (ICVS) and the 2005 European Crime and Safety Survey (EU ICS 2005) showed a sharp decline in victimisation rates connected to joy-riding thefts (from 1.2% in 1989 to 0.6% in 2004, prevalence among the adult population).

Law-enforcement efforts and modern border controls with databases on stolen vehicles have been introduced gradually since the late 1990s. Interpol's Automated Search Facility-Stolen Motor Vehicle (ASF-SMV) is the largest and most useful database that law-enforcement agencies use. It has data on over 4.2 million stolen vehicles across the world, and allegedly it has assisted in the seizure of 37,000 stolen vehicles so far (Interpol 2009). Other databases EUVID (European Vehicle Identification Database) introduced in 2001 and EUCARIS (for vehicle registration data of EU Member States) have been used to identify scrapped and stolen vehicles. Private sector databases (insurance companies or manufacturers) are also integrated or used by law-enforcement agencies to identify stolen vehicles. Most importantly, individual buyers have also gained access to such databases. In Bulgaria, when purchasing a used car, any citizen can submit a request to the Transport Police and consult the Interpol database on the status of the vehicle they are about to buy.

This increasing degree of sophistication of anti-theft devices and government policies to counter vehicle theft has made professional vehicle theft a rather complex enterprise. It involves a range of players, depending on the particular scheme. In Spain, Bulgarians car-theft enterprises have a similar business operation process, which might have a number of variations (see figure below). First, a (stolen) car dealer orders a vehicle. The vehicle is acquired either through theft, or through

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<sup>76</sup> In Spain this industry has reached an annual turnover of around €150 million, in addition to the increasing number of sophisticated built-in anti-theft devices that new vehicles have. (Cantalejo and Moral 2008).

<sup>77</sup> In the UK in 1993, for instance, the British Insurance industry tasked its research centre, Thatcham, to start testing and rating security systems, following 'widespread media reporting about joy-riders stealing cars' ([www.thatcham.org/security](http://www.thatcham.org/security)).

insurance / leasing fraud. It is then 'cloned', as the vehicle identification identification (VIN) of a non-stolen vehicle are incised on a stolen one. Following this the vehicle is either sold in Spain to a local customer or trafficked across borders to another country to be sold to a final customer.

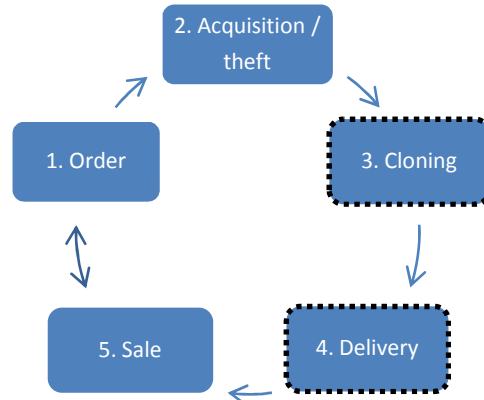


Figure 16. Car-theft enterprise operational model

Some of the steps in this process may be omitted if the vehicle is sold, for instance, to other crime groups for temporary use (e.g. for drug transportation). In that case, the identity of the vehicle might not need to be completely changed. If the vehicle is sold locally, then transportation logistics arrangements ('cross-border smuggling') are not needed. In the following sections each of these steps will be described in a greater detail.

#### 4.1.1 Identifying a buyer

Most of the interviewees stated that usually a vehicle is stolen only after an order is received, i.e. a dealer puts an order or a potential buyer is identified. The buyer could be identified directly by the criminal enterprise itself (e.g. through informal relations with other criminals who might need a car), or via intermediaries, usually criminal entrepreneurs who are intermediaries or sellers of stolen vehicles. The order may also come from a bon-fide buyer or dealers who are interested in buying a used car.

There are at least two reasons why most car thefts need an order in advance:

- Reducing financial risks: significant costs are incurred in the stealing, cloning, and transportation of the vehicle. (see Chapter 7)
- There are risks of being detected associated with the continuous storage and exposure of the stolen vehicle, even if it is cloned.



Some offender interviewees argued that a prior order is not always necessary. The dealers have a good idea about the demand for luxury vehicles. 'If some new car-model is out, like the new BMW-X6, you know everyone wants it, you will be able to quickly find someone to buy it' [OF16].

#### 4.1.2 The theft

Stealing of a luxury vehicle is not a quick process. Although the actual process of entering and driving it away may take only a few minutes, or even seconds, preparing to steal a particular model, finding the right vehicle (the one that has been ordered) and choosing an appropriate time and situation to steal it can be time consuming. As explained earlier in this chapter, the estimated average weekly number of thefts is probably 2-3 cars for the average car-theft enterprise.

On rare occasions, big theft operations take place when multiple cars are stolen at once: typically from (used) car dealerships. In one such case in Sofia, Bulgaria, within two hours eleven newly imported luxury vehicles (BMW, Mini Cooper, VW), worth at least €400,000, were stolen from dealership parking lots, only a couple of days after they were imported (*Novinar.net 2009*).

Spotting a vehicle and following the victim to their home, or sitting in a car-park in a shopping mall and waiting for the right vehicle to arrive, may take a few days. Planning other steps to overcome various security measures, especially GPS tracking devices, can also require quite extensive planning.

One way to reduce this time-consuming process is by obtaining data from vehicle registration offices on vehicle brands and owners, and their home addresses. In Bulgaria, one of the interviewees was a former police officer who used his police connections, and for a small fee would obtain the needed information. According to some interviewees some Bulgarian criminal entrepreneurs in Spain (and in Italy) also managed to find corrupt officials who would provide them with such information. [OFI-1]

The image of the car thief opening a car with a slim jack and driving it away is only one of a number of ways (and probably a less and less frequent one) to steal a vehicle. The following is a list of the most common ways described by interviewees or in the police cases.

Technically, there are numerous anti-theft devices and technologies (including immobilizers, GPS tracking,<sup>78</sup> and alarms,<sup>79</sup>), and almost an equal number of ways to overcome these and steal the vehicle. For the purposes of this thesis it is of little value to go into detail about any of these. It suffices to say that the increasing number of immobilizers and computer security devices have made car-theft of luxury vehicles a crime, where a technically savvy person is needed. The complex security systems have forced thieves to use a range of other methods:

- **Car-jacking** (e.g. while victims are at a fuelling station or in a public parking place).
- **Robbing** a car owner of their car keys (C-0704).
- **Burglary** of the car-owner's home with the purpose of stealing car keys.
- **Theft** of keys from a client by prostitutes.
- **Theft of fuel-tank cap** (for making a copy of the key – for certain models).
- **Deception**: a variety of approaches have been employed to get an owner out of a vehicle and distract them – from deliberate small accidents, puncturing the back-right tyre, tying rattling objects against the car, forcing the owner to stop and get out of the vehicle to inspect the noise (C-0704); responding to ads for a used vehicle and stealing it during a test-drive, etc.
- **Corruption of factory / dealership employees**: there is a black market where corrupt individuals from factories, suppliers of security systems<sup>80</sup> or used-car dealers, or other experts, sell keys, computer programmes, or other tools that allow thieves to overcome various security measures. There are also websites where devices to open cars could be bought (see below).

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<sup>78</sup> There are several ways to overcome this device: placing a lead cover over it, which prevents the GPS device from transmitting a signal; placing the car inside a trailer truck lined with lead; driving the car to an area where which is known not to have GPS coverage; using special devices that interfere with GPS transmission.

<sup>79</sup> Short-circuiting the alarm or blocking it through a 'plug' (*tapa* or 'tana' in Bulgarian), are the standard theft approaches.

<sup>80</sup> In one reported case, a car-theft enterprise in Bulgaria managed to obtain car-security software from a software engineer who worked for a US supplier for BMW / Mercedes, which had outsourced its production in Bulgaria (Nikolaeva 2010).

- **Fraud:** One scheme involved writing to a Mercedes dealership on behalf of a non-existent company, requesting eleven duplicate keys for its vehicles. The thieves used forged documents of vehicles it had never purchased but which the thieves had identified as targets. The Mercedes dealership was suspicious and called the police, who found out that five vehicles had already been stolen and the other ones were on the thieves' target list.
- **Insurance fraud:** Both law-enforcement and offender sources state that this continues to be a significant source of stolen vehicles. There are several possible schemes. In Spain, Bulgarian criminal enterprises sometimes look for used-car ads (in newspapers or on the internet) and approach the sellers, offering them to buy the car at a low price. [OFI-7] Another approach is via informal networks (repair shops, dealerships, parking garages) to identify potential customers. As one offender described it 'we find them or they find us'. [OFI-1] Vehicle owners sell their cars to intermediaries at a price which is about one-third of the value of its theft insurance cover. Another popular scheme that aimed to maximize the profits had the following scenario: a stolen vehicle from Spain was imported to Bulgaria, cloned, registered and insured. It was then re-exported to Russia, where it was sold. In this way the profit was doubled as money was received both from the sale and from the insurance payout [OFI-3]. In either of these schemes, using the original documents, the vehicle is driven to its destination, for instance to Bulgaria, or it is sold locally in Spain. Once all transfer procedures are completed and the vehicle's identity is changed, the owner reports the car stolen to the police and the insurance company.
- **Lease fraud:** Bulgarians in Spain have used three different approaches to this type of scheme: (1) creating fake financial records of socially disadvantaged individuals (e.g. drug users), and using these individuals to lease a new vehicle. Once the vehicle is leased a few payments are made. This provides sufficient time to smuggle the vehicle out of the country, or change its identity. Soon the payments stop. (2) Similar to this is the 'bankrupt company' scheme. It involves the setting up or buying of an extant company, using the company to lease several vehicles (including commercial ones). The vehicles are then transferred to the destination country or sold. The company then goes bankrupt and the lease payments are terminated.

The other scheme is similar to the insurance fraud. The car-theft entrepreneurs need to find customers who have difficulties with the leasing payments on their cars, and are willing to 'terminate' their contract.<sup>81</sup> During periods of economic growth, many businessmen and construction companies leased expensive vehicles or heavy construction equipment. The financial crisis made them all potential customers for car-thieves, who were willing to relieve them of their debt. Customers would voluntarily sell their car to the thieves for a small amount, and would announce it as stolen to the police after the car had been exported or cloned. In this one case, the 'stolen' leased vehicles were exported from Bulgaria via Germany (where their documents were counterfeited to look as if they belonged to German leasing companies) and then sold to customers in Spain via a Spanish-run independent used-car dealership in Pamplona. The case is interesting as it shows that extensive networks are needed to organise the scheme. The main organiser of this particular theft enterprise had extensive contacts amongst local businessmen in the southwest region of Bulgaria. He also had his own construction company, which gave him access to a network of local / regional contacts. An important detail, though, was that he was close friend and partner of the head of security of one of the main insurance companies, related to car-theft groups (see below on their role in the car-theft industry). (C-1010)

- **Theft of rented vehicles:** Another scheme involves the use of counterfeit or stolen credit cards to rent luxury vehicles. The vehicle's security information is then noted, copies of the keys are made, and other security systems examined. The vehicle is then returned to the rental agency, and after some time it is stolen. (C-0298)

#### 4.1.3 The cloning

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<sup>81</sup> Due to the economic crisis many car manufacturers lowered the prices of new vehicles to such an extent, that many car-owners found themselves in a situation where, for instance, they still would have another €80,000 worth of payments left, while for this amount they could now buy the latest model of the car. [CDI-4]

Regardless of the approach used in acquiring / stealing the vehicle, the second step is changing its identity, or 'legalizing it', so that it can be sold as a legitimate vehicle. This process usually takes place soon after the vehicle is stolen either in Spain or in Bulgaria. Over the past few years, with the increase in security measures, the sophistication of the cloning process has also grown. In the early 1990s some thieves went only as far as changing the licence plates and forging the vehicle documents; but in the past decade the process has become much more complex: using lasers to change the various security markings, and above all the VIN (vehicle identification number), or entirely replacing parts of the vehicle with new ones that have a different VIN. Technically the forging is quite difficult, but once it is done, the police usually need special equipment to detect a well-forged VIN.

Since the late 1990s, Bulgarian criminal entrepreneurs in Spain commonly **clone all stolen vehicles**, usually soon after the vehicles are stolen, or after they are transported abroad. For that purpose they use the identity and documentation of a non-stolen vehicle. The stolen vehicle is usually taken to a garage or a mechanic's shop, where its identity can be changed. Groups, therefore, usually need to rent space, such as a warehouse, for this operation. If this is not available, it could be left at a public parking place for a few days, and once the licence plates and forged documentation are ready, it is moved to a place where additional changes are made. (C-0104) The case files of the Spanish Police indicate that Bulgarians have connections and have cloned vehicles from Germany, Belgium, Luxembourg, the Netherlands, and Austria.

The cloning process has several preparatory steps, and it differs in some ways from the criminal scripts described by other authors (Tremblay et al. 2001; Morselli and Roy 2008), particularly at the first stage – the identification of the vehicle to be cloned.

There are several ways to identify a vehicle that could be cloned:

- The Internet is used to find a used car in another Schengen<sup>82</sup> country. Under the pretence of purchase, copies of the vehicle documents (VIN and identity

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<sup>82</sup> The Schengen agreement eliminates border controls between countries, members of the European Union (as well as Iceland and Norway). As of 2010 it was signed by 23 of the 27 EU Member States (UK, Ireland; Romania and Bulgaria were about to become members in 2011). In 2007, the Schengen area was expanded, as the agreement was signed by ten countries, mostly in Eastern Europe.

information) are obtained via fax and email. In this case, the thieves take advantage of the fact that, normally, national vehicle registries are not directly connected to common EU VIN-databases – therefore upon registration or during a police stop there is no threat of being detected. [OFI-2]

- The second way is through contact persons in other countries who personally obtain the vehicle information from scrap yards. In this case sometimes the original documents of a scrapped vehicle that has been in an accident might be used. In another scheme the criminals might take a car for a test drive from a dealership under the pretence of intended purchase, during which its identification is obtained.
- Interviewees stated that some Bulgarians owned or had connections to scrap yards in Spain, who for a certain amount were willing to sell the vehicle ID information, and relevant vehicle parts. [OFI-15, OFI-17]
- **Using a registered vehicle's information:** A car owner, usually in Bulgaria but also in Spain, will provide all necessary VIN, licence plates, vehicle documents, and insurance papers, which are transferred to Spain. A car of the same model is then stolen, cloned, and trafficked to Bulgaria. During the annual technical inspections in Bulgaria (carried out by traffic police), the original car is shown and the clone remains undetected.

There are cases in which a car has had four or five such clones [LEI-1, OFI-1]. Bulgarian car-theft networks are known to have used the same scheme in Spain as well, where they legalise one vehicle using one of the methods described above. They then create multiple forged documents for several identical vehicles of the same model [LEI-1, LEI-2, OFI-1]. In one case described by the police, the network purchased a new high-value vehicle that was registered in the name of a woman participating in the organisation. Several identical vehicles were then stolen, cloned, and sold to members of other criminal organisations. If pulled over by the police patrol, they provided the contact information of the legal owner and, if necessary, she would appear to confirm the identity.

The analysis of the Spanish police cases shows that quite often the cloning / storage of the car takes place in place (far) away from where it was stolen. For instance, vehicles might be stolen in Costa del Sol, but cloned in Madrid (C-0903); or stolen in Madrid but the change of identity takes place in Toledo or Marbella (C-1206); or it is stolen in Costa del Sol and disguised in Seville (C-1006). In other cases, the vehicle is just left for 2-4 days at a public parking lot, while in the mean time, the necessary forged documentation, licence plates, etc. are prepared (C-0104). The change of the car's identity requires a certain infrastructure, such as a warehouse or a garage. This is usually provided either by the illegal entrepreneur, colluding partners (C-1002), or colluding local Spanish-run repair shops (C-0704). In Bulgaria, in the Pazardjik region, the villages around the city were pointed as the usual location of the VIN changing, as well as services stations in town.

**Forging of the vehicle documentation** is also important part of the cloning process. Many of the groups seem to have their own specialization in forging vehicle documentation. In some cases, this service is outsourced to local specialists who, in Spain, are not Bulgarians, and are not part of the immediate core group.

Once the stolen vehicle is cloned and 'legalised', it then can be either registered in Spain or trafficked to another country. The thieves declare to the registration authorities that the vehicle is imported from the country from which the documentation of the cloned vehicle came. As national vehicle registration databases of EU Member States are not connected, and there are no borders check points between countries, the registration authorities (either in Bulgaria or Spain) cannot verify where the vehicle originally came from, or from which country it exited.

#### **4.1.4 Logistics: transportation and trafficking routes**

When the stolen vehicle is sold in another country, a set of fairly complicated logistical arrangements must be made to transfer it from Spain to its destination. For this purpose, in many cases 'couriers' or 'mules' are hired to drive the vehicle. While some interviewees recounted a single courier driving the vehicle from Bulgaria to Spain, others explained that they've driven only to the border with France, or to Greece, and there another mule drove it to Bulgaria. In the cases where a vehicle

was trafficked to the Middle East or the former USSR, another courier picked up the car from Bulgaria.

In other cases, the vehicle is shipped via ports in containers, or mixed with non-stolen vehicles on car-transporters. In these cases the vehicles are transported in trucks to the ports. On very rare occasions the thieves themselves might drive the stolen car to Bulgaria.

The main principle in trafficking the vehicle is risk minimisation. If the vehicle is well cloned, then the risks are minimal: the offenders do not see the border crossing as high risk, as usually border checks do not include close VIN inspections. [OFI-5]

The car-smuggling destinations out of Spain (or via Spain from the rest of Western Europe) have changed since the early 1990s, when according to Head of the National Police car-theft unit these destinations were primarily (Alvarez 1994):

- For all-terrain vehicles: towards Africa.
- For luxury cars: towards Japan and the United Arab Emirates.
- Cheaper cars: towards Eastern Europe.

With the establishment (in 1995) and subsequent rounds of expansions (1995-1997 and in 2007) of the European Union's border-free Schengen Area, there was increased involvement of criminal networks from the former Yugoslavia, the former Soviet Union, Bulgaria, and various central and northern African countries.

In the 1997-2000 period, the first groups of Bulgarian car-thieves, who specialised in the theft of all-terrain vehicles, were exporting mostly to Morocco and Bulgaria (C-0497, C-0897, C-0298, C-0798, C-0100, C-0600, C-1100). Direct transfers by sea from Portuguese ports to Bulgaria also took place. This was again a risk minimisation strategy, as some networks had managed to corrupt customs officers in Portuguese ports, who facilitated the trafficking. (LEI-4, LEI-2)

The analysis of the Spanish police cases shows that as the demand for luxury cars in Bulgaria, the Middle East, and Russia increased after 2000, the primary destination for trafficked became Bulgaria. Bulgaria, though, remained the main destination for final sales or for resale to other car-traffickers.



The trafficking to Bulgaria takes place through France and Italy, and then via one of the Italian ports (Bari, Ancona, Brindisi) on a ferry to Igoumenitsa (Greece). (e.g. C-0104) The Italian police occasionally raids the ferry-ports to Greece, Spain, Croatia or Tunisia looking for stolen cars: for example, the 2007 Operation 'Italian Harbours' resulted in nine cars being seized. (Interpol 2009) Therefore, some interviewees stated that instead of using the ports, they usually drove through Slovenia, Croatia, and Serbia. Greece, was another transit point, via which the vehicles are either transferred towards other Balkan countries (Macedonia or Albania) and Turkey, or imported into Bulgaria.

Thus, in the majority of cases the only border that needed to be crossed between Spain and Bulgaria is the Greek-Bulgarian border crossing of Kulata (all countries in between fall within the Schengen border area). After January 2007, following Bulgaria's entry into the EU, customs controls between Bulgaria and Greece were removed. This further facilitated the transfer of vehicles, particularly when shipped by commercial transporters, which are not inspected by the border police, as they are considered commercial cargo. Before 2007, though, the import of used cars usually involved some level of customs corruption.

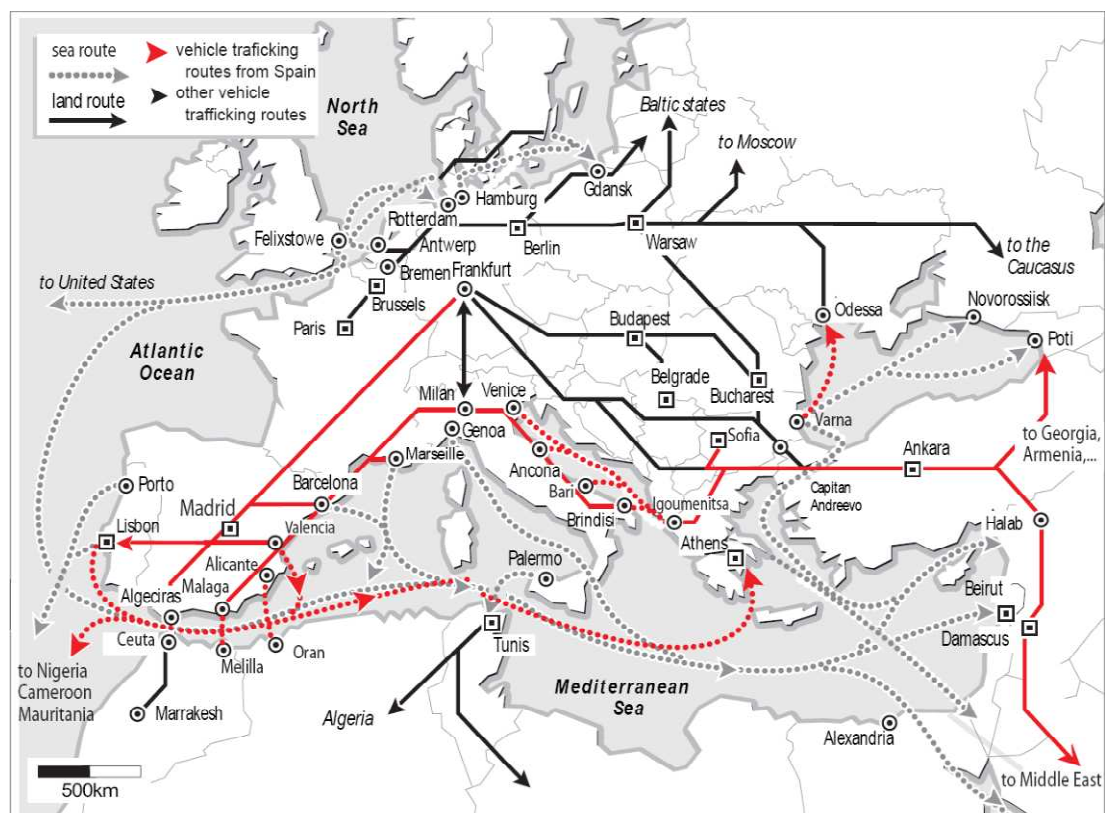


Figure 17. Smuggling routes used by Bulgarians from Spain

Source: own drawing based on data from Guardia Civil, Policia Nacional, Europol, Interviews (LE-2); Map drawing credit Reuters.

Once in Bulgaria, vehicles might be transferred further to:

- Macedonia and Serbia (or other ex-Yugoslav republics)
- Ukraine, Russia, and Moldova, either overland or via the port of Varna
- the Middle East / Persian Gulf via Turkey
- Georgia / Armenia / Azerbaijan via Turkey.

There is no evidence that Bulgarians have become involved in direct transfers from Spain through other Western European countries towards former Soviet Union countries. This method seems to have remained mostly used by other vehicle-theft groups operating in Spain, such as Polish, Estonian, or Lithuanian-run groups.

Occasionally, Bulgarians have become involved in the transfer of vehicles to Sub-Saharan Africa. This is done by loading the vehicles onto ships in some of the main Spanish ports (Algeciras, Valencia, Alicante), from which vehicles are shipped towards Nigeria, Senegal, or Cameroon. There have been instances, where vehicles have been shipped via the Canary Islands to Mauritania. There are at least three cases where Bulgarians have established contacts in the Spanish towns located on the African continent, especially Ceuta, through which vehicles are smuggled into Morocco. (C-0897, C-0298, C-0100)

Usually, the mules involved in driving the vehicle to Bulgaria do not know the ultimate destination of the vehicle: a used-car dealership or another country. The mules usually transfer the vehicle to intermediaries, who in turn deliver them to the dealers. The last step on the criminal script, the **sale of the stolen vehicle**, is considered in detail in the next Chapter.

## 4.2 Industry players and structures

The Spanish police tend to think of Bulgarian car-thieves in terms of networks and groups. This is certainly helpful in the context of operational efficiency, as it helps the police to focus on a limited number of individuals, over a fairly short period of time that it takes to conduct an investigation. In the media and official reports, Spanish

National Police officials have described the involvement of Bulgarians in car theft in various ways. The description given was of hierarchical structures, but without 'dedicated members', with a rather high turnover of individuals without much experience, who join and leave (ABC 2003). On the other hand, the other major law-enforcement agency in Spain, the Guardia Civil, has consistently (for almost a decade) provided an identical description of Bulgarian criminal groups, comparing them to the functioning of 'terrorist cells': the coordinator is the only one that knows all the others, as the rest are organised as separate 'groups' or cells of thieves, mules, and VIN changers. (Cantalejo and Moral 2008)

This local point of view provides only one side of the picture. From the more transnational point of view taken by the present thesis, the description of the enterprises and actors involved looks somewhat different. The interviews with offenders and law-enforcement officers in Bulgaria and Spain revealed that the car-theft industry is populated by numerous enterprises and independent actors, that could be grouped in the following categories:

- illegal **enterprises involved primarily in stealing** and trafficking of vehicles, called in this thesis for simplicity-sake 'theft enterprise'
- illegal **enterprises involved primarily in the distribution** and sale of stolen vehicles or a 'sales enterprise', discussed in the next chapter
- specialists (thieves, document and VIN-forging specialists) and other staff (mules, spotters) who work for different illegal enterprises when there is demand for their labour
- legitimate companies (used-car dealerships, service shops, scrap yards, transport companies, insurance companies), and
- corrupt public officials who facilitate the operation of the market.

The figure below represents a conceptual model of how an international vehicle trafficking network between Spain and Bulgaria operates, and how participants are connected in a hypothetical transaction from the theft to the sale of the vehicle. This model depicts only one of the possible ways of such a transaction: some variations are shown using a dotted line connection. Depending on the 'criminal script' used additional market participants would be added. As described in the previous section, the order comes from the 'sales enterprise' or a bona fide buyer. The 'theft enterprise', based in Spain, then completes the order, and ships the stolen vehicle to

Bulgaria. The ‘theft enterprise’ normally works with a number of theft crews and other specialists, who are hired on ad hoc basis.

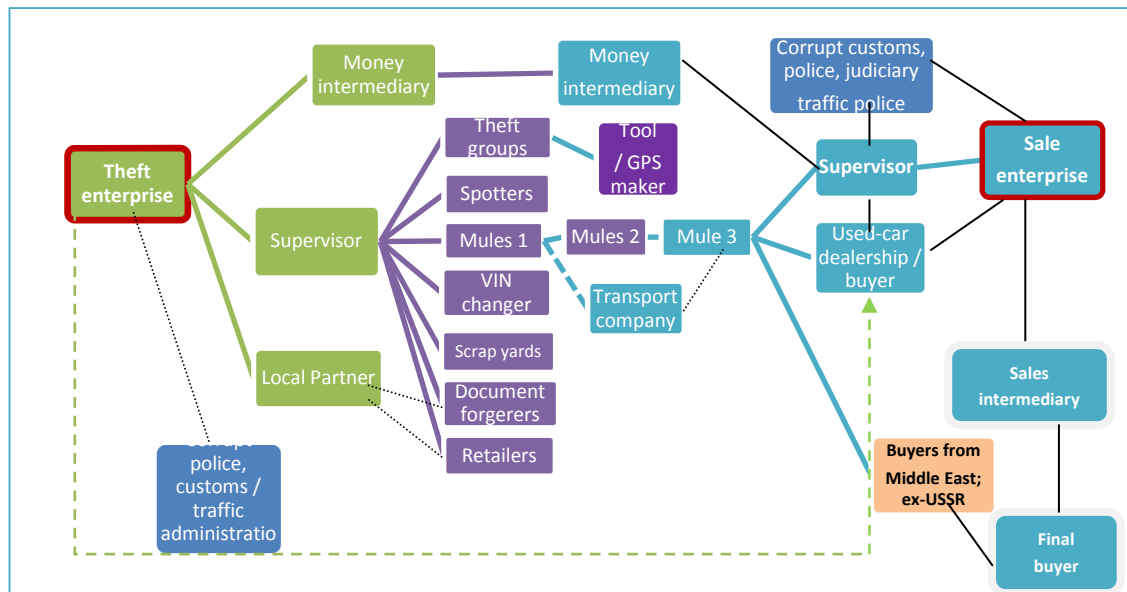


Figure 18. Conceptual model of vehicle theft transaction

Source: Author visualisation based on interview data

The structure described above, with its numerous possible variations is explained in the next sections, question the rather rigid descriptions of Eastern European car-theft networks provided by Bruinsma and Bernasco (2004). They argue that car-theft networks typically consist of three groups: one responsible for the theft, one for the ‘recycling’ (i.e. cloning), and one, resident abroad, for the demand.

The narrow view that Bruinsma and Bernasco have adopted towards analysing car-theft networks is further exposed in their analysis of the cohesiveness of social networks. They argue that car-theft networks are considered by offenders as a ‘low-risk’ type of crime, compared to ‘heroin distribution’. Therefore, ‘car-theft’ networks have ‘lower network cohesion’. Such networks, according to Bruinsma and Bernasco (2004) comprise social relationships that are only ‘instrumental’, participants who do not ‘maintain affective relationships’, and without a ‘central cluster’ in the network. The reality, though, is that to the majority of participants in car-theft networks, car theft is only one of their criminal activities, and many other activities (e.g. armed

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Mr. Z

*Mr. Z is a car-thief from the second largest city in Bulgaria – Varna. His father teaches at a university. Mr. Z grew up to be technically savvy. In the 1990s he started using these skills to make his own alarm and immobiliser decoders. He got involved in the local market for stolen vehicles, which was largely controlled by the local structures of VIS, SIC and TIM. Gradually, he accumulated enough money from thefts and moved to Spain in 2000 with a partner. Once they were settled and familiar with the area they started organising burglaries and car-thefts. Then they started exporting cars back to Bulgaria. For this purpose they called upon trusted lower-level thieves from Varna and nearby Silistra. Mr. Z himself was constructing the decoders and alarms. They also started selling stolen vehicles to Moroccans and Lithuanians. Mr. Z was able to develop a GPS tracking system: GPS devices were installed on vehicles sold to Moroccan hashish traffickers. His group would then track the vehicles. Once they were loaded with drugs, Mr. Z's group would steal the vehicle. When the police raided Mr. Z's 'control room' near Marbella, they found he was tracking five vehicles simultaneously. The police used Mr. Z's control room to track and seize at least 4.5 tons of hashish. Although Mr. Z was arrested and held for at least a year, he was released as there was not sufficient evidence to convict him. (LEI-5, C-0204b, Cholakova 2005)*

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one such example.

robberies, burglaries, or cocaine and heroin distribution<sup>83</sup>) are fairly high-risk. This fact questions the 'social cohesiveness' argument of these authors.

Below, each the roles and responsibilities of each of the players in the car-theft industry is described in more detail.

#### 4.2.1 The theft enterprise

The Bulgarian 'theft enterprises' in Spain are usually run by entrepreneurs who are more permanently settled and have lived in Spain for a number of years, sometimes since the 1990s. These individuals are either usually former car thieves or more general criminal entrepreneurs who are involved in various other criminal markets or activities. In some of the offender interviews and police cases, these individuals were described as having small stores, used-car dealerships, mechanics' shops, or other small businesses that would provide the necessary basic infrastructure for the theft enterprise to operate.

There are, though, some car thieves who, having worked for different entrepreneurs in Bulgaria, develop sufficient connections and go to Spain to try to set up their own theft enterprise. The case of Mr. Z (see box) is

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<sup>83</sup> The city of Pazardjik, where the majority of interviewees came from, is a major heroin distribution point in Bulgaria and the Balkans.

Other criminal entrepreneurs might be based in Bulgaria, and might function more as itinerant enterprises. They just send a 'coordinator' on a temporary basis to organise the theft and trafficking of the vehicles [OFI-6].

When speaking of 'Bulgarian criminal groups' in Spain, one is generally referring to such 'car-theft entrepreneurs' and the network around them. The offenders interviewed stated that they normally spent a few months working for one such theft entrepreneur, and then moved to another one in another town. When asked about how many such other entrepreneurs they were aware of, typically in the large metropolitan areas – Barcelona or Madrid – and nearby towns they were aware of 3-4 others.

Several of the enterprises described were 'partnerships' and included a local partner. The **local partner** often shares the profit and participates loosely in the coordination process. While Spaniards might be involved in all sorts of supporting functions, such as drivers, document forgers, electronics specialists (C-1203), a more significant participation is needed for one to be considered a partner. The contribution of the local established infrastructure (e.g. a garage, a used-car dealership) makes this person key to the operation, the risks, and to the profit-sharing arrangement. Commonly, interviewees stated that the local infrastructure used for cloning the vehicle is run by a Bulgarian, who has been established in Spain for some time. He is often the 'owner' of the illegal enterprise and coordinates all the others via a hands-on manager.

On some occasions, though, when the organiser is a newcomer (as was Mr. Z, see box above) and needs a local base, a local partner might be more advantageous. In this way, significant investment costs can be avoided, e.g. for the purchase of a repair shop, or garage (C-1206, C-0704). Such approach could also avoid police attention, who may start monitoring a suspicious new business. In one case, the police started monitoring the declared official revenue of a new garage, and quickly noticed the big discrepancy between its revenue and the number of vehicles that actually came into the garage. (C-0305)

In the Bulgarian context such car-theft entrepreneurs are usually based in regional towns<sup>84</sup> where there is usually at least one individual who organizes and dominates both the stealing of cars and the sale of stolen cars. These are further discussed in the next chapter on the sale of stolen vehicles. More importantly, as a significant portion of the vehicles are stolen for ransom, there are overlapping networks and individuals, are involved in theft for profit and theft for ransom (discussed in Ch. 6) (Nikolaeva 2010, OFI-22).

**Front companies** to cover up or facilitate the activities of the theft enterprise are sometimes used as well (C-0305, OFI-5). One case (C-0305) described such a situation: Bulgarian entrepreneurs set up several companies in Germany and Spain. A service station and used car-dealership registered in Spain officially exported used cars to Bulgaria and Germany. To further disguise the origin and destination of the stolen cars to both the Bulgarian and Spanish authorities, the thieves used the Spanish-registered companies to formally sell the stolen cars to German-registered companies, which in turn, made their official import of the cars in Bulgaria. The stolen cars that were exported from Spain used the identification numbers of vehicles that were legitimate vehicles which never left Spain (either normal cars, whose registration / VIN information the thieves had access, or vehicles that had been in accidents).

In Spain (as well as in Bulgaria) the entrepreneurs running the ‘theft enterprise’ are *not* directly involved in the operational activities related to the theft. Their participation is usually limited to providing infrastructure (i.e. space for storing and cloning the stolen vehicles); and negotiating the terms of the deal (i.e. the price at which the ‘selling enterprise’ would purchase the vehicles). The main coordination of the theft is carried out by one or two ‘**supervisors**’ / ‘**coordinators**’, who manage the hiring of ‘specialists’ – to find the vehicle, and organise the theft, the cloning, and the trafficking. This ‘manager’ position serves as a buffer in case of investigations; it is usually carried out by a former thief who is no longer directly involved in thefts. The various roles are described below.

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<sup>84</sup> In Bulgaria there are 20 cities with population of over 50,000, in which there are probably such entrepreneurs. ‘Larger cities’ would be those with population over or around 100,000, of which there are eight (Plovdiv, Varna, Burgas, Russe, Stara Zagora, Pleven, Sliven, and Dobrich). See map in Annex 1.

#### 4.2.2 The sale enterprise

In the present thesis, the term ‘sale enterprise’ is used to differentiate it from the ‘theft enterprise’. The **illegal entrepreneurs** involved in the distribution of stolen vehicles are most often solely involved in the sale. The empirical data showed that Bulgarian ‘theft’ entrepreneurs in Spain sold the stolen cars via ‘sale entrepreneurs’ in Bulgaria. The ‘sale entrepreneurs’, who sell in Bulgaria vehicles stolen in Spain, might also be involved in stealing vehicles in Bulgaria. Equally, Spain-based entrepreneurs involved in the distribution of vehicles stolen in Spain or other EU countries, could also be involved in the local theft of vehicles. The operational and structural details of the distribution and sale of stolen vehicles in Bulgaria and Spain are provided in the next chapter.

#### 4.2.3 The specialists

The car-theft, cloning, and trafficking is carried out by a number of specialists, who either work as ‘free-lancers’ or in small groups of 3 or 4. Usually, when the police break up a ‘car-theft network’, they see both the theft entrepreneur and the external specialists as a ‘group’. In reality, this ‘group’ is a temporary formation, as the ‘specialists’ work with different entrepreneurs for only a few months at time, often changing towns.

The offender interviewees stated that most of these individuals constantly move between Bulgaria and Spain, or within Spain. The spotters, the thieves, and the mules, usually spend a few months or a few weeks – depending on the ‘work load’ – working for one enterprise. Then they go and work for another one, or return to Bulgaria until a new job comes up. The VIN-forging specialist might be involved for even shorter periods – as little as a few days, once several stolen vehicles are safely stored, and their documentation falsified. The pay-rates for each position or service are quite standard, and all interviewees generally agreed on the pay-scale for each type of job (see Ch.7). The roles of each are described in more detail below.

##### 4.2.3.1 Spotters

Also known as ‘browsers’ (*ojeadores* in Spanish, or *sagledvachi* in Bulgarian) – these individuals are in charge of locating potential targets, and identifying the right



moment to steal the vehicle, or the patterns of movement and behaviour of the owner. They also provide information such as the age, sex, and description of the owner. Once a vehicle is identified they contact the 'coordinator' who in turn contacts the thieves. In Bulgaria, their role is often fused with the role of the 'watchers' – those who secure the scene of the theft, making sure that the owner or others do not surprise the thieves, or avoiding the police during the escape. The two roles also seem to be occasionally fused in Spain. These individuals might also be involved in selling other objects that are found in the stolen vehicle (jewellery, money, credit cards, documents, computers, cameras, etc.). (C-0706) The spotters also work in small groups of two to four people, and they might occasionally form a separate group that does not know who the thieves are, but communicates only with the coordinator. 'When there are no orders, these guys spend their entire time just cruising around, looking around for cars, so that when an order comes, they already know what is on offer in the city' [OFI-15].

#### 4.2.3.2 Thieves

The '**limoneros**' (as the thieves are called in Spanish) are usually organised in small groups of three or four – in Bulgarian called a 'brigade' (*brigada*). The group could be a more permanent formation of people that have known each other for some time and trust each other. There are various degrees of technical knowledge required to be a thief. Generally one person in the group has a better understanding of how the various types of car security can be overcome. The rest might be involved in burglary or robbery as a means of obtaining the keys; or be good drivers for the quick getaway.

The more sophisticated thieves with specific technical knowledge to overcome the various security measures are known in Spain as '**electronicos**' ('electricians'). Most groups have at least one such professional. Many thieves with this extensive knowledge sometimes try to make it on their own (such as Mr. Z, see box above, or Pirana, see next chapter), or work independently for different groups. Their job is only to open and start the car. In less than a few minutes, such person could make 1,000 euros.

Such individuals are professionals who invest heavily in technology. They might have to buy instruments that might cost a total of €20,000, so that they have a range of

tools for many types of vehicles (see next section). Most of these high-end professionals are permanently settled in Spain.

The groups of spotters and thieves take a number of risk-mitigation strategies to avoid detection: (1) the group members are hired from Bulgaria, where they have worked previously and trust each other; (2) many of them do not permanently reside in Spain but commute for a few months; (3) when staying for longer periods of time, they change their residence almost weekly; (4) their theft instruments and devices usually travel to Spain separately (they might be sent by bus or be taken across by international truck drivers). The instruments might even be temporarily stored in a third country, such as Italy or France; (5) if they are new to an area, they will spend some time driving around, getting to know the area and the get-away routes.

The thieves' pay depends on the complexity of the car and their role. Normally, they would get at least 400 euros per car, per person (i.e. around 2,000 euros for a four-person brigade). If the car is a risky one, i.e. a very exclusive brand, the price could be much higher. The spotters and the 'look-outs' might get even less.

The groups of spotters and thieves may work for different 'theft enterprises', run their own enterprise, and may move from town to town. Depending on the size of the 'enterprise', the spotters and thieves might be assigned a number of smaller tasks – someone might be asked to go to a scrap yard to buy documentation, or to go to the document-forging specialists to make the car documents.

#### **4.2.3.3 Tool makers**

The thieves could use the services of various other specialists who might be involved in making devices and tools to steal cars. These range from mechanical tools to more complex devices.

Interviewees spoke about toolmakers of more basic car theft tools in the town of Pazardjik. The previously state-owned Metalik Metal-Cutting Machines Factory (privatised in 1997), and situated on the outskirts of the town is a case in point. One such toolmaker (a former employee) used the factory's facilities illegally (usually by paying a manager a small bribe), and was able to produce various tools of reinforced steel that required special machines for their manufacture. According to one

interviewee he must have supplied 'half of Europe' with car-theft tools (e.g. the 'bear paw' used to turn on the ignition). A local car-theft group even supplied a local toolmaker (nicknamed 'Dr. Cutter' [Dr. Frezov]) with a metalworking lathe and a metal cutter, who then worked round-the-clock for them. [OFI-15]

The use of more complex devices, though, is needed in theft of vehicles with modern security systems. Car dealerships and related service shops also need these same devices for fixing cars, changing locks, etc. Therefore the market for them is rather gray: on the one hand, legitimate companies that produce such devices sell them to dealerships, yet anyone else could buy them as well. Car-makers have factories around the world, including in many middle- or low-income countries, where employees illegally sell parts, devices, or software through which car security can be overcome (Czech factories of VW / Audi were pointed as one such source [OFI-15]).

Each new vehicle that is released onto the market has complex protection mechanisms. Cracking the software and security codes, or developing own software to open the vehicles takes place not only in Bulgaria, but also Russia or Ukraine, which are then sold over the internet. Such computer specialists are not just hackers but often hold regular jobs as IT engineers but work with car thieves to supplement their income. Generally, these individuals are highly paid by the thieves (LEI-3, OFI-15, OFI-20, OTI-16).

The prices of such devices vary significantly, according to the specific model of vehicle but, above all, according to how new the model is. Devices related to post-2007 luxury models cost usually more than €1,000, while older ones can sell for less than €100. Devices for opening the latest high-end Mercedes or BMW models could reach as much as \$10,000<sup>85</sup>.

It is usually the thief that personally invests in such tools, but sometimes the theft entrepreneur might obtain them for the various crews that he hires. As one former

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<sup>85</sup> In Bulgaria, for instance, one such website is [autodiag.hit.bg](http://autodiag.hit.bg). Another one, popular amongst car-thieves, Edilock Ltd. ([www.edilock-bg.com/](http://www.edilock-bg.com/)), which sells devices such as the €9,999 euro BMW key / transponder programming device OBD II that opens all BMWs produced between 2003 and 2011. Other websites, such as [www.car-radio-decoding.com/shop](http://www.car-radio-decoding.com/shop), cater to international customers and provide a wide range of devices that could serve to open many different car models. Such websites warn that 'illegal use' of the devices is at one's own risk.

car-thief summed it up ‘Half of my money used to go for shit [tools] like this...but it was simply an investment in myself’ [OFI-22]

#### *4.2.3.4 VIN changers*

The ‘make-up men’ (*‘maestros maquilladores’* in Spanish; in Bulgarian *‘maistori’* or *‘chukachi’* [chisel men]) are hired to forge the identity of the stolen vehicle: erasing and replacing the VIN and other ID numbers with the ID of vehicles (or parts with ID numbers on them) purchased from scrap yards in Spain or other countries. These individuals are also often not permanently settled in Spain, but commute from Bulgaria whenever a batch of vehicles has been identified (LEI-4, C-0307). VIN riggers usually charge around €1,000 per car, depending on the type of car and the complexity, and available parts.

#### *4.2.3.5 Document forging*

The documents that are needed to ‘legalise’ the stolen vehicle usually use data from the documents of the vehicle that is being cloned. Some details about the car in these documents need to be changed (e.g. the car colour). One interviewee recounted that he was always sent to a local ‘print shop’ in Madrid where he would produce the necessary documents (OFI-5). The specialists who forge the documents might be part of the group (OFI-2). On several occasions, investigations have revealed that one of the complementary criminal activities of the criminal groups is the falsification of passports, or of credit cards, or the placement of counterfeit money.<sup>86</sup> (C-0298, C-0803, C-0204, C-0704, C-0905, C-0708b, C-0607)

#### *4.2.3.6 Mules*

The use of **couriers** (*‘pasadores’* in Spanish) or drivers to traffic the stolen vehicles across borders is ubiquitous in all reported cases. The drivers could be a separate group of people who are only in contact with the coordinator. In smaller enterprises, though, they know all the others working for the enterprise. The nationality of the mules hired depends on the destination of the stolen vehicle. In the instances when the vehicle was transferred to Morocco, Spaniards or Moroccans were hired to drive

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<sup>86</sup> There were dozens of print shops for counterfeit currency in Bulgaria in the period 2001–2005. One of the activities of many criminals is the placement and conversion (laundering) of counterfeit money into legitimate money or assets.

the cars over to Morocco on ferries. In the majority of cases, when the vehicle is driven to Greece, the former Yugoslav republics, or to Bulgaria, drivers of Bulgarian nationality are hired. The couriers driving to Bulgaria are paid in the region of €1,000–2,000, depending on the value of the car, and the corresponding risks. As with the thieves and spotters, the mules often come from Bulgaria and spend only a short period of time in Spain. On some occasions, the stolen car could be trafficked by a 'team of mules' – a man and a woman – which might seem less suspicious to law-enforcement officials.

The mules, as one older thief explained, are usually young, because they are ignorant of the risks involved. 'How stupid you should be to risk several years in some prison in Greece for a thousand euros.... the €1,000 euro pay will not be enough to pay even for a lawyer' [OFI-16] Driving through countries such as Greece where penalties could be as much as several years (Cashman 2005), or Italy (where police operations on Adriatic ports are frequent) is risky.

The mules that deliver the vehicles to Bulgaria rarely have any idea where the vehicle is going to be sold. They usually deliver the vehicle to an intermediary who eventually delivers the vehicle to its final destination. [OFI-5]

#### **4.2.4 Gray actors**

Legitimate businesses that are involved in the 'legal' economy are an important part of the car-theft industry. It will not be an exaggeration to say that without them the industry will come to a stall.

##### **4.2.4.1 Car scrap yards**

The scrap yards play an important part in the market for stolen cars and car-parts. They provide a good base for dismantling stolen cars; selling stolen car-parts or illegally imported car-parts. Scrap yards could also be used for money-laundering. Cars that have been genuinely scrapped following an accident turn into a precious commodity that car thieves use in the cloning scheme. Car thieves or illegal entrepreneurs (involved either in auto-theft or the sale of stolen vehicles) often own car-scrap yards. (LEI-1) In Spain, the scrap yards are usually owned by Spanish nationals, who may collabourate with Bulgarian car thieves. On some occasions they may sell the documentation and the key parts of the vehicle that are marked with identification information.

#### **4.2.4.2 Car dealers**

The role of corrupt car dealers in the car-theft industry is limited, but there are some cases where car dealers, or the employees of car-dealerships, are complicit in the theft of luxury vehicles. There are two schemes. The first is to provide the thieves with copies of the keys of vehicles that have been sold. The second scheme is to provide data (the home address) of the buyers of luxury cars. (Nikolaeva 2010, OFI-9) In one of the cases these two schemes were combined, as a Spaniard and South American thieves were directly running their own used car dealerships and repair shops. They were then stealing back the vehicles from their customers, using copies of the keys, cloning the vehicles and selling them again (C-1002). In Bulgaria, car-dealerships have been used as 'temporary storage' for stolen cars before their further resale or export in the Middle East or the former Soviet Union (C-0704). The role of car-dealers in the sale of the stolen cars is discussed in detail in the next chapter.

#### **4.2.4.3 Transport firms**

The transportation of stolen vehicles does not always happen through mules; larger quantities are mixed with used cars and shipped using platform trucks. Previous research has shown that the transport sector in Bulgaria is extremely fractured, and in 2004 it consisted of around 4,290 firms with 15,563 lorries involved in international transport: a sector dominated by small firms, working on small profit margins and willing to engage in risky and criminal deals (Bezlov et al. 2004: 32-36). The firms involved in the transportation of stolen cars are either directly controlled by car thieves (e.g. Mr. B, a well known car-thief, who owns a transport company with 25 lorries) (Cholakova 2005), or are simply companies that regularly transport used cars between Spain and Bulgaria. Drivers though, are usually well aware that the cargo includes stolen vehicles (OTI-18).

#### **4.2.4.4 Insurance companies**

The Bulgarian car theft industry has changed since the years of the racketeering *grupirovki* but the legacy of racket-insurance companies continues to have an impact on the theft of cars in less visible but significant ways. Since their ban in 1998, some racketeering insurance companies stopped their operations, while others managed to transform in a way that made the illicit part of their activities hidden from the public.

Some racketeering insurance companies 'reinvented' themselves under new names or merged with insurance companies who managed to obtain a licence to operate<sup>87</sup>. Although the racketeering stopped being part of their business practices, these insurance companies retained their control over car-theft groups to ensure that they did not suffer financial losses from car-theft. This allowed them to offer competitive prices and proved an efficient way to attract customers. Three of the largest insurance firms, all descendants of private security or racketeering insurance companies (Armeec [related with TIM], Bul-Ins [with SIC<sup>88</sup>], Lev Ins [with Spartak]) as of early 2011 still allegedly had relations and influence over car theft groups. These connections were used to recover stolen vehicles that they have insured. Armeec<sup>89</sup>, for instance had, what a former employees described the 'office floor with the thugs' [OTI-17]. If one of their cars is stolen, they would either contact some of the 'ransom intermediaries' to find out if the car is on the market of ransom, or may even violently attack some of the car theft brigades in the town to find out who has stolen vehicle. Thieves, though, rarely make the mistake of stealing cars insured by one of the above mentioned insurance companies.

Although the 1998 Insurance Law banned the use of insurance stickers (which was the main way to signal the thieves which company has insured the car), the insurance companies registered their own 'anti-theft marking' companies<sup>90</sup>. These companies provide 'encrypted marking' which involves the laying of 'totally inerasable (micro-engraving with carborundum) code, based on a minimum of the last ten digits of the chassis' number (VIN)' on key parts of the vehicle. (Keit.bg) This makes it unprofitable to the thieves to 'clone' the vehicle. More importantly each marking comes with **a sticker of the marking company**, which is displayed on the windows of the car, so that the thieves can clearly see it. In this way only a couple of years

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<sup>87</sup> The largest company, VIS-2 was not able to reinvent itself, while SIC, which enjoyed a close relations with the government of Ivan Kostov (1997-2001) (Capital 1996d) merged with Bul-Ins.

<sup>88</sup> An analysis of the Bul Ins' present-day ownership structure leads to the lawyers of the main founders of SIC (see above) and a group of off-shore companies.

<sup>89</sup> Armeetz is owned by Chimimport, which is one of the largest publicly listed Bulgarian corporations. Its roots are in the business conglomerate known as 'TIM', which in the 1990s started as a private security business in Northeast Bulgaria. TIM was started by former Navy special forces officers. Allegedly, TIM used extortion and aggressive debt collection tactics to build much of its present day business portfolio. In the 1990s TIM was involved in the theft and smuggling of vehicles in the Varna region. [LEI-1, LEI-2, LEI-8, LEI-9, LEI-18]

<sup>90</sup> The three insurance companies have established or indirectly control marking companies. The most widely used company Keit Ltd. is associated indirectly with Bul Ins, Info Assistance with Armeec, and Gold Car is directly owned by Lev Ins. (Capital 2010)

after the racketeering insurance stickers disappeared, the anti-theft marking stickers appeared, and the insurance companies continued to be able to ‘signal’ to the car thieves that the cars were insured by them.

The insurance companies also turned the ‘anti-theft marking’ into a multimillion euro business<sup>91</sup> by extending the marking service to most other insurance companies, which had no relation with car-theft groups (see Table 8 below). As of the end of 2010, 70% of the 567,190 cars that had car-theft insurance in Bulgaria, were marked, wielding revenues €20 and €25 million. (Capital 2011b, Bulgaria: Financial Supervision Commission 2010). Apollo and Balkan, another racketeering insurance company, stopped functioning as an insurance company, but it continued to provide anti-theft marking through its private security company, Arcus Security<sup>92</sup>. Since 2000 the Italian Insurance Company ‘Generali’ (*Assicurazioni Generali*), started to use the services of Arcus Security<sup>93</sup>. In January 2011, the Minister of Interior publicly called for the protective marking and the stickers to be banned, because ‘the stickers are part of the signals that are sent [by the insurance companies] to the criminal networks’ and they ‘exert significant influence over car theft’ (Capital 2011). During the roundtable forum where the banning of stickers was discussed, representatives of Lev Ins, Bul Ins, and Armeec all objected the ban. (ibid)

| Insurance companies ranked by car-insurance income | Full car insurance (incl. 'car-theft') income (BGN, million) | Liability insurance (LI) income (BGN, million) | Car-theft and LI as a share of total income | 'Protective marking' companies |
|--|--|--|---|--------------------------------|
| DZI  | 75   | 46   | 81%   | Keit Ltd.                      |
| Bul-Ins  | 68   | 12   | 95%   | Keit Ltd.                      |
| Armeec   | 68   | 18   | 80%   | Info-assistance                |
| Bulstrad   | 67   | 41   | 67%   | Keit Ltd.                      |
| Alianz   | 42   | 8  | 50%   | No marking                     |
| Lev Ins  | 29   | 67   | 86%   | Gold car                       |
| Unica  | 26   | 8  | 71%   | Keit Ltd.                      |
| Euro Ins   | 25   | 17   | 80%   | No marking                     |
| Generali   | 15   | 6  | 49%   | Arcus Security                 |
| Victoria   | 13   | 11   | 68%   | No marking                     |

<sup>91</sup>

<sup>92</sup> Many of the racketeering insurance companies did not even bother to sever formally the relations with the private security companies that preceded them. The private security firms simply established ‘insurance companies’ and became shareholders in them.

<sup>93</sup> It is publicly known that the ultimate owner of Arcus Security is one of the well known criminal entrepreneurs in Sofia, who controls much of the drugs distribution in the city.



| Insurance companies ranked by car-insurance income | Full car insurance (incl. 'car-theft') income (BGN, million) | Liability insurance (LI) income (BGN, million) | Car-theft and LI as a share of total income | 'Protective marking' companies |
|--|--|--|---|--------------------------------|
| Bulgarian property                                 | 7  | 27   | 93%   | Keit Ltd.                      |
| Interamerican                                      | 7  | 5  | 53%   | No marking                     |
| HDI  | 5  | 6  | 81%   | No marking                     |
| OZK  | 3  | 5  | 49%   | Gold car                       |

**Table 8. Insurance and anti-theft marking companies in Bulgaria (2009)**

Source: Financial Supervision Commission, company sources quoted in Peev (2010)

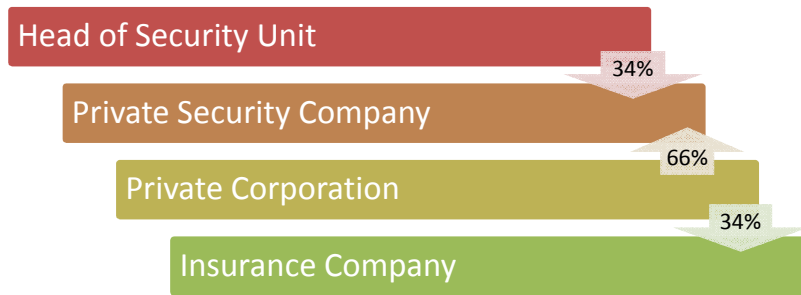
The table above shows a few things. First, two anti-theft marking companies, Keit and Gold-car, related allegedly to SIC and, respectively, Spartak racketeering insurers, provide 'marking' to several other insurance companies. Second, car-insurance represents over 80% in the case of Armeec and Lev Ins, and in the case of Bul Ins 95% of their overall income, putting all three amongst the top 6 largest insurance companies in Bulgaria.

The control over the car-theft groups is in practice done via an '**in-house security department**', whose members are employed either directly by the insurer, or by a separate security company. There are two common methods insurance companies use to deal with car thieves: one is the use of violence against car thieves to recover stolen vehicles; the second, less often used, is negotiation with the ransom-seekers.

The graph below shows how one insurance company is presently related to its security unit / 'hit squad', headed by a former car-thief, via which stolen cars are recovered.<sup>94</sup> The head of the insurance company, who owns the company through front-persons, is a former anti-terrorist squad head, has been charged with numerous counts of organised crime and extortion. He was one of the two founding owners of another one of the major racketeering insurance company that operated in the 1990s.

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<sup>94</sup> This information surfaced following a number of kidnappings (see below) the head of the security unit was allegedly involved.



**Figure 19. Insurance company and its relation to its security unit (% of ownership)**

Source: Ciela company registry database

The role of the Bulgarian insurance companies is an important factor in analysing Bulgarian car thieves in Spain in four key respects:

- The insurance companies have created an atmosphere of fear amongst the car thieves and tightly regulate the market for stolen vehicles in Bulgaria. Some offender interviewees claimed that it is much safer for them to work in Spain, and that working 'solo' in Bulgaria was practically impossible.[OFI-4, OFI-7]
- The pool of available vehicles that could be stolen without risking the retaliation of insurance companies is small. Given the already small pool of car-theft opportunities in Bulgaria when compared with Spain, this restricts the possibilities even further.
- On the other hand, the insurers often tolerate the insuring of vehicles stolen from abroad: if subsequently there are big damage claims related to the vehicle they often use the fact that it is stolen to avoid any additional costs, and might reveal its existence to the police. [LEI-3]
- There are speculations that that insurance companies continued to be active participants in the car-theft industry by maintaining a '**healthy level**' of car-thefts in the country so that the demand for car-theft insurance remains sufficiently high. The companies order the theft and collect the profits from the sale of the stolen cars. (LEI-3). Some car-insurance companies, allegedly, also arrange the sale of cars that have been badly damaged in an accident and need to be scrapped to car-theft groups who may clone them (CDI-1).<sup>95</sup>

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<sup>95</sup> i.e. when they pay a car-owner the full value of the vehicle, when the car has been in a very serious accident and has to be scrapped. Instead of just sending the car to a scrap yard, the company would sell it to car-theft groups, who use the VIN numbers to clone the vehicle or parts.

The involvement of insurance companies in the car-theft industry in Bulgaria contrasts sharply with the situation in Spain, where there are only sporadic reports of the occasional involvement of corrupt insurance brokers in the car-theft industry. The cases have been mostly related to insurance fraud. In the province of Pontevedra (Galicia), one such case uncovered by the police involved a number of insurance brokers, workshops, 'damage evaluation experts', and a drug-distribution network. The brokers colluded with criminals and service shops, using a number of cars that had minor damages from a 2006 flood, exaggerated the damage involved, and used stolen car-parts to fix some of the vehicles. (Laopinioncoruna.es 2009)

#### 4.2.5

##### *4.2.5.1 Leasing companies*

The leasing business in Bulgaria has also been linked to car-theft networks in Bulgaria. In 2010, the investigation of the Austrian bank Hipo Alpe Adria (HAA), exposed a number of fraud schemes in which the Bulgarian branch of the bank was also involved. In Bulgaria, the managers of HAA were involved in fraud schemes that facilitated, what in effect was, car theft. There were two types of schemes: in the first, the customers paid kick-backs to the managers who leased cars to them (as well as multi-million dollar yachts). After some time, the payments on the yachts were stopped, and the cars were returned to the leasing company, and new ones were purchased, while the entire risk and loss was carried by the company.

In another scheme, the cars might not be returned at all, but exported and sold to car-theft networks abroad. This was one of the schemes that HAA was involved in. The entrepreneur who organised the scheme, bribed the head of HAA in Bulgaria and other top managers to approve multi-million euro loans for the purchase of high-end luxury cars (over 100,000 euros) to either unemployed or low-income people. These were either the entrepreneur's friends or acquaintances who were defrauded by him, because he had assured them he would pay for the leasing of the vehicles. The entrepreneur's girlfriend even registered a luxury rent-a-car company that purchased a number of cars with HAA funding. The cars were then exported and sold to customers in the Middle East.

In this scheme, legally the car is not considered stolen, but 'mishandled'. The reason is that, contractually, the leasing company is the title-holder of the car, and simply has a contract with the buyer for the use of the vehicle. If the buyer fails to return the

car (and stops the payments), the only course of action for the company is to sue the buyer for non-payment of the loan. The company does not have any proof that the car has been sold to criminal networks, and cannot declare it stolen to the police, neither can it claim car-theft insurance. In other cases, the car is declared stolen, and the loss is accrued by the insurance company.

In addition to the above described entrepreneur, the HAA had a number of high-level organised-crime figures amongst its customers: some of the SIC founders (see previous chapter). Using various front men, they leased several million euro worth of luxury cars and yachts, and later did not repay the amounts. Although, the HAA was more of an exception, it was the one of the largest leasing companies, which was even named as the main driving force behind yachting in Bulgaria (having funded – in 2007 alone – the purchase of 75 yachts worth some 50 million euro).

In 2010, a new scheme was attempted, where the leased cars were exported to Germany. There, the group made counterfeit documents showing that the cars were owned by a German leasing company. Following this, the cars were then imported into Spain, and offered at an independent used-car dealership in Pamplona. The scheme involved at least three local partners in Spain, who arranged the sales. The Bulgarians in this case still played the role of suppliers. [C-1010] (24 Chassa 2010b).

#### *4.2.5.2 Police officers*

Corrupt police officers can play direct roles in assisting car theft. In Spain their role is very limited, and although some interviewees were suspicious of police officers being complicit, it is more likely that they extrapolated from their knowledge of the Bulgarian context to Spain. In Bulgaria, police officers were involved in three ways. First, by providing data on targets (the traffic police have information on the brand and car model, and personal data on the owner). [OFI-15] Second, low-level patrol police officers had been directly involved in assisting thefts: they would warn thieves if a patrol car was in the area where the vehicle was being stolen. (OFI-8, Bezlov et al. 2007) Lastly, in Bulgaria, traffic police officers have provided thieves with data on cars that have been scrapped after an accident, and could be cloned (similar to the role played by some scrap yards). (Nikolaeva 2010)

### 4.3 Competition in the car-theft industry

The competitive landscapes look quite different in Bulgaria and Spain. There are two aspects that should be considered: competition in the supply of stolen cars, i.e. amongst 'theft enterprises'; and competition in the selling of stolen cars, i.e. between 'selling enterprise' and used car dealers / other selling enterprises (discussed in the next chapter).

The car-theft 'industry' in Spain is generally 'open' and 'entry barriers' are low, particularly in big cities, like Madrid and Barcelona. No group tries to enforce or control certain geographic localities as a source of supply for car theft [OFI-1, LEI-3, OFI-10]. Although there are many theft enterprises, 'there is enough bread for everyone' [OFI-16]. In some instances, the lack of clear territories is a reason for 'clashes amongst competing groups' [OFI-10]. In smaller cities, such as Alicante, 'groups more or less know who works where and find it undesirable to work on someone else's territory' [OFI-10]

In Spain, the majority of the competing enterprises are usually defined, both by police and by offenders, in terms of their dominant ethnicity: Spaniards, Moroccans, Poles, Romanians, Ukrainians, Lithuanians, Albanians (OFI-10) (See Annex 3 data for OC group ethnic makeup).

This competitive landscape has changed over the years, as the demand in some of the destination countries has changed. For instance, in the early 1990s Polish groups were very active in Spain stealing cheap cars (Gómez 2005: 211, quoting police source). By around 2001 - 2002, though, the police cases analysed indicated that Polish groups had already oriented themselves towards stealing luxury vehicles, and they were largely absent from police reports in the 2004 – 2010 period: the main explanation is that Poland which for many years was considered a top destination for cars stolen in Europe gradually became a 'saturated' market.

The competing groups from other countries play a dual role. They are also potential customers, as they might have the connections through which to sell cars stolen by Bulgarian car-theft enterprises. Therefore the relations between Bulgarian and other car-theft groups were not described as hostile.

In Bulgaria the competition landscape seems quite different from Spain. Historically in the 1990s, the car-theft groups were associated with particular racketeering insurance companies:

*'In that period in Lozenetz [a neighbourhood in central Sofia] it was about 30 of us that worked in this area for SIC....I didn't know any of the groups that worked in other neighbourhoods, because we only stole cars in the centre of the city' [OFI-20]*

This type of turf-protection and association of groups with insurance companies continued to exist after the closure / transformation of the racketeering insurance companies, although, it is only loosely respected by car-theft groups, especially in regards to big-cities or sea-side resorts.

One respondent drew a parallel with the drugs markets, stating that while in Barcelona, it was not a problem for him to approach a drug dealer, even a street one, and sell him some cocaine (which the respondent might have received as a form of payment for a sold stolen car), this was not possible in Sofia. [OFI-15]

The car theft at the local level is often controlled by the same criminal entrepreneurs who control the drug distribution. The market in Sofia is highly structured, and regions are controlled by particular drug dealers, and this monopoly is enforced with the use of violence. (Bezlov et al. 2007: 39-88). It is not always possible to tightly enforce this local-level control in big cities in Bulgaria: both law-enforcement officers and offenders gave examples of this. Therefore groups from the smaller towns often 'raid' big cities or tourist resorts, and take the car back to their town. Offenders from Pazardjik, stated that they generally did not 'work' in Sofia, and that this was considered dangerous. 'You can do it a few times, but if you start doing it regularly, 'they' will find out'. [OFI-9] To local illegal entrepreneurs who control an area / town the luxury cars are like 'natural resources' they have at their disposal. They control the exploitation of this 'natural resource' and want a share of the profit.

#### 4.4 Industry rules and regulations

The rules governing the vehicle-theft industry in Bulgaria need to be seen in light of the history (described above) of the oligopolistic market model that the *grupirovki* and racketeering insurance companies imposed for most of the 1990s. Historically, there are very few instances in which criminal groups have established monopoly control over the car-theft industry. This has happened only in situations where such groups have assumed control, or have an impact on the vehicles market in general – such as they did in Bulgaria in the mid 1990s and in Russia for much of the 1990s.

In the present day (2010), control over the distribution of stolen cars is difficult to establish. Yet, the role of insurance companies in Bulgaria over the car-theft industry cannot be dismissed. Law-enforcement officers and offenders agree that many prefer to either steal vehicles not insured by insurance companies likely to resort to force, or to move their operations abroad altogether. There were some attempts by former VIS and SIC hit-squad members to racketeer vehicle-theft entrepreneurs in Spain, but these proved unsuccessful. [LEI-4] Offender interviewees also stated that they had not seen any threat or attempts either from racketeers or from other vehicle-theft groups to monopolize vehicle theft in any particular area.

The key mechanism for regulation in the car-theft industry is trust. Trust is the key principle in choosing partners to participate in the theft schemes. The main reason for bringing people from Bulgaria to Spain for different ‘jobs’ is described, by both offenders and law-enforcement sources, as the issue of ‘trust’: these are people that one can trust, because they have already worked together in Bulgaria.

*‘We were all one big pack, although everyone was running their own crew, and orders. ‘Tzuki’ was a very good thief, probably one of the best ones I know. But as soon as he started fucking around they ‘cooked him’ and went to prison for a few years. We found out that he was behind several thefts of cars from our depots, where we stored the cars that were already stolen and cloned’ [OFI-20]*

*I loved cars, alarms, and things like this. It was a hobby for me. I started first being fascinated with locks of any kind; I actually really liked pigeons, and I started stealing pigeons as a kid – but the owner always had these*

*really heavy metal locks, so I had to learn how to open them...Then started working with cars.. My boss used to bring me a car and leave it with me for a few days to learn how the locks worked....When I started doing drugs they [my brigade] were afraid that I was going to 'sing them' to the police. Their opinion about me changed completely, and they kicked me out. [OFI-22]*

Violence is rarely used as instrument. In Bulgaria, only three known car-theft related murders have been registered since 2000 when the oligopolistic market model was dissolved (Bezlov et al. 2007). The murders of various car thieves in 2009 and 2010 were all related to kidnappings for ransom (see Chapter 6). The majority of cases involving murders of Bulgarian car thieves or car-dealers in Spain also seem to have been related to drugs cases rather than to settling accounts related to car-theft.



## 5 Selling stolen vehicles

The selling of stolen vehicles is a topic that is almost entirely absent from the academic literature. It is also rarely the subject of interest of police reports. The research or investigative focus is almost always on the theft of the vehicle. There are at least three reasons that might explain this. First, the police often do not prioritise 'victim-less' crimes. While the theft is almost always registered and there is pressure to clear up the crime, the investigation of 'sales enterprises' (if located in a different country) are only part of the handful of international investigations. Partially this could be explained by the fact that the theft of the car and its sale almost always happen in different jurisdictions or police districts. Secondly, while the theft is commonly associated with juvenile or socially disadvantaged offenders, who attract much attention, the sale is more an elite, almost 'white-collar' crime, which is much more difficult to research or investigate. Lastly, police investigation into 'sales enterprises' is challenging because it is difficult to prove that the sellers / importers of stolen cars were not *bona fide* buyers themselves (which some sellers often pretend to be). The present chapter aims to shed some light on who are the sellers and the buyers of stolen vehicles in Spain and in Bulgaria.

The ability to sell the stolen vehicles (in Bulgarian criminal slang 'to untie the vehicle' *razvarjesh*) is the transaction that constitutes the illegal enterprise's entry into the used-car market. The data presented in the previous two chapters shows that, during the period of attempted market entry (2000–2008), Bulgarian car-theft networks faced very similar market conditions in Spain and in Bulgaria: booming used and new-car markets, with even steeper demand for luxury and construction vehicles. The new-car sales figures also suggest that the 'criminal opportunities' in both Spain and Bulgaria increased significantly, as more and more new luxury vehicles were sold and available for theft on the streets.

The types of distribution channels for stolen cars in Bulgarian and Spain are in many ways similar. These channels in many ways overlap with the distribution channels for used cars described in Chapter 3. Although it is difficult to say what proportion of the

sales take place through a particular distribution channel, it could be summarised that there are two main types of sales of stolen cars:

**Direct sales to final customers:**

- To (mostly) *bona fide* customers, via ads in newspapers, magazines, used-car sale websites, public spaces (street / parking lot sales)
- To (mostly) non-*bona fide* customers: via informal networks (acquaintances, friends of friends, etc., or to informal intermediaries)

Few theft enterprises attempt to set up an integrated structure with its own distribution network or their own used-car dealership. There are at least two main explanations for this: (1) it provides very limited opportunities for sales; and (2) it increases the risks, as the fully integrated business cycle (theft-cloning-export-sale) over-exposes the criminal network. This explains why no entrepreneurs rely *only* on this 'closed business cycle' model.

**Sales via intermediaries** (to both *bona fide* and non-*bona fide* customers):

- Used-car dealerships
- Used-car open-exchange markets
- Car service shops

This seems to be the most common approach used by Bulgarian (and other foreign) entrepreneurs in Spain. As in any country, the distribution of high-class, luxury, or commercial vehicles is difficult, as there are fewer **distribution channels** and a smaller **customer base** for these than there are for the cheaper, mass-produced cars. As the analysis in the previous chapter showed, unlike in the 1990s, after 2000 the resale of stolen vehicles almost exclusively focuses on luxury vehicles.

The sale of hundreds of vehicles per year requires an excellent organisation and wide distribution network. Most car-dealerships do not make more than a few hundred sales per year (especially in Bulgaria). Selling large quantities (hundreds) of vehicles through informal networks, or through private sales relying on newspaper or Internet ads, as well as storing large quantities of stolen vehicles, is unfeasible and risky. Therefore, any larger degree of organisation requires the use of multiple risky channels, and especially legitimate used-car dealerships.

## 5.1 Selling stolen cars in Spain

The analysis of the police cases of Bulgarian car-theft networks provides little insight as to how stolen cars are sold in Spain in part because very few sales of stolen vehicles by Bulgarians seem to have taken place in Spain. There are no data on Bulgarian stolen-car 'sales entrepreneurs' in Spain. Therefore an additional analysis of 22 cases involving networks that sold cars in Spain was carried out, in order to gain a broader understanding of how stolen vehicles are sold.

In Spain the majority of stolen cars are sold to *bona fide* customers (being either dealerships or final customers). This usually takes place once the vehicle has been cloned, and fake car documents obtained, and the car has been registered. The sale of stolen cars is subject to little territorial control from 'organised crime'. There is no regional / local control over the sales of stolen / luxury vehicles. The main reason is that, since most sales are to *bona fide* customers, the distribution mainly coincides with the legal channels of distribution of used cars.

### 5.1.1 Direct sales

In Spain, the Bulgarian theft networks rarely attempt direct sales to final customers. The direct sales seemed to be only an opportunistic 'sideline' business. In the cases where this happened, used-car sale **websites** or **printed press ads** were used to attract customers. The way such sales were approached was: (1) a vehicle, which could be cloned, was found; (2) a target vehicle to be stolen was identified. Then there were two alternatives: (3-a) either the vehicle was stolen and then an ad with an attractive sub-market price was put on the web (C-0707, C-0408, C-1209), or (3-b) the targeted vehicle was advertised and it was only stolen if an interested customer wanted to see it (C-0307, C-0508).

The use of the internet to sell used cars significantly changed the position of some the Bulgarian theft enterprises in Spain, because it provided them with country-wide access to final customers. As noted in the chapter on the used-car market, after 2001 the internet increasingly became the main way to connect buyers and sellers of used cars. That's why the attempts by the Bulgarian car-theft networks to sell cars via the

internet appear in police cases only after 2006 (although there might have been some prior to that as well). The use of the internet, though, seems to still have remained marginal. Luxury cars are a significant investment and the purchase of an expensive vehicle takes place either via informal networks or via used-car dealerships that might offer some type of warranty: in either case these are strategies that compensate the information asymmetry about the quality of the car between buyers and sellers.

**'Street sales'** are also very popular in some parts of Spain: individuals simply leave their cars near train stations with 'For sale' signs (one could see dozens of vehicles lined up along main streets around some train stations). This simple approach has been used by some criminal groups as well. For instance, a group (of Spaniards) that sold (mostly in Merida, Spain) 20 luxury cars stolen from Germany and Belgium, used the central streets of the city to display the 'for sale' signs. In this case, the group used a local man 'known in Merida for working mostly as a dealer of imported used cars from Western Europe'. (C-0707d)

The **direct establishment of a sales outlet** by criminal networks in Spain is rare, as it is a significant investment and risky (C-1002, C-0705). One such case (C-0705) involved a very large illegal enterprise run by Spanish nationals. It involved 14 companies that were set up in six cities (Barcelona, Madrid, Seville, Huelva, Marbella and Alicante). They were used to smuggle in at least 600 cars from other countries (Germany, Belgium, Luxemburg, Italy, The Netherlands, and USA). The enterprise used two types of companies. First, a number of used-car dealerships were set up that imported both stolen vehicles and used luxury vehicles, which were imported as scrapped vehicles to avoid VAT or import taxes. The importing companies sold the vehicles immediately to other companies that had nothing to do with car import-export. In this way the legal entity was used as a front to disguise the individuals involved. Once the sale between companies took place in Spain, the vehicle was already 'legalised' and could be sold to the final customer. All companies were registered in the names of socially disadvantaged persons (mostly homeless people). The fiscal impact on the state treasury amounted to at least €152 million. The scheme also involved corrupt police, State Security, and Civil Guard officers.

The last form of direct sales is the utilisation of **informal channels of distribution** – through friends, acquaintances, 'friends of friends', etc. – to final customers in Spain.

For Bulgarian criminal enterprises this seems to have worked with mostly one category of customers – **other criminal networks**, which seems to be the main social network within which most Bulgarian criminal enterprises operated. There are three types of customers:

- Offenders who purchase the car in order to commit other crimes. In this case, the sale price is usually low and cloning of the vehicle is not even needed. The vehicle is for short-term use. Some small car-theft groups or even individual thieves can directly supply stolen cars, without needing an entire illegal enterprise: normally only fake licence plates and documents are necessary.
- Offenders who buy the cars for their own personal use: this category seems to be small, as many offenders (including car thieves) prefer to minimize risks by avoiding driving stolen vehicles.
- Criminal networks that buy the cars to sell them for profit (either in Spain or they export them).

The access to this customer base requires wide informal connections. All interviews with both offenders and police, as well as the majority of Spanish police cases reviewed, reported that criminal entrepreneurs and car thieves were involved in various other criminal activities, both in Bulgaria and in Spain. There are several factors that explain their involvement in other crimes:

- **Seasonality / downtime:** car markets in general (including those in Bulgaria and Spain) have annual seasonality: both in August, and between November and January the demand is very low. In March, June, and September it is almost double than what it is in August. (European Automobile Manufacturers' Association 2009: 11-12). This seasonality is reflected in the used-car market (and stolen car sales) as well. Therefore, despite the high level of professionalism and specialisation required for car theft, illegal entrepreneurs and car thieves diversify their sources of income to compensate for 'downtime', and participate in a number of other criminal activities.
- **Demand:** The lack of a constant flow of orders for cars means, that many criminals involved in car theft look for additional sources of income. Several of the Bulgarian criminal networks dismantled were involved in the distribution of counterfeit money (C-0298; C-0202; C-0803, C-0407B). With the decrease in demand for cars due to the economic crisis, many car thieves turned to other

activities – drugs trafficking (see next chapter) and especially skimming of bank cards (OFI-16, OFI-14) (C-0298; C-0704; C-0607).

- **Skills:** the skills used in car theft can be applied to other crimes, such as burglary, robbery, kidnapping for ransom, counterfeiting documents. In addition, car theft is facilitated by other crimes (burglary, robbery, and fraud may be used to get hold of car keys). Burglary and robbery are usually secondary or auxiliary activities to obtain keys to the vehicles.
- **Synergies:** established trafficking routes, where smuggled vehicles can serve as containers for the trafficking of other illegal goods (drugs and arms).

As the next chapter shows, Bulgarian car thieves gradually became involved in a number of other criminal activities and markets, especially in the drugs trade in Spain. Several offender interviewees, as well as a number of police cases indicate that stolen cars were sold to Moroccan drug traffickers, both for the purpose of transporting drugs, and for resale (C-0897, C-0298, C-0798, C-0100, C-0600, C-1100, C-0205, C-0306). Africans were also clients (C-1007 – Cameroun and Nigeria).

### 5.1.2 Use of intermediaries

From the point of view of a Bulgarian theft enterprise set up in Spain, there are two main categories of customers:

**Wholesalers:** this could be a 'sales enterprise', or another illegal network set up in Spain, that traffics vehicles out to another country: Moroccan (C-0209) or Lithuanian-dominated groups are the most frequent customers. Other car-theft networks that export the vehicles to sub-Saharan Africa (C-0202b, C-1007, C-1006), Western Europe (C-0508, C-1204) or the former Soviet Union (e.g. Ukraine, Armenia) (C-0706b, C-1206) have also been customers of Bulgarian theft enterprises.

**Retailers:** used-car dealerships (locally based in Spain). This type of customer is usually a local partner, part of the criminal network. An established, locally run used-car dealership might be preferable to investing in one's own dealership. It not only reduces the risks of being detected (typically, newly established dealerships for luxury cars run by foreigners raise the suspicions of the police) but also increases the chances of selling the vehicle. The distribution of stolen vehicles by Bulgarians in Spain, though, rarely relies on the local dealerships. In the 55 cases analysed this

arrangement was identified in only two of the Bulgarian cases (C-0307, C-1010), and in one case related to other foreign networks (C-0310). Interviewees, on the other hand provided more details on such arrangements. One interviewee worked for an illegal enterprise in Italy, where one of the partners was a local Italian, who had a car dealership. [OFI-9] Another interviewee viewed the sale to local dealerships as risky, as it is difficult to get them to collude:

*'Selling to a local dealership [in Spain] is like going straight into the wolf's mouth! I haven't tried anything like this. I know some guys who tried it in 2002, using some Spaniards, but it was a flop.'* (OFI-7)

Another interviewee provided a slightly different view:

*'It is difficult to find clients in Spain. Part of the clients were Bulgarians. Others could be found via car-dealerships, or via acquaintances...you may here that someone is looking to buy a BMW, and you offer them half-price...For the used car dealerships you need good communication with the owner of the dealership, but this a higher level negotiation that only the boss does. None of our clients were random people, they were all the kind of people you can count on'* [OFI-11]

Indigenous Spanish groups, on the other hand, seem to use car-dealerships as intermediaries in selling stolen cars a lot more often. Although in many cases dealers are defrauded into selling a stolen vehicle, without being themselves involved in the scheme (C-0910, C-1204), there are cases, in which they are part of the network (C-0307, C-0909).

In the Costa del Sol region, where Bulgarian car-theft networks operated, the Spanish police sources indicate that there are some independent used-car dealers, especially Irish or British nationals that are particularly prone to selling illegal luxury cars. Yet, there is no indication that Bulgarians relied on them, as these dealers worked with cars imported from outside Spain. (LEI-12) One of the cases (C-0211) provided a glimpse into how one such network operated. The high-end stolen luxury cars were imported from Italy and Central Europe. They were then distributed via car numerous dealerships throughout Spain: Pontevedra, Madrid, La Línea de la Concepción (on the border with Gibraltar) and Marbella (amongst others). The entrepreneurs running this 'sales enterprise' were wealthy businessmen living in luxurious houses in Marbella. One of them was also president of an exclusive sports

cars club, which understandably gave him access to many potential customers and distributors.

The question of what proportion of buyers (either final customers or dealerships) of used cars in Spain are '*bona fide*' buyers does not have a clear answer. The cases analysed indicate that most (C-0310, C-0202b, C-0307, C-0909) or all (C-0910, C-1204) of the sales of stolen cars by Bulgarians or other foreign criminal networks were then sold to *bona fide* customers. Even in the cases where the cars were stolen, because there was an order placed by a client, these were still *bona fide* clients who had seen an advertisement on the internet and ordered the car. In one case, the police described the *bona fide* customers as 'well-known personalities, some of which held senior positions in the regional government'. (C-0706)

The fact that most buyers were *bona fide* often forced the sellers to adopt a number of strategies to dispel suspicions that the vehicles might be stolen:

- The vehicles were sold with documents showing that they were imported from Germany / Belgium (from where many second-hand vehicles are imported).
- The vehicles were fictitiously bought by companies so that the buyers (dealerships or final buyers) are led to think that they are buying second-hand company cars (C-0409b). Companies were established in the names of homeless individuals or offenders. The cars were transferred from one company to the other and eventually sold, thus hiding the origin of the car. Some of these companies were presented as being involved in the import of used cars (C-0505).
- The vehicles were transferred in the name of Spanish nationals (without their knowledge, in effect 'identity theft') (C-1003).

## 5.2 Selling stolen cars in Bulgaria

The Bulgarian car-theft enterprises based in Spain most often sell the stolen vehicles in Bulgaria to local illegal entrepreneurs 'sale enterprises'. Occasionally, some car-theft enterprises in Spain might make direct sales to acquaintances in Bulgaria, but most often the order comes from a local sales entrepreneur. There are two types of Bulgarian stolen-vehicle entrepreneurs:

- entrepreneurs mainly or solely involved in local sales



- entrepreneurs who mainly deal with the re-export of the cars.

In effect, the two are quite interconnected, and one entrepreneur might be involved in both types of activity.

Usually, before they are stolen the number and type of cars are negotiated between sale entrepreneurs and the car-theft enterprise, and then ordered. In one case from 1999, before engaging in a vehicle-theft operation, the group coordinator spent about a month and a half in Bulgaria and Macedonia arranging the infrastructure for the distribution of the stolen vehicles (light trucks). In the previous months, after similar preparation, 100 light trucks had been stolen and exported from Spain to Macedonia and Russia.

### 5.2.1 The sales enterprise

The distribution of stolen vehicles in Bulgaria is structured around car-theft / sales entrepreneurs: '2-3 guys in each of the bigger towns' (LEI-1, OFI-9, OFI-3) and 'about 10 guys in Sofia' (LEI-1). These entrepreneurs do not exercise any type of territorial control. In Pazardjik, for instance, some interviewees claimed that there are two individuals known to be the main distributors of stolen vehicles [OFI-4, OFI-5]. Another interviewee from Pazardjik stated that 'there are only four big used-car dealerships, but they used front-men as owners of the dealerships' and sold stolen cars occasionally. In Gabrovo there seemed to be a couple of 'sales entrepreneurs' [LEI-14, OTI-10]. Solo players would occasionally appear in smaller towns as well (see below Dryanovo example).

These individuals might be engaged only in sales but might also have the connections to put together a car-theft crew (thieves and spotters) and send it over to Spain in cases where a theft-entrepreneur in Spain requests more man-power to complete an order. These sales entrepreneurs almost always have other businesses, including legal ones. They might even own used-car dealerships (usually via a front man). This allows them access to a wide network of potential buyers.

The sales entrepreneurs in Bulgaria, usually, do not come in contact with the car at any point. This explains the difficulty of investigating them. Very few of these sales entrepreneurs in Sofia have ever been successfully convicted. (LEI-3, LEI-4)

They could either arrange a direct sale to a customer, use another intermediary sales entrepreneur, or a used-car dealer in another town, or sell via their own car dealership. In any case, layering the sale by introducing more intermediaries and middle men, especially in the transfer of the money, is usually done to reduce the risks. The majority of sales *take place via personal connections* (these will be considered in depth in the next chapter).

One example of a Bulgarian sales entrepreneur who relies primarily on informal connections to sell stolen vehicles is a person nicknamed 'Pirana'<sup>96</sup> in the town of Gabrovo. Pirana started before 1990 as car / petty thief himself, but as early as the mid-1990s he became an 'organiser', a 'theft and sales entrepreneur', organising car thefts in northern-central Bulgaria. He started his career around 1997 by exporting stolen cars from Bulgaria to Italy and the Czech Republic, using his family (his father, wife, and even with the baby as a disguise) to drive stolen cars. Around 2002 he moved to Spain, to the Madrid area, where he came into contact with locally established entrepreneurs. He went back and forth several times, but in recent years he had established himself back in Gabrovo. He then gradually realigned his business towards selling stolen cars in Bulgaria. After a couple of deals were botched, his main focus became selling stolen cars from Spain in Albania, and more recently in Macedonia. In Bulgaria he had country-wide connections with other local car-sales entrepreneurs, as well as 'exporters' to the Middle East. He has also accumulated sufficient resources to invest in real estate and to buy a well-known restaurant in the city, therefore gradually becoming if not part of the local economic elite, at least well-known enough to local businessmen. This has further strengthened his connections and ability to sell stolen vehicles.<sup>97</sup> (LEI-14, LEI-15, OTI-11)

Used-car dealerships also play an important role for some 'sales entrepreneurs', either providing temporary storage for the stolen car, or as a means of access to access to *bona fide* customers. The used-car dealers that are used to sell stolen cars are primarily dealing in non-stolen used cars; they mix them in with stolen vehicles

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<sup>96</sup> The nickname is fictitious to preserve the identity of interviewees.

<sup>97</sup> Pirana has never been jailed, although he was given a conditional sentence with a 25,000-euro bond, which would be forfeited if he was convicted of another crime, which is how the interviewees explained his focus on selling stolen cars in Macedonia or Albania. As his business was mostly outside Bulgaria, local police simply prefer to use him as a source of information, as his crimes are outside their jurisdiction. [OTI-11]

[OFI-6, OF17, LEI-5, LEI-14]. The top luxury-car dealers, described in Chapter 3, normally do not participate in such schemes, and do not display and sell stolen cars (LEI-4). (This is not to say that such dealers are not in a position to arrange the sale of a stolen car, if a non-*bona fide* buyer approaches them. The shooting in early 2011 of a well known car-thief on the premises of one of the well known luxury dealerships in Sofia supports this point). The used-car dealers are often in a position to detect if a car they are going to resell is a stolen one. In most cities there are certain car-mechanics who are used to examine the condition of used cars. They can easily recognise if the vehicle is a 'clone' (usually because most of them at some point have been involved in changing VINs).

In the period up to 2007, there were some used-car dealers or sales entrepreneurs who had sufficient protection from the authorities that they could sell stolen cars without much fear of prosecution. One typical example is Mr. Y.<sup>98</sup> His used-car dealership was situated in one of Plovdiv's Roma neighbourhoods.<sup>99</sup> He was the front man for three 'sales enterprises' based in Plovdiv, which imported stolen vehicles. The police raided his dealership repeatedly between 2003 and 2004, on one occasion finding as many as 13 stolen cars for sale. The prosecutor assigned to work on the case blocked any further investigations, and the stolen cars were eventually returned, while Mr. Y was never prosecuted for car theft, despite several police raids that found stolen cars (LEI-1, *Maritsa* 2009).

Mr. Y's case is typical in several respects. He was little more than a 'front man', acting as distributor for the main 'sales entrepreneurs' in Plovdiv. He received protection by them throughout the years. In 1990s he was protected by the regional racketeering private security company in Plovdiv, known as 'Club 777', and later<sup>100</sup> on by SIC (see previous chapter), which were the main importers of stolen vehicles

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<sup>98</sup> Mr. Y was eventually arrested for distributing heroin via his dealership, where used cars were used as storage and distribution retail outlets for heroin. The dealership was situated in one of the largest Roma neighbourhoods and main heroin distribution points, in Stolipinovo (in the third-largest city in Bulgaria, Plovdiv).

<sup>99</sup> Stolipinovo is one of the largest Roma neighbourhoods in the country, with the majority of Roma being Turkish speaking and have Turkish self-identity. There are many metal-workshops (including car-repair), which follow the traditional blacksmith artisanship practised by the Roma. In the period 2000–2008 the neighbourhood was the main wholesale heroin distribution point in Bulgaria.

<sup>100</sup> Most members of the private security firm, 'Club 777', were murdered and some of the remaining figures joined SIC. The private security firms at that time also controlled the distribution of pirated music tapes / CDs. Mr. Y's legal job was as a drummer of a well-known folk-music band. This is how, supposedly, he came into contact with Club 777.

at the time. With the disappearance of the racketeering companies in the late 1990s, the individual 'sales entrepreneurs' that took their place managed to secure corrupt relationships and to continue to provide protection. Up to 2009, when Mr. Y was finally arrested on drugs charges, he was protected by a well-known local lawyer, who was in an intimate relation with a prosecutor and the prosecutor<sup>101</sup> (both of whom received regular share of the revenues from the sale of the stolen cars not necessarily only by Mr. Y<sup>102</sup> but by the other sales entrepreneurs who worked with him).

Almost all offender interviewees in Pazardjik also referred to the need to have such type of protection they called a 'back' to lean on (similar to the Russian organised-crime concept of 'roof' (*krysha*). The 'back' not only gets a share of the revenue, s/he might be involved in connecting sellers to buyers for the distribution of stolen cars. The situation in Pazardjik, therefore, was quite similar to the one in Plovdiv: the 'sales enterprises' (and their used-car dealerships) were run by individuals with former connections to either VIS or SIC structures in the city. (LEI-1, OFI-7) Most offender interviewees referred to the nationally known figure of Mr. Big (not the real name): a former-wrestler / co-owner of a racketeering insurance company, who turned businessman and politician (he became mayor of a local village). Mr. Big was pointed to as providing protection to all prostitution, drugs, car-theft / distribution networks in Pazardjik. This 'omnipotence' could be an exaggeration, but he has a long history of involvement in the stolen cars business (LEI-1). In Dupnitsa, as described in Chapter 3, the 'Galev Brothers' play the role of providing a 'back' to local sales entrepreneurs.

In other cases, the 'sales entrepreneurs' could be just independent car-dealers who want make some extra money. As explained in Chapter 3, car-dealers often travel directly to select and purchase used cars from local dealers in Italy, Germany, or Austria. This allows them to establish good relations. One case from the late 1990s was of a local car-dealership in the town of Dryanovo, a small town of about 10,000 residents (but located 20 km from two larger regional district towns). The sale-entrepreneur was a well-known businessman, with his main business being trade of

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<sup>101</sup> Neither she nor the prosecutor have been ever investigated, therefore their names would not be revealed.

<sup>102</sup> Mr. Y's lawyer publicly claimed that in 2009, the day before Mr. Y was sentenced for drugs distribution, that the prosecutor offered a plea bargain agreement but demanded a 30,000-euro bribe to reduce the sentence.

car-tires (one of the largest in Bulgaria). His dealership was importing used-cars from Italy, and the local Italian partners started arranging the sale of vehicles that were declared to be stolen but were in reality an insurance fraud (see previous chapter). Dryanovo, just like nearby Gabrovo, is the type of town where racketeering / insurance companies had no significant presence, neither are there any other significant criminal markets related to drugs or prostitution. This sale entrepreneur, therefore, used his business connections to sell a few stolen cars a year to increase his profits (LEI-14, OTI-11).

To reduce the risk of being detected, sales entrepreneurs in Bulgaria might work with a number of car-dealers or other sales-entrepreneurs ('retailers') around the country. In 2003, in an international operation, the Bulgarian Police found that the network being investigated had used dealerships in at least seven cities (Vratsa, Pernik, Stara Zagora, Plovdiv, Pazardzhik, Veliko Tarnovo and Montana (see map of Bulgaria in Annex 1) – practically a complete geographic spread throughout Bulgaria – to sell at least 60 stolen vehicles (C-0903). More than a dozen individuals in Bulgaria were involved in the distribution of these vehicles. In one other case, in 2010, the importers of stolen cars were situated in the town of Plovdiv, where the cars were initially cloned and registered. Following this, they were sold to intermediaries Gabrovo, who in turn found customers: either via informal networks to local businessmen, or via the internet and local car-dealerships to bona-fide customers. These local sales entrepreneurs simply invested in buying a low-priced stolen vehicle, and took the risks of finding the final buyer and sell it for profit.

Another risk-reduction tactic that some sellers adopt takes advantage of the lack of regulatory standards for the used-car industry. The 'used car exchange' that some dealers run allow independent sellers to leave the vehicle at the dealership without any information or documentation for the car. If the police raid the dealership and discover the car, the dealer can claim that he has nothing to do with the car. A police officer described a raid on a used-car dealership in Varna, where three such stolen vehicles were recovered, yet no arrests could be made. The car-dealers said that the cars had been dropped off without any contact information and denied any knowledge of the vehicles having been stolen. [LEI-1]

The use of a dealer, even though it increases the risk of detection of the vehicles because it is a more visible strategy, is less risky, as it is very difficult for the police to

prove that the dealer had knowledge that the vehicle he purchased was a stolen one. The courts presume that the dealers are always '*bona fide* buyers', as the business model of the used-car business suggests that the used-car dealers buy the vehicles at much below the market price. Therefore, in many cases, even though the vehicle is identified as stolen, and it is proved that the VIN is rigged, the vehicle is returned to the car-dealer (LEI-14).

The sales entrepreneurs sometimes serve as intermediaries, with connections to the second category of entrepreneurs, those who (re)export stolen vehicles to the Former Soviet Union countries or the Middle East. (LE1, LE2, LE10, OFI-9)

For many years the Former Soviet Union (Russia, Ukraine, Georgia) had been a destination for vehicles stolen in Bulgaria and / or imported stolen vehicles which were then trafficked further.<sup>103</sup> (LEI-4, LEI-11, LEI-14, OTI-12, OFI-20, OFI-22). A police report in 2007 continued to identify the Former Soviet Union as the primary destination of stolen vehicles.<sup>104</sup> In the early 1990s, in many countries of the former Soviet Union there were restrictions on the import of Western cars. In that period Russian-made cars (in particular *Lada*) were still the most common cars in Bulgaria. They were stolen and exported towards the countries of the Former Soviet Union. Representatives of big Russian crime syndicates had tried to set up bases in Sofia and in Varna, and to become engaged in the racketeering / private protection market. (LEI-18, OFI-20). These structures proved to be unstable. In Sofia, for instance, one such outfit had an arrangement with VIS and SIC (who protected the car-thieves in Sofia), who supplied it with huge<sup>105</sup> quantities of stolen Russian made cars for export (OFI-20). In Varna, Odessa-based criminal outfits were directly involved in the export of stolen vehicles, but gradually TIM established its own control over the export. Although such direct massive presence disappeared at the end of the 1990s,

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<sup>103</sup> One interviewee claimed that even during communist times, stolen luxury vehicles from Western Europe were trafficked to the Soviet Union via Bulgaria [LEI-11]. Another argued that in the early 1990s the trafficking involved mainly Lada Samara (a popular Soviet-made car, sold in Bulgaria) [LEI-14].

<sup>104</sup> I was allowed to read the report during one of the meetings with an interviewee, but the report is not public.

<sup>105</sup> 'We used to bring them 20-30 cars per day. They were based at Tihia Kat [a well known motel-resort in the mountain near Sofia]. They had a parking lot with a few houses around them. I've seen this parking lot full with 40-50 [stolen] cars. These guys stayed there for a couple of years [1996-97]...There was rumour that there was a problem with VIS and SIC, and they kicked them out...but I don't believe this...our mafia cannot beat the Russian mafia'. We usually declared [to SIC] only two out of three cars that we brought to the Russians, and we sold directly to them one. That might have been their problem with SIC and VIS. [OFI-20].

connections with Russian / Ukrainian organised crime and high-level criminal entrepreneurs remained strong on many levels. The criminals connected to the former insurance / private security racketeering firms (VIS, SIC, TIM, or Spartak) remained involved in the trafficking vehicles to the former Soviet Union (United States: Department of State 2005).

While the traffic to the former Soviet Union countries might be arranged by Bulgarians with connections there, the traffickers to the Middle East are typically of Syrian or Lebanese businessmen who are based in Bulgaria.<sup>106</sup> They usually order and purchase the cars from Bulgarian car-theft enterprises in Bulgaria or in Western Europe (including Spain), and use their business connections in the Middle East to sell the cars. Once a car arrives in Bulgaria, they arrange for its traffic to the Middle East. Bulgarian mules usually drive the car to Turkey, where other mules pick it up and drive it further towards Syria. In addition, thousands of used cars have been conveyed by platform trucks to Iraq in the past decade, and this logistic was also used by exporters.

These Syrian/Lebanese individuals are based mostly in Southern Bulgaria (Plovdiv, Sofia, Pazardjik), and sales entrepreneurs from Northern Bulgaria would normally have to turn to them [LEI-15]. Until he was murdered in the centre of Sofia in 2003, the most well-known exporter to the Middle East was Filip Naidenov – Fatik. Fatik's father was a Syrian national, who worked with the Bulgarian communist State Security. He worked on securing smuggling channels (of drugs or arms) through the Middle East. Fatik was the owner of the Kapitolia car-dealership, and was one of the key figures involved in the transfer, allegedly, of 'thousands' of stolen vehicles from Western Europe towards the Middle East. He was also involved in drugs smuggling, which was the reason behind his assassination in 2003.

None of the present-day smugglers to the Middle East have been prosecuted for smuggling of cars, and their names cannot be revealed. One such smuggler was a Lebanese who formerly worked for the Lebanese security service (Presidential protection), but is presently a businessman with interests in finance companies and

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<sup>106</sup> These were the most significant Arab minorities up to the 2003 Iraq War.

in the entertainment industry. He has been prosecuted for drugs smuggling<sup>107</sup> and is known to have been trading in arms, but according to law-enforcement sources [LEI-16, LEI-18] has also been involved in car-smuggling. Another exporter, who is fairly well-known Iraqi businessman with interests in the night-time economy, gambling and retail of consumer goods, tourism, also had connections to the Bulgarian security services. He has been investigated (but never convicted) for smuggling of amphetamine-type drugs towards Iraq, where he used transporters with used-cars as containers for the drugs. (Blitz 2009) Again, according to law-enforcement sources, his side business was the smuggling of stolen cars. [LEI-16, LEI-18]

An example of a couple of smaller exporters were identified by interviewees, and they were based in Pazardjik. One was a Syrian, who has been prosecuted for various crimes, including extortion-racketeering, but has been convicted only for administrative offences. Since the 1990s he has run active trade between Syria and Bulgaria in consumer goods, and also has investments in retail and agriculture in Bulgaria. In addition, though, he uses his business connections in Lebanon to arrange for the transfer and sale of stolen cars. (LEI-1, OFI-9) The last example is also a businessman from an Arabic descent, who runs an import / export business mainly in food, tea, and tobacco products, but has become well known through the import of lighters and coffee. He is also known to export stolen vehicles. [OFI-14]

### 5.2.2 The buyers

In Bulgaria The profile of the buyers of stolen cars has gradually changed over the years from mass consumption of low-priced stolen cars in the 1990s to high-income customers towards the end of the 1990s. In the early 1990s, as explained, the stealing (domestically or internationally) and trafficking of cars implied much less expenses and risks (VIN rigging was unnecessary, and other expenses, such as bribes, salaries of members of theft crews were low). At that time even luxury

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<sup>107</sup> This individual has also been involved in one of the biggest cases of captagon production and smuggling towards the Middle East was the so-called Opitzvet Affair. He ran a company that not only funded the drug's production, but was behind to the privatisation of one of the largest Bulgarian banks.



vehicles were sold at very low prices to customers, as few people could afford to pay the real price.<sup>108</sup>

Presently, there are two categories of buyers who purchase stolen cars: the '*bona fide*' customers, who believe that they are purchasing a legitimate car, and the customers who suspect or know that the car is stolen. Law-enforcement interviewees roughly estimate that in Bulgaria probably four out of five customers are non-*bona fide* customers: either they are well aware or at least have suspicions that the car is stolen. The buyers are practically never an object of investigation, as it is difficult to prove their knowledge that the vehicle they bought was a stolen one [LEI-15].

The profile of the *bona fide* category is similar to that of other luxury vehicle buyers: higher social status and income. These buyers might be attracted by the (stolen) luxury vehicle's lower price (10–20% cheaper than elsewhere in the country), but are not aware that it was stolen. Sometimes, to avoid any suspicion, the vehicle is simply sold at the going market price. The *bona fide* buyers in Bulgaria may also be used-car dealers.

As in Spain, some risk-reduction measures are taken to lower the suspicions of *bona fide* buyers. The most widespread strategy is to sell the car several times between nominal owners. Usually, socially disadvantaged people<sup>109</sup> are paid small sums (€50–€100) to do this. There could be as many as four registrations (i.e. selling and buying the car by four different nominal owners, sometimes in different cities) that disguise the origin of the car, so that the car's history looks convincing to the buyer. In cases of insurance fraud (i.e. when the car is sold by the owner to the car thieves) the thieves are even able to provide the bona-fide buyer with a legally obtained 'expert

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<sup>108</sup> The sport-utility 4 wheel drive vehicle Mitsubishi Pajero was a popular model to steal, and these went for '4-5 thousand Deutsch marks' [€2,000], while the Russian made Lada, for a 'couple of hundred leva' [\$100] [OFI-20]. Today the starting price of a new Mitsubishi Pajero is around €50,000.

<sup>109</sup> The 'nominal owners' need not always be socially disadvantaged. Since 2007, dozens of individuals in Northern Bulgaria have turned this into a business. In neighbouring Romania, the fees for registering a car are about ten times higher (close to €3,000), while in Bulgaria it costs €250–€300. In Bulgarian towns near the Romanian border (Vidin, Dobrich, or Rousse) there are individuals, known as '*registratori*', who charge 25-50 euros and have up to 500 vehicles registered in their names – the actual Romanian owners drive the vehicles with a 'power of attorney' (NDT 2010). In addition, the *registratori* pay a 5-10 euro bribe to the local traffic police for a quick registration. A corruption investigation in Vidin showed that 30-40 cars per day are registered using this scheme (2-4 vehicles per day per *registrator*), while in Dobrich there were even more, 40-50 daily registrations (Interviews with Vidin Traffic Police, and Vidin Regional Prosecutor in Probg 2010).

certificate<sup>110</sup> issued by the police. The original car owner who engages in the fraud announces to the police that the car stolen (e.g. in Spain or Italy), and only after this happens, the car is sold to a buyer in Bulgaria. For this reason the car does not appear in Interpol's or other databases which are used to issue these certificates.

Non-*bona fide* buyers purchase stolen cars in order to save half or more of its regular market price. The non-*bona fide* buyer is usually found through informal channels, and has some level of trust with the seller. As one police officer put it: 'This is a very small circle of people. They all know each other, and how much money each has, what kind of the car they drive (or would like to drive).' [LEI-4]

Buying a stolen car does not simply involve walking into a dealership and hinting that one would like to buy a vehicle at a lower price. It is a risky undertaking for the buyer as well as for the seller, particularly if the car needs to be ordered. Therefore, informal networks, and knowledge of the customer's background are necessary.

Interviews with car-dealers and leasing companies showed that, typically, the high-class luxury vehicles are purchased by individuals who buy new models of cars annually, and even several times a year. One leasing company interviewee explained that the majority of their clients also have other businesses, and may also have leased industrial equipment or machines through the leasing company. [CDI-4]

The non-*bona fide* customers for stolen vehicles can be grouped in the following categories:

- **Offenders:** as one of the interviewees, a former car thief and a drug dealer, noted: 'at the time when I was in Sofia [1997-2001], almost all [drug] dealers drove [imported] stolen cars'. [OFI-22] The 'rule' that many car thieves seem to follow is that they do not drive stolen cars. In the 1990s, the higher-level crime bosses did not shy away from driving stolen cars. Even as late as 2006, one of the big smuggling rings of luxury cars from Spain (22 cars were recovered by the police) was found to have had as its main customers the entire 'elite' of SIC.<sup>111</sup> With the process of 'legitimation' that started in the past

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<sup>110</sup> This certificate includes an inspection of the VIN (to certify that the VIN corresponds with make / model of the car) and stolen vehicle police database (but not Interpol's).

<sup>111</sup> The Margin brothers, Milcho Bonev, aka Bai Mileh, Ventsislav Stefanov (Blagoevgrad Regional Police Department press conference, quoted at Bl.grad.info (2006); Another SIC person was Dimitry-the

decade, many of them preferred to move towards fraudulent leasing or tax-evasion schemes, importing cars and avoiding paying VAT, i.e. more refined methods of getting a cheaper car than driving a stolen one. Here, one uses connections and relations with other criminal networks.

- **'Exporters'**: another category of offenders that might order vehicles to be stolen are criminal networks in Bulgaria that are involved in reselling the cars to the Middle East or countries of the former Soviet Union.
- **(Small) entrepreneurs**: a typical customer described by all categories of interviewees is that of the aspiring entrepreneur or the '*nouveaux riches*', who cannot afford to spend 100,000 or 200,000 euro every year on a new car, or does not have a million euro to buy ten different types of cars. The examples provided by the interviewees included a local businessman with a small food-processing plant (OFI-21, LEI-14), or one with a private security company (LEI-15). Another was of a football player from a local secondary league team. In a country like Bulgaria, where 38% of the economy is informal (AT Kearney / Schneider 2010), a significant part of the high-wealth individuals have undeclared incomes. Another interviewee described these individuals in the following way: 'These are not the businessmen that made their money with lots of honest work. These are guys who made quick money from corrupt deals or rigged privatisations, who suddenly found themselves with lots of cash. Many of them today [due to the economic crisis] do not have the money to go for these purchases anymore' (LEI-14). The next chapter provides more insight into the social environment of this category of buyers, who are the main driver of the demand for stolen cars. Often, the informal networks used in the return of vehicles stolen for ransom, are used to find potential customers (see Chapter 6).
- **Companies**: companies with informal economic activities (avoiding taxes by not declaring revenues and expenses) often try to cut on other expenses, including buying cheaper, stolen commercial vehicles. One example came from an interviewee, supplier of recycled plastics to petro-chemical

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Russian-Minev (who started out in the early 1990s as a car thief in Central Europe): his four luxury vehicles (all stolen) were seized by the Bulgarian police during a night-club raid in the centre of Sofia in 2002 (Sega 2002).

companies, many of which are in the grey economy, which occasionally might purchase low-cost stolen transport vehicles [OTI-12']. The most wide-spread belief was that quite a few construction companies purchased stolen construction vehicles and machinery during the real estate development boom of 2000-2008. (LEI-4, OTI-11) One case included even a company, almost all of whose machinery was delivered from Spain, where it had been stolen. Another case involved a new car-rental company which ordered about 20 identical Toyota cars to be stolen to start its business operations. (LEI-4) The involvement of construction companies is hardly surprising because quite a few successful car-thieves had turned into real-estate developers, mostly as a way to launder their money but also as an attractive business opportunity. (LEI-1) In addition, the real-estate development boom had attracted thousands of entrepreneurs: from oligarchs, to grey entrepreneurs, to criminal entrepreneurs. As Chapter 3 showed, most luxury used-car dealers had some participation in construction or real-estate development companies. Finally, 'the theft for ransom' schemes in Bulgaria also targeted construction equipment and commercial vehicles, and there was already somewhat of an internal market for stolen construction vehicles and equipment<sup>112</sup>. (LEI-4, LEI-3, OTI-11)

- **Public officials:** In the 1990s police officers were amongst the most frequent customers of stolen cars. 'The cops loved the '*number seven*' [Russian made *Lada 2107* model<sup>113</sup>], and we sold them very cheaply, for 100 leva [around 50 euros]' [OFI-20]. This gradually changed, and the interviews and media review shows that local government officials seem to be most often lured by 'status symbols', such as luxury cars. Although some of them manage to arrange to obtain cars that had been confiscated by the customs, others seek low-priced luxury models for personal use. The mayor of a village near Pazardjik, who was also in the scrap-metal business,<sup>114</sup> had become a regular customer for stolen vehicles. (OFI-18) The media periodically report on public

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<sup>112</sup> The theft for ransom of construction equipment is especially lucrative, as the value of some construction equipment could reach as much as €500,000, and the ransoms could reach as much as €25,000 (which is almost 10 times higher than the average for cars). In addition, construction equipment has far less identification protection, and could be easily disguised. (LEI-4, OTI-12)

<sup>113</sup> At that time, most police cars were of the same model – Lada 2107.

<sup>114</sup> As explained in the next chapter, part of low-level car theft is of old Soviet cars that are sold for scrap. This would explain the connections this mayor might have had.

officials who drive stolen cars: in 2009, the police confiscated the luxury Hyundai Santa Fe of the mayor of the village of Knijovnik (Hristov 2009). The mayors in the small town of Banya and in Varna, Bulgaria's second largest city, have also been accused in the past of driving stolen cars (Vreme 2001, Dnes Plus 2003).

To understand the mindset of the aspiring economic elite (both public officials and small entrepreneurs), one should know that the purchase of a stolen car is part of a larger illegal lifestyle that such individuals maintain. In September 2010, the Bulgarian Revenue Agency conducted a series of aerial inspections of luxury neighbourhoods of all the larger cities around the country. The majority of houses were found to be registered as offices or to lack any legal registration with local municipalities (i.e. they were either built illegally or the owners paid no property taxes). Two entirely unregistered developments were uncovered. One of them gained national prominence: it consisted of 45 luxury mansions owned by entrepreneurs and former or present (corrupt) customs and roads administration officials.<sup>115</sup> Not only were the houses built illegally, but local utility company personnel were bribed into allowing the theft of electricity from the grid, or theft of water via an illegal water supply; an illegal road was also built. All this took place on the territory of a state-operated water-supply dam, where construction is entirely forbidden. The head of the regional State Agency for Construction Control was sacked after allegations that he covered up the existence of this village for almost a decade.

The normalcy of driving a stolen car cannot be better illustrated by pointing to the fact that hundreds of luxury cars seized at the borders and confiscated by Customs over the years have been donated for government use. Usually, when a stolen car is seized at the border, no effort is made to find the real owner. Therefore, unless the owner of the car is informed by their local police that the car has been seized at the Bulgarian border and makes a specific request to retrieve



Figure 20. Porsche Cabriolet Police car in Sofia, Bulgaria (photo-credit: [www.concept-cars.org](http://www.concept-cars.org))

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<sup>115</sup> All the public officials worked at the nearby border-crossing with Turkey, with average salaries of €300 to €500 per month.

it, Customs do not bother sending it back to Western Europe. Since most owners have car-theft insurance, they rarely go after the stolen car. To the big insurance companies, tracing stolen cars is difficult and expensive; only very rarely do they make requests for vehicles. (LEI-10, LEI 11)

Public auctions of the seized cars are not organised. Instead, the high-class vehicles are usually donated by the Minister of Finance to top government officials, e.g. ministers (including the Minister of Interior) and their deputies, heads of government agencies, heads of prosecution offices or courts, and mayors. Police chiefs (including the head of the police), regional police directorates, and high-level Customs Administration officials were also given such cars.<sup>116</sup> An estimated half of the President's National Security Service (NSS) vehicle park consisted of stolen cars that had been seized and donated to the NSS by the Customs Administration. (LEI-1, LEI-10, LEI-11, LEI-14)

On one occasion, the head of the Sofia City Court was publically exposed as driving a confiscated stolen car, even though the legal owner had requested the car to be returned. (*Capital* 2009) On a number of occasions, when trying to travel internationally with such cars (to Greece or Romania), Police or Customs officials were stopped, as the vehicle was detected by the border authorities as one stolen in Europe. The lower-class vehicles are donated to other government bodies (e.g. state television, local administrations, etc.) (LEI-10, LEI 11). The donation of a stolen vehicle gradually became a way for the Minister of Finance to expand his personal political influence. In the late 1990s / 2000, some corrupt border police officers took the practice of confiscation even further: they practically stole luxury cars from transiting passengers. They would simply lie to the driver that the car comes up in the police data base as stolen, and seize it. This practice quickly provoked a diplomatic scandal, after close to a dozen such cases occurred, to the disbelief of foreign embassies who received the complaints from the owners who were robbed in this way [LEI-11].

In Spain, on the other hand, although there are some parallels, the environment of corrupt government officials is different. Government officials in Spain are also customers for luxury cars, yet there is little evidence that they intentionally try to

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<sup>116</sup> In 2007, the BBC even had a special report about one such example.

purchase stolen cars. It is not an exaggeration to state that much of the demand for luxury vehicles in Spain in the years 2000–2008 came from government, especially local government. In some corruption-sensitive northern European countries, or poor countries such as Bulgaria, the purchase of luxury cars on the scale that it took place in Spain, would have certainly provoked immediate outrage. In Spain, though, the purchase of luxury cars seemed to be morally justified during the period of economic growth, at least in some circles. With the beginning of the economic crisis in 2008, the public became sensitive to the local governments' 'love-affair' with luxury cars: a series of journalistic and criminal investigations revealed that thousands of luxury cars had been purchased by local mayors or other government officials.<sup>117</sup> In one major investigation into corruption and money-laundering in the past decade, involving 12 municipalities in four regions, the investigators came across hundreds of luxury vehicles purchased by public officials participating in the corrupt networks.<sup>118</sup> (*El Pais* 2010).

One common characteristic of all these categories of buyers is their desire to drive the 'latest model' of car. This means that many of them tend to acquire at least one new car every year, and may possibly maintain a number of luxury vehicles: therefore maintaining a healthy demand. The other common characteristic is that they all want to acquire the car at a discounted price. Unlike the *bona fide* customers, these individuals are well aware of the risks, and that is reflected in the price of the vehicle, which could be less than half the actual market value.

### 5.2.3 Corruption

The opportunities for 'sales enterprises' in Bulgaria to use corruption as a tool to minimize the risks associated with the sale of stolen cars can be quite significant. Corruption is a factor that has consistently, for almost two decades, maintained a market environment where the large-scale sale of stolen vehicles has been possible. Sales enterprises use corruption in two main ways to facilitate the sale of the stolen vehicles. First, stolen vehicles are registered and legalised by corrupt traffic police

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<sup>117</sup> One investigation showed that the mayors of all but one of Madrid's suburban municipalities drove luxury vehicles. (Madrid's mayor drove a luxury model of Audi (A8) priced at 591 624 (Toledo and Friar 2008). Another mayor, according to a Ministry of Finance audit, purchased a new luxury vehicle each year. (Junquera 2010)

<sup>118</sup> The report of the Central Fiscal and Economic Crime Unit showed that, at the top of the network alone, 49 luxury vehicles had been bought to launder bribes between 2000 and 2008. Many of the cars were registered in the names of fictitious companies to avoid detection.

officers. Secondly, it is used prevent or stop the investigation / prosecution of the sales of stolen vehicles.

### *Corruption and car registration*

In Bulgaria, to register a stolen vehicle – and to avoid any detailed inspections during the registration process – usually involves **corruption of the traffic police**. Unlike many other countries, in Bulgaria, as a result of the significant imports of stolen cars, each new car passes through a thorough inspection by Traffic Police. Until 2007, during this process, the VIN markings of the vehicle were inspected in order to establish if they have been any tampered with (Interpol and domestic databases, and VIN registries were consulted before a valid registration was issued).

In each of the 28 regional cities in Bulgaria, the registration of cars takes place at the Traffic Police registration office. In Sofia, for instance, the car-registration process is concentrated at one single location, and there are two inspection lanes, through which all cars are registered. As one interviewee stated 'The managing officer at these lanes has been there for 15 years. Everyone knows that the guy registers stolen cars. You know they came up with a new system to have two guys on each lane, but he simply made a fake stamp of the new officer's stamp.' (OFI-3)

The corruption within the traffic police is a broader phenomenon that provides a favourable environment for the sale of stolen cars. It starts from the fact that the traffic police in Bulgaria have been corrupt since the early 1990s, without any significant changes. Monthly, about 100,000 bribes are paid to traffic police officers, mostly by drivers who avoid being fined (Transparency International 2010). In addition, the processing of vehicle registrations, driving licences, or even traffic violation fines is extremely time consuming. They all involve visiting the single local Traffic Police office in the city where one lives, and queuing for many hours, or even for an entire day. This has created a number of intermediaries who 'facilitate' all these processes: e.g. the intermediaries can provide licence plates and car documents without any need to visit the traffic police office; if one's licence is suspended due to many traffic violations, the intermediaries can quickly 'fix' one's



driving record; they can provide special licence plates with numbers that are easy to remember, which criminals and drivers of luxury vehicles find particularly attractive.<sup>119</sup>

This corruption does not simply concern low-level officers at local traffic offices. The traffic police heads are usually aware of the corrupt deals on the lower levels, and simply get regular 'cuts' from the bribes. Usually when a new government comes into power these corrupt networks are interrupted, and information surfaces in the public domain. In 2001, the Head of Traffic Police, was dismissed on corruption charges, some related to the registration of stolen cars. In 2006, with the new government, the Head of Traffic Police and his son were arrested and charged with running an organised crime group that included illegal car-registrations. The Head of Traffic Police was eventually convicted, but the trial against the son and the rest of the criminal group was still bogged down in court in 2010. The Head's step-daughter was also prosecuted, as she ran a business temporarily modifying luxury cars, so that they could be registered as commercial vehicles to avoid VAT payment (this scheme was explained in Chapter 3). The scheme, certainly, involved many other corrupt Traffic Police officers, since for at least four of them, the police collected evidence. (Focus 2006) The Head and the other corrupt officers had provided the son with all necessary stamps and forms, so that he ran, in effect, a private traffic police registration office. Similar networks continue to operate on a smaller scale in towns throughout Bulgaria. In 2010, the police dismantled two groups that included corrupt traffic police officers in two separate operations in Bourgas that specifically registered stolen luxury cars. (Ibid.)

### *Corruption and distribution of stolen vehicles*

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<sup>119</sup> At some point, such licence plates were even used as a risk profile by the police to stop suspects. Some of the heads or *grupirovki* were known by their licence plate numbers: the ones that included lots of '8' CA 8888 88 were commonly associated with VIS-2 *grupirovka*, while the '5' was associated with SIC (e.g. CA 555555). The motorcade of a mafia head, with bodyguards in two or three tinted-window luxury vehicles, would drive through the city at high speed, in a demonstration of power using these kinds of number plates in sequence (e.g. CA 888888, CA 888887, CA 888886). This was a common sight in all Bulgarian towns until 2006-2007.

The use of corruption to facilitate the distribution, sale, or smuggling of stolen vehicles is widespread, and has remained fairly high even since Bulgaria joined the EU (Gounev and Bezlov (2010). The case described above of Mr. Y illustrated the point of the corruption networks that exist to provide protection. There are different modalities of corruption: typically the corruption of police officers is attempted first. As the previous chapter and the previous section showed, there is involvement of police officers both in the

theft of vehicles, and in their registration. As Tzvetkova (2008) shows, police / Ministry of Interior staff, and members of the former racketeering private security / insurance companies and present-day criminal networks often have a common social and professional background. This greatly facilitates informal relations and corruption of the police investigators. (Bezlov and Gounev 2010: 218-225) Further on, corrupt police officers, as well as lawyers could serve as intermediaries in securing protection

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### **Control of the Russian car market**

Russia for much of the 1990s can serve as an example of a regulated market for (stolen) cars. During that period the production and distribution of Russian-made vehicles by the state-owned automaker, AvtoVAZ, was controlled by organised crime. AvtoVAZ practically had a monopoly of the market for low-priced cars, because high import taxes on new and used vehicles meant that its vehicles had no competition. But the key to the profits was the distribution of vehicles (Hoffman 2002: 139-146). The dealerships were in effect criminal networks that were buying the vehicles from AvtoVAZ at a loss-making price of \$3,500, and sold them for \$7,000, gradually pushing AvtoVAZ towards bankruptcy. Local organised crime used violence to control the profits from dealerships, and dealership associations doubled as dealership networks. Any attempt not to participate in the scheme resulted in severe punishment: since 1992 at least 500 people associated with AvtoVAZ (either managers or dealers) have been murdered (The Economist 2008). The control over this market was to a large extent held by Russian oligarch Boris Berezovski, whose LogoVaz company controlled the largest dealership network with annual sales of around 45,000 vehicles per year (10% of all sales) (Klebnikov 2000).

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from prosecutors, judges and, ultimately, politicians (Gounev and Bezlov 2010).

One further point that should be emphasised is that the buyers often are individuals with sufficient political clout or connections at the local level. In the case of Plovdiv, several (nationally) well-known local businessmen were amongst the regular customers for stolen vehicles. Usually, even though they personally drove legal cars, they purchased stolen vehicles as presents for family members or managers of their companies. Therefore, such powerful customers, with direct influence over local political life, judiciary, or police could provide some level of protection from prosecution.

The smuggling of stolen vehicles has been long connected also to corruption in Customs. The corruption in Customs served usually a double purpose: avoiding import taxes and VAT, as well as avoiding detection that the vehicle is stolen. As explained in the previous chapter, when the car is imported via a transporter or container, it is subject only to customs inspection. All interviewees confirmed that customs corruption facilitated the import of used cars. There are a number of reports on the issue of customs corruption in Bulgaria (Gounev and Bezlov 2004, Center for the Study of Democracy 2002, 2003, 2004). In addition, various smuggling channels protected either by local customs officers or by the National Service for Combating Organised Crime (NSCOC) have been detected. In one such case at the Danube River Bridge border crossing with Romania, it was discovered that several customs officers made sure that all stolen cars were imported and the documentation arranged during their shifts.<sup>120</sup> When the case was uncovered by the NSCOC, the regional prosecutor, who also protected the channel, blocked further investigation, despite the report written by the Police and local head of Customs detailing the smuggling channel. Similar channels existed on the border with Serbia as well, where many of the imported used-cars from Western Europe came from. As with the issue of registration-related corruption, the corrupt environment in the Customs (in relation to used cars) was not created solely by the smugglers of stolen cars, but also by the importers of used cars. The importers regularly paid bribes per imported vehicle to speed up the processing and excessive waiting times, as well as to avoid import tariffs (LEI-9, LEI-10, LEI-1, CDI-1). The regular practice, as described by one car-dealer, was when a trailer truck arrived at Gorublyane, for €10 per car (or €50-€90

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<sup>120</sup> This police report is classified and was provided by a law-enforcement officer who worked on the investigation.

per car transporter), the customs officer would immediately arrange the import. The alternative was to get stuck for a few days at a customs office (CDI-1).

### 5.3 Comparing sales of legal and stolen cars

The description provided in this chapter of the mechanisms and distribution channels for the sale of stolen vehicles shows that there is much overlap between the sale of legal and stolen vehicles. This particularly applies to sales of stolen cars to *bona fide* buyers, which seem to be a majority in Spain, and in a minority in Bulgaria. The two countries differ in an important way. In Spain, sales entrepreneurs go to a significant extent to disguise the true origin of the car so that even the used-car dealers could be deceived into buying the stolen car. In Bulgaria, such efforts are rarely needed, as the majority of sales are arranged via informal channels or to complicit buyers.

The issue of the complicity of car-dealers raises another point. Franchise dealers, who account for majority of sales in Spain, are usually not complicit in the sales of stolen cars. They are still targeted by stolen-car sales entrepreneurs, but to a lesser extent than are independent car-dealers. One plausible explanation provided by a law-enforcement officer is that some of the franchise dealers have databases, where they might check if a car's VIN corresponds exactly to the model being sold [LEI-4]. In Bulgaria, where franchise dealers have very few sales of used cars, car-theft networks do not try to sell stolen cars to them at all.

The *geography of distribution* of stolen vehicles, though, does not necessarily coincide with the geography of distribution of legal vehicles. The reason is that while the legal sales of luxury vehicles are concentrated in regions / cities of Bulgaria where there is a concentration of economic wealth (and where there are also specialised dealerships for luxury cars), for stolen vehicles this is not necessarily the case. In Spain, where the focus is on *bona fide* customers, one could speak of some overlap – although as the prices are advantageous, many cases seem to relate to small and medium-sized towns. Some of the big concentrations of stolen vehicles, though, are in the Costa del Sol region, where there is a significant concentration of potential customers, where lifestyle and fashion create a pressure for upward mobility.

The sale of stolen and used cars seemingly merges on the internet. In Bulgaria and Spain, the internet is not a 'direct sales' distribution channel but an information source. Buyers only compare prices, features, contact information, or seek information on reputations of dealers. There are many internet forums where buyers exchange information on dealer reputation. Private sales of luxury cars, though, are not as common, as buyers making a significant investment look for a warranty of some sort. Therefore, while private sellers of luxury vehicles might find it easier to exchange their vehicle when buying a new one through a franchise dealer, the criminal networks make much more intensive use of the internet as a way to find customers.

Although in Spain many of the sales take place through formal channels – internet ads or luxury car dealerships, i.e. the most plausible channels to be used by *bona fide* buyers – in Bulgaria the sales take place via informal networks. Even in many of the cases where dealerships are used as a distribution channel, the sales enterprise usually has some connection with the dealer.

Due to the absence of an informal network, in effect what one observes in Spain, therefore, has been an attempt by the Bulgarian theft-networks to enter the *legitimate* market for used cars, rather than entering an illegal market. To enter this legal market, they needed sufficient credibility and, in most cases, a Spanish intermediary to carry out the sale. In Bulgaria on the other hand, this is only partially true: the informal networks that exist for the distribution of stolen cars are a parallel market structure, a niche in the used-car market, which comprises dealers, sale entrepreneurs, intermediaries, and buyers.

The evidence from the interviews and the police cases shows that Bulgarian sales enterprises failed to access the existing (formal or informal) or establish their own retail distribution channels. As a result they effectively failed to enter the local market for used / stolen cars. On the other hand, they were able much more effectively to engage on the 'wholesale level', by supplying successfully other criminal networks which engaged in exporting stolen cars from Spain to Africa, the Middle East, or other countries in Europe and the former Soviet Union.

The next chapter will attempt to disentangle the social networks and broader social environment within which the 'sales' and 'theft' entrepreneurs, and buyers function in Bulgaria and in Spain. The objective will be to explain this 'failure' to enter the retail distribution of stolen cars in Spain. Some further observations on how legitimate and illegal enterprises compete will be made in the last chapter.

## 6 The social organisation of selling stolen cars

Social relations and the wider social context within which criminal / economic activities take place explain how individuals become involved in organised crime, how criminal enterprises are structured, and ultimately how (illegal) markets operate. More broadly, social structure (e.g. class, family, school experience) facilitates social (and economic) action (Granovetter 1992). Organised criminal activities are embedded in a web of social ties, relations, and informal networks (Kleemans and Van de Bunt 1999). The density and types of these relations explains how and why certain individuals become recruited into organised crime, manage to have successful criminal careers, could succeed in expanding their operation beyond their immediate local, or the way in which their criminal organisations are structured (Kleemans and Van de Bunt (2008), Kleemans and Poot (2008). The social ties and networks which they form could also become a 'criminal capital' which provides knowledge and technical skills to facilitate criminal activities or 'beliefs and definitions which legitimise offending' (Hagan and McCarthy 1997:138).

Regardless of whether the social basis within which these social ties are situated is the urban working class (Hobbs 2001), the marginalised minority (Venkatesh 2006), the immigrant community (Finckenauer and Waring 1998), or a historically established territory (Gambetta 1993) these webs have deep historical roots. Yet they are constantly transforming under economic, political, or law-enforcement pressures. Hobbs (2001: 550) explains how the changing of the informal organisation of the urban working class milieu transforms the 'territorially based family crime collaborations' and 'enduring fiefdoms' into 'loosely structured informal collectives of ad-hoc groupings'. The social aspect that almost any comprehensive analysis of organised crime touches upon is the political one: the ability of organised crime to influence or control the political process to secure impunity or revenues (Della Porta and Vannucci 1999; Paoli 1999, 2003; Allum 2010, WODC 2009; NSIC 1999). There are also more narrow aspects of social relations, or the embedding of criminal activities into legal market activities that have been noted (Kleemans and Van de

Bunt 2008). The criminal activity may thrive on the work relations, settings, or simply opportunities or synergies that legitimate commercial activities provide (e.g. international or domestic professional contacts, cross-border movement of goods, or distribution of goods).

The types of social ties that are of particular interest to this thesis are slightly different and have been considered only in marginal ways: they concern the relations between buyers and sellers of illegal goods / services. Gambetta (1993: 54-58) describes the relation between buyers of protection services and the mafia as a 'lasting bond'. The basis of this bond could be personal relations (friends, family, business associates) but it may also hold the elements of imposition (indirect threats, persistence, 'foot in the door' sales tactics). Much of the recruitment of customers is explained not through the use of 'social networks', but by relying on reputation, territorial control (monopoly) or coercion.<sup>121</sup> Kleemans and Van de Bunt (2003) consider only in passing the role of the immigrant community and social ties in connecting criminal entrepreneurs and customers.

The key concept that underlies these discussions is the broader issue of trust: which is the main driver for criminals seeking to establish closer social ties (Gambetta 1988; Lampe 2002a, Bruinsma and Bernasco 2004). In illegal markets, where reliable market information (about product quality, prices, reliability of competitors or customers) is in great deficit, trust is the main regulatory mechanism.

This chapter aims to examine the wider socio-economic environment within which the sale of stolen cars and operation of the used-car market takes place. By comparing the socio-economic environment within which Bulgarian illicit enterprises operate in Spain and in Bulgaria, the chapter seeks to provide an explanation as to why the Bulgarian car-theft enterprises failed to enter the used-car market in Spain, but managed to do so in Bulgaria.

This wider context is important because, as the previous chapters have shown, the sale of stolen – and a great number of used – cars relies on informal relations. The

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<sup>121</sup> These embedded local relations explain why the forced transfer of close to 200 criminals between 1961 and 1972 from traditional territories in the Italian south to the region of Piedmont, a counter-organised crime measure by the Italian government known as '*soggiorno obbligato*' (Varese 2005), was a successful way to disrupt their criminal enterprises.



selling of stolen vehicles requires a higher level of trust between buyer and seller than it would be needed in other market transactions for two reasons: first because the buying of used cars is the type of market exchange where the buyer has little information about the quality of the vehicle. Second, because as an illegal transaction, the buyer and the seller need to have some degree of trust to minimize the risks of being detected. The purchase of a car, especially a luxury car, is a different transaction from that of a retail purchase of other illegal products (drugs, cigarettes, or sex) where the sums involved and the risks might be insignificant to the buyer or even to the seller. The amounts involved in luxury stolen car sales are usually at least 20,000 euros, and in financial terms are closer to a lower mid-level drug or cigarette deal.

Therefore, when considering Bulgarian criminal enterprises in Spain, it is worth examining to what extent 'ethnic' ties and the socio-economic environment facilitated the operation of illicit enterprises, and in particular the sale of stolen cars. To this end the first part of the chapter examines the role that the Bulgarian immigrant community might have played in facilitating the 'market entry' of Bulgarian criminal enterprises.

The second aspect examined in this chapter is the operation of car-theft enterprises within the various local social contexts in Bulgaria. The informal relations used in the sale of used / stolen cars are examined in view of the fact that the common ethnicity does not serve as a basis for establishing relationships of trust. The socio-economic context in Bulgaria is illustrated by the cases of two towns. Pazardjik, even though a small town, has a typical socio-economic environment and local political economy that can be observed in bigger cities across Bulgaria, where there are well established criminal structures. Gabrovo, on the other hand, represents more the typical 'small town' where crime is not much of an issue. In addition, the chapter examines the role that broader criminal networks (e.g. drugs, prostitution) play in facilitating the sale of stolen vehicles.

One obvious omission in the present analysis is the importance of kinship / family networks and relations (Gambetta 1988, Reuter 1985; Hobbs 2001). In the course of the interviews, only one of the criminal enterprises seems to have been at some point structured around the immediate family, (only) in its early stage (LEI-14, LEI-15, OTI-12). More importantly, the family background of most offenders, even the lowest-level criminals, suggested that hardly any of them came from families which could be

described as 'criminal', or that they followed in the steps of their deviant parents. This is not to say that kinship does not play a role. Illegal markets and criminal activities in Roma communities in Bulgaria are still strongly organised around families, clans, and the interfamilial relations upon which entire Roma neighbourhoods are based. None of these, however, participated in car theft.

## 6.1 Immigrants and crime

The research on the relation between immigrants and crime has focused on two main issues (Stowell 2007: 29): disproportional involvement of immigrants in crimes, especially violent ones, (Hawkins, ed. 2003); and the effect of immigrant communities on overall crime rates in cities or regions. Studies (Butcher and Piehl 1998: 655) in the US have shown that many immigrants lack the necessary human capital (e.g. job training, language proficiency, education, etc.), thus limiting their access to legal jobs and pushing them into criminal activities. Borrego et al. (2008) and Albrecht (1997) explain the higher crime rates amongst immigrants in Spain, and respectively Germany, by the higher proportion of young males and the differences in socio-economic opportunities between migrants and the local population (e.g. immigrants from Africa in Spain or involvement of Vietnamese in illegal distribution of untaxed cigarettes in Germany). The social marginalisation could also lead to higher demand for certain illegal products within the immigrant community (Albrecht 1997). Social structural factors (high rates of population turnover in certain neighbourhoods, where residents who achieve a higher status, leave) contribute to higher levels of violence ('social disorganisation') in areas with concentrations of immigrants (Stowell 2007: 42).

A number of scholars, though, (Zhoe and Bankston (1998), Butcher and Piehl 1998) have argued that foreign-born immigrants are less likely to engage in criminal activity than second-generation immigrants. Stowell's study (2007: 148-154) finds that immigration does not contribute to higher rates of violent crimes, explaining that different immigrant communities have specific experiences of immigration and, consequently, different levels of experience with crime. Junger-Tas (1997) and Albrecht (1997) also point out that not all immigrant populations can be analysed equally. Resident minority populations differ in many ways from itinerant groups or from immigrant black-market participants (Albrecht 1997), as the latter two groups

have different patterns of push-and-pull factors that affect their migration and offending patterns. For instance, in North Rhine Westphalia (Germany) in 1993 the rate of suspects per 100,000 of the population widely differed between immigrants from different communities. Some minorities, such as Romanian Roma had very high suspect rates due to 'distinct cultural behaviour patterns and to an extremely marginal social position' (Albrecht 1997: 51). Also, Polish, Romanians, Bulgarians, or Russians were significantly involved in property offences and negligibly in violent and drug offences (ibid.). Junger-Tas (1997: 302) also seeks cultural explanations for these different crime rates amongst immigrant communities, arguing that 'group values' or 'family integration' could provide explanations.

Resident immigrants' involvement in crime could also be influenced by the pattern of international trafficking routes. For instance, in the 1980s in Germany, a special police task force focused exclusively on Senegalese, Gambians, and Nigerians which led to numerous arrests and a gradual decrease in and adjustment of trafficking routes and distribution networks. By the early 1990s the arrests of sub-Saharan Africa suspects approached zero. Then attention shifted towards Northern Africans, Turks, Spaniards or Italians.

The following sections suggest that the Bulgarian immigrant community had little to do with Bulgarian criminal enterprises. To some extent, the data show that their marginal position – that some authors argue had pushed many other immigrants in illegal markets – had prevented Bulgarian immigrants from facilitating the market entry of car thieves.

## **6.2 Bulgarian immigrants in Spain**

Since around the year 2000, Spain experienced the largest increase of immigrant population influx in its history: larger than the increase of any other EU Member State. From 0.9 million in January 2000, the number of registered foreigners reached almost 5 million, or 11% of the total population by 2010 (Spain: Ministry of Labour and Immigration 2011:1). The main driver behind this wave of immigration was economic expansion, in particular, the growth in construction and tourism.

Bulgarians, like many other Eastern Europeans, were also attracted by the employment opportunities in Spain. For Bulgarians, Spain was a fairly unknown emigration destination up to 2001. Bulgaria has experienced several waves of emigration since 1989: the first one was in the 1989-1993 period, when an estimated 450,000 (about 6% of the total population) emigrated<sup>122</sup> (Bobeva et al. 1996: 19). The second wave took place after 2001 when visa restrictions for travel to the EU's Schengen countries were lifted: an estimated 300–400,000 emigrated.<sup>123</sup>

Up until the late 1990s, the main European destinations for migrating Bulgarians were Germany, Austria, Czech Republic, and Hungary (see Figure 21 below). Ragaru (2008) argues that worker-exchange programmes and familiarity with former Soviet Bloc countries are the key explanatory factors for these initial destinations. In the late 1990s, Greece, Italy, and Spain established seasonal worker programmes (especially in agriculture and tourism) that started to attract regular flows of temporary migrants from Eastern Europe, including Bulgaria. The 'legalisation' campaigns for illegal immigrants that took place in Spain in 2000, 2001, and 2005<sup>124</sup> (Ragaru 2008: 5) were a further incentive to the establishment of a permanent immigrant presence. The emigration preferences of Bulgarians gradually shifted: while in 2001 Germany and the US were the preferred destinations, by 2006 it was Spain, Italy, and the UK (see figure below).

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<sup>122</sup> In 1989, much of the emigration (about 150,000) was forced migration when the communist government expelled Bulgarian Turks to neighbouring Turkey. In a previous similar move, in 1984, another 200,000 were also expelled. Although some of them returned, around 200,000 remained permanently in Turkey.

<sup>123</sup> The last population census in Bulgaria was in 2001. Therefore it is difficult to estimate the number of emigrants in this second wave. This estimate is based on data of remittances, which tripled from €386 million in 2000 to €1.04 billion in 2004 (Mintchev and Boshnakov 2006). Adding to this migration dynamics a record-low birth rate brought Bulgaria's total population from about 9 million in 1989 to 7.3 million in 2008, according to NSI data.

<sup>124</sup> Greece was 1998 and 2001, Italy 1998 and 2002 (Ragaru 2008: 5).

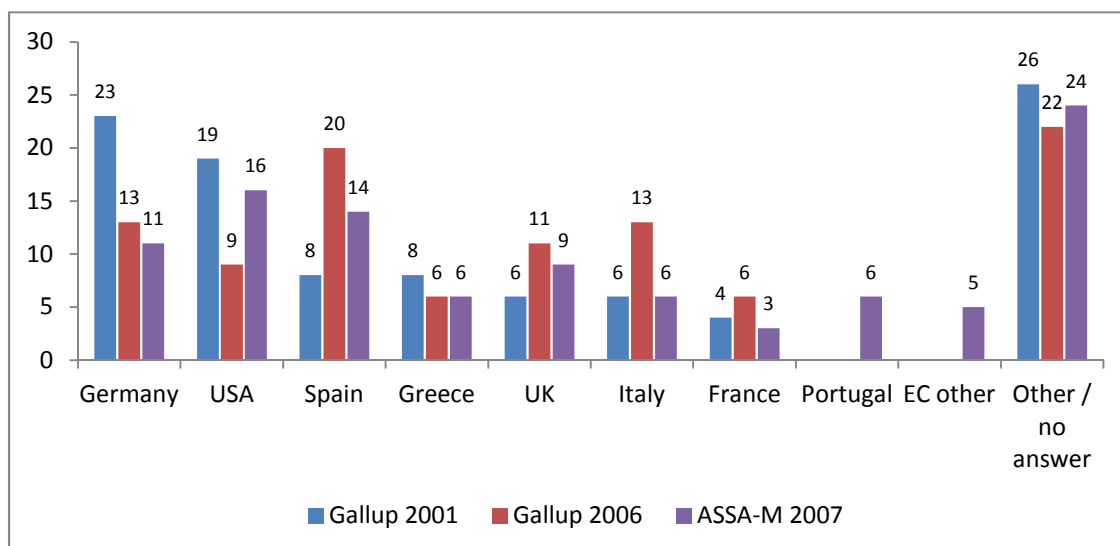


Figure 21. Emigration intentions of Bulgarians<sup>125</sup>

Source: BBSS Gallup (2006); ASSA-M (2007)

BBSS Gallup's (2006) nationally representative survey also showed that 9% of respondents, or around 540,000 had emigration experiences and had spent time working abroad: mostly in Germany (19%), Greece (12%), Italy (10%), Spain (10%), or the USSR (10%)<sup>126</sup>. In addition, 15% of all respondents stated that there was a family member working abroad. In some administrative regions of the country the proportion of such families was much higher: 57% in Kyustendil or 38% in Vidin.<sup>127</sup>

The figure below shows the steep growth in officially registered Bulgarian immigrants between 1998 and 2010 in Spain. In 2005, the Spanish government introduced an amnesty for illegal immigrants under certain conditions.<sup>128</sup> This explains the steep increase in the number of registered immigrants between 2004 and 2006, and suggests that prior to 2006, there were at least 20,000–30,000 illegal Bulgarian immigrants. The real number might have been even higher, given the conditions of

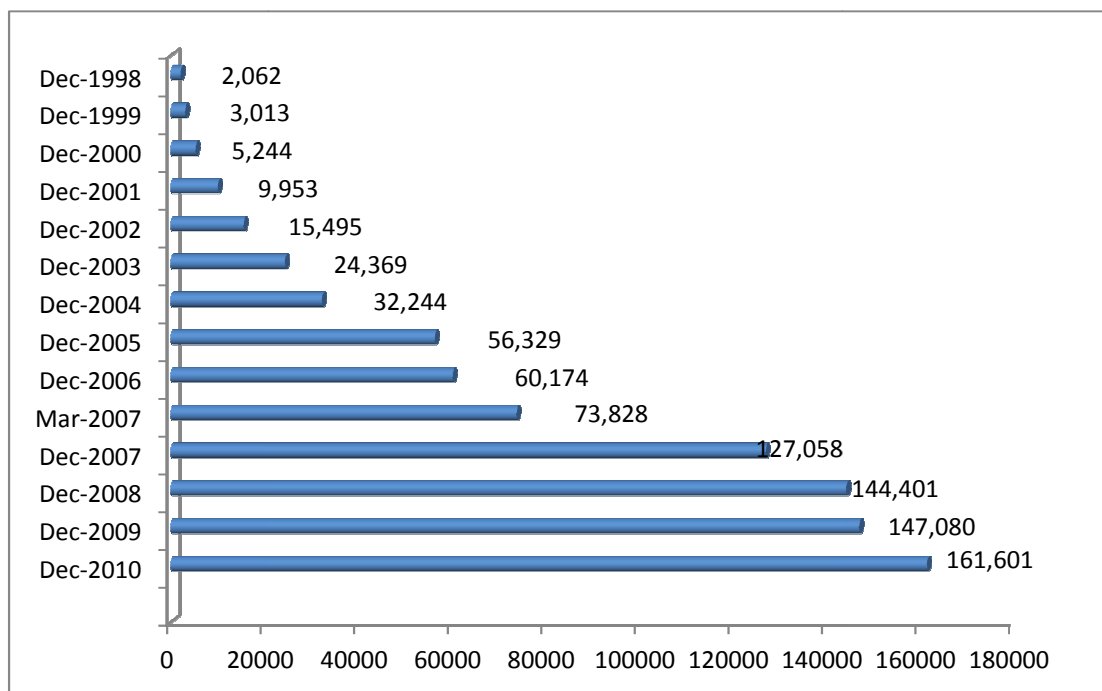
<sup>125</sup> The questions that were asked in both surveys included 'Where would you like to emigrate?'. Both surveys are based on representative adult population samples (BBSS Gallup, n=2,500, 16-60 year-olds; ASSA-M, n=2,500, 18-60 year-olds).

<sup>126</sup> Before 1989 there were various arrangements, such as an extensive joint Soviet-Bulgarian logging development project in the Soviet Republic of Komi, where several thousand Bulgarians went for work.

<sup>127</sup> These two regions were some of the poorest, with the highest unemployment and the lowest salaries.

<sup>128</sup> Immigrants needed to prove they had been living in Spain and had been registered with the municipal authorities for at least six months, had no criminal record and could produce a work contract (BBC 2005). The two previous amnesties in 2000 and 2001 increased the number of registered Bulgarian migrants only marginally, indicating that illegal populations were still not very significant at that time.

the 2005 amnesty. As the 2007 data show, the number of registered immigrants more than doubled within one year (Dec 2006–Dec 2007) with Bulgaria’s EU entry in 2007. The Spanish labour market did not open immediately to Bulgarians, suggesting that the steep increase in registered Bulgarians was due to the fact that most of them were already there. The real number might be even higher than the 161,000 officially registered at the end 2008. Despite the difficulties of conducting surveys amongst an immigrant population, a couple of such attempted surveys showed that the age structure of the Bulgarian immigrant population was much younger than the age structure of the population in Bulgaria.



**Table 9. Registered permanent residents of Bulgarian nationality in Spain**

Source: Spanish Ministry of Labour and Social Work<sup>129</sup>

Sixty-one percent of the Bulgarian immigrant population is concentrated in three regions of Spain: Madrid (21%), Castilla y Leon (21%), and Valencia (19%) (See Figure 22). The rest, though, are spread throughout the country; this could be explained by regional labour market characteristics. According to the Spanish Ministry of Labour and Social Work data, as of late 2010, the largest share of registered Bulgarian immigrants worked in the construction industry (around 34,000). In addition, 12,000 worked in agriculture, 3,764 as domestic assistants, while 3,984

<sup>129</sup> Based on statistical bulletins available at : <http://extranjeros.mtas.es>

were registered as self-employed (Pardo 2010). Some of the Bulgarian immigrant settlements formed exactly around employment destinations: Castilla y Leon is an agricultural region, while Valencia or the Balearic Islands saw significant construction projects.

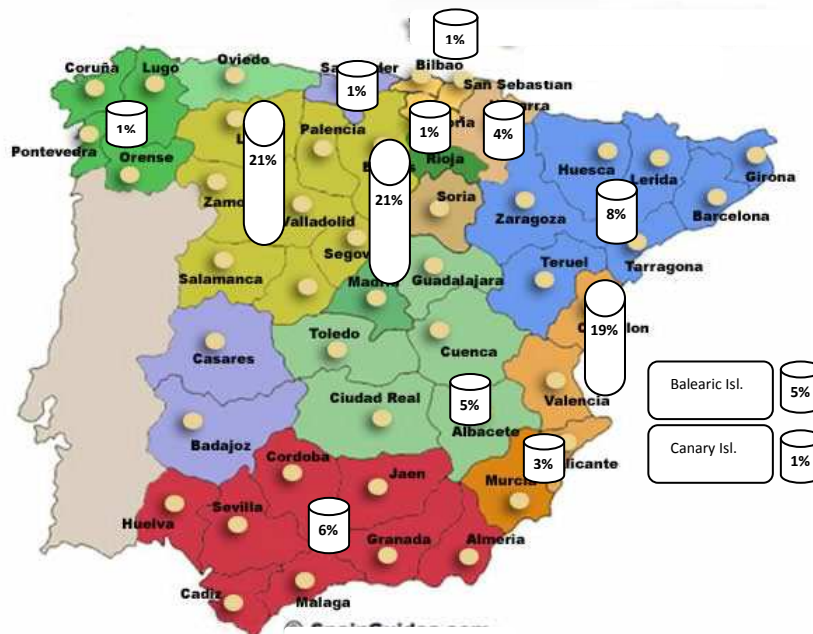


Figure 22. Share of total Bulgarian registered immigrants in Spain per region (2008).

Source: Data: Ministry of Work and Immigration; Map: SpainGuides.com

The employment characteristics of the Bulgarian labour force in Spain differ according to the region and city. For instance, in Madrid the differences with the overall characteristics quoted above are significant: only 8% are involved in construction, and 2% in agriculture, while the majority are in the service industry (26%), manufacturing (17%), hotel / restaurant (14%), or retail (15%) (Markova 2006: 4). On the other hand, the entry jobs for this same sample<sup>130</sup> (i.e. the initial jobs that immigrants had when they first arrived) were also quite different: 25% had started originally in construction, 16% as domestic assistants, and 7% in agriculture (Markova 2006: 5).

The interviewees provided some of the stories behind the statistical data presented above. All of them had moved to a particular town in Spain because they knew

<sup>130</sup> Markova's study is based on a survey of 202 Bulgarians (legal and illegal) working in Spain.

someone, or because someone they went with knew someone. Most often these were individuals from the same town (e.g. most interviewees from the town of Pazardjik ended up with or around people from Pazardjik). This was not necessarily true for the more educated immigrants or people from large cities, whose primary reason for going to Madrid, for instance, was job opportunities rather than family connections. Some interviewees arrived in Spain only after trying some other countries (Italy, Austria). Interviewees recounted stories of their friends / family who had gone there without knowing anyone and with just a little bit of money: usually stories of homelessness and difficult times. In either case, what was common about all the stories was the difficulty in finding long-term jobs. Especially those with lower education or without knowledge of the Spanish language, in their early years or months in Spain had significant time gaps between one job and another. The interviewees considered as 'well-established' Bulgarians who had stable jobs, with income of €1,500-€2,000 (as domestic help workers or owners of construction companies<sup>131</sup>).

Several respondents talked about informal 'fixers', often individuals, well known in the local community, who would arrange the jobs for newcomers, or would provide help in cases of emergency. Usually these fixers were in contact with different construction entrepreneurs, so that when the respondents lost their jobs, they would turn to the fixer who would put them in touch with another contractor.

Despite the geographic concentrations in three regions of Spain, and the fact that people from the same town end up in the same place, 'Bulgarian communities' are difficult to come across. In big tourist centres (along the Costa del Sol, or the Balearic Islands) as well as the big cities (Madrid, Barcelona, Valencia, or even Alicante) there are no 'Bulgarian neighbourhoods'. For instance, even though the Madrid suburbs of Parla, Fuenlabrada and Getafe are known to be the home of many Bulgarians, there are no concentrations to the extent that the neighbourhoods are known to be primarily Bulgarian, and where 'everyone knows everyone'. In Costa del Sol (around resorts such as Marbella, or larger cities such as Malaga), the number of Bulgarians is also too small to form communities.

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<sup>131</sup> Spanish employers try to avoid hiring illegal workers directly. Instead they hire a subcontractor, usually a company, owned and run by a Bulgarian national, who in turn hires the illegal immigrants.



The common characteristic of larger cities is that they attract better-educated Bulgarians, many working in the tourist or service industries: there the social interactions outside the Bulgarian immigrant community are very common. Nevertheless, 84% of the respondents in Markova's survey in Madrid reported that they have no friendships with Spaniards (Markova 2006: 3).

On the other hand, in smaller towns and villages where there are large concentrations of Bulgarian migrants (who came as agricultural workers), concentrations exist, and the sense of a 'community' is stronger. Usually these are places where the Bulgarians already come from the same town in Bulgaria, where they knew each other, and had a strong sense of community (e.g. minority neighbourhoods or small villages / towns in Bulgaria). Deneva (2009) shows how over a period of nine years, about one-quarter of the inhabitants (around 500 people) of a Bulgarian-Muslim village in Bulgaria moved to the small Spanish town of Tafalla. This newly established immigrant community was very closed, with very little contact with the wider Spanish community in the town.

Another example, are the Roma who emigrated from the town of Peshtera (15 min drive from Pazardjik). In Peshtera there are two neighbourhoods: the Turkish-speaking neighbourhood, from where most of the inhabitants emigrated and now work in the Bordeaux region of France; and the mixed Roma and Turkish-speaking neighbourhood, from where most of the residents have moved to work in greenhouses around El Ejido (Spain), where they all live in a small community (IMI-10). Slavkova (2008: 5-15) provides numerous examples of such group emigrations of Roma to particular locations. Similarly to Deneva, she observes that in the cohesive community groups the contacts with non-Roma and non-Bulgarians are very limited. Some of the interviewees, especially those with less education and little fluency in Spanish, reported a similar lifestyle where the social interactions were limited to other Bulgarians or to other immigrant Slavic groups (Serbs, Russians).

Gómez et al. (2009) present an even more nuanced explanation about social networks, comparing Bulgarian immigrants and Bulgarian immigrant entrepreneurs in Barcelona and Roses (a town about 150 km north-east of Barcelona). While their findings confirm that immigrants in larger cities, such as Barcelona, have more encounters with the other immigrants or Spaniards, in Roses, Bulgarian entrepreneurs have a very local focus without much connection with Bulgaria. More

importantly, the 'first wave' of immigrants who came without relatives or friends in Roses, have a much stronger connection with local Catalans, which immigrants consider a strong asset. In Barcelona, entrepreneurs' connections with Bulgaria are much stronger (Gómez et al. 2009: 18).

An important characteristic of Bulgarian immigrant communities is their constantly changing nature: the movement back and forth between Bulgaria and Spain, with new people 'trying their luck', working for a few months, and going back, until a new job comes up again. Markova's survey, for instance, shows that 67% of the respondents had shorter or longer-term plans to return to Bulgaria (Markova 2006: 10).

### **6.2.1 Migration of Bulgarian criminals**

The above description of Bulgarian migration shows that the flows of emigrants from Bulgaria followed patterns largely determined by two groups of factors: the demand / opportunities for labour, and government policies (temporary labour arrangements or visa restrictions). The interplay of these factors in influencing the patterns of migration of criminals is quite complicated. On the one hand, visa restrictions limited the migration of criminals to certain extent, although they were more likely than ordinary illegal immigrants to use fake passports or schemes to try to enter Spain illegally. As the Spanish police cases show [e.g. C-0205, C-0706] that was a very frequent occurrence, even after visa restrictions were lifted in 2001.

The professional car thieves in Bulgaria started their careers as 'migrant criminals'. Before 1990 there were criminals who committed car theft in Bulgaria but the market for cars and car parts was so tightly controlled by the government that no one could live on the income from car theft alone. After 1990 many of the individuals who had the skills migrated mostly to Central Europe and Germany (LEI-4, OF16). The key figure who controlled these first emigrant Bulgarian car theft groups, Ivo Karamanski, as well as some of the thieves, such as Dimitri Minev – aka 'Rusnaka', later became well known bosses of the racketeering insurance companies Korona Ins. and SIC respectively<sup>132</sup>. Most of the thieves coordinated by Karamanski were arrested in 1991 in the Czech Republic, and the following year 24 of them were deported back to

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<sup>132</sup> Both were murdered: Karamanski in 1998 and Rusnaka in 2004.

Bulgaria. (Angelov 2007: 9-17). The investigation showed that these criminal networks stole vehicles from Germany and sold them in Hungary and the Czech Republic, or stole them in either of the latter two countries, and trafficked them to Bulgaria (Angelov 2007: 9-17, Stoev 2006: 9; Bezlov et al. 2007: 147, OFI-15, LEI-4). Statistical data from the Czech Republic supports the claim that offenders and law-enforcement officers made about the early destination of criminal migrants.

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|------|------|------|------|------|------|------|------|
| 8    | 5    | 12   | 11   | 4    | 4    | 3    | 1    |

Table 10. Bulgarian car thieves arrested in the Czech Republic (1995–2002)

Source: (Cejp 2004: 101)

Central European countries had opened fairly quickly to the import of used or new cars, and had plenty of criminal opportunities that did not exist in Bulgaria (which continued to impose high-import taxes on car-imports for a number of years)<sup>133</sup>. In the early 1990s car theft was much less organised: car security was simple, and registering and selling a stolen car required little skill, complex organisation, and corruption. Crossing the border with a stolen car was easy as there was no Interpol database on stolen cars, the car-registration documents were very easy to fake. [OFI-3, OFI-15]

The more significant increase of Bulgarian ‘crime migrants’ in Western Europe, though, took place only after 2001 when visa entry restrictions to almost all EU countries were lifted. (Germany was an exception as it was a destination for immigrants as well as criminals since the early 1990s<sup>134</sup>).

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<sup>133</sup> The import taxes on cars increased in 1992 to such an extent that a new car purchased in 1991 for \$4000 could have been sold 3 years later for the same price as used car.

<sup>134</sup> It is not clear if the German data include immigration crimes as well.

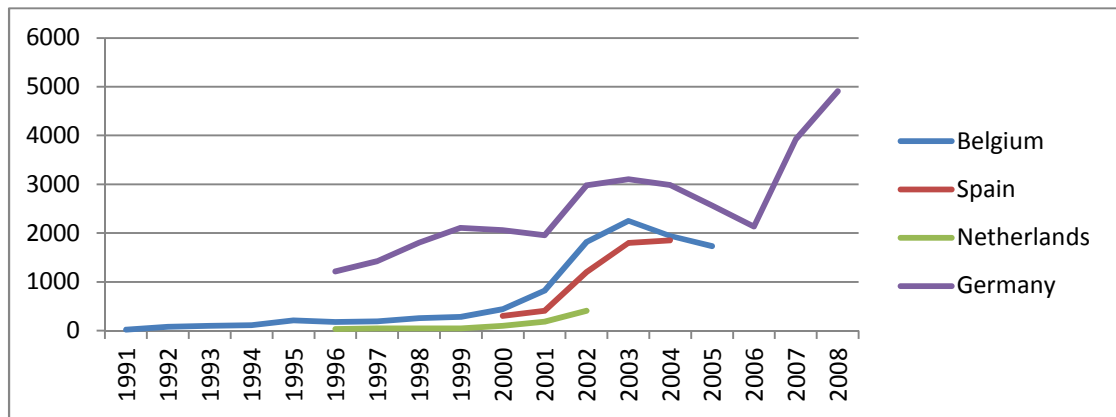


Figure 23. Number of registered crime committed by suspects of Bulgarian nationality

Sources: German Ministry of Interior (Annual Crime Statistics 1996-2008); Spanish Ministry of Interior data, quoted in Jimenez (2005); Korps Landelijke Politiediensten (2004); Belgian Ministry of Interior

Along with the increased flow of labour migrants, the proportion of foreign criminals of all nationalities in Spanish prisons grew. From 17.9% of all prisoners in 1999, the proportion of foreigners grew steadily, to reach 32.2% in 2006 (although this was much slower than the increase in the immigrant population). By 2006, Bulgarians constituted almost 0.9% of the total prisoner population in Spain (or 181 individuals), out of approximately 20,643 prisoners of foreign nationality in Spain. (Spanish Ministry of Interior 2006)

The explanations about the emigration of criminal entrepreneurs are similar to those about labour migrants: emigration is motivated by the search for bigger profit margins and more revenues. Different criminal markets or criminal activities are fuelled by different demand factors in countries of destination. Therefore, the geography of criminal migration differs from the geography of labour migration. The police data (as well as interviews) showed that Bulgarian immigrant criminals are involved only in narrow range of criminal activities in host European countries. For instance, their involvement in the drugs market is very limited throughout the EU (with the exception of Spain). Similarly, involvement in VAT fraud, illegal cigarette smuggling or distribution, and illegal migration, is very limited.

On the other hand, their involvement in organised robberies, burglaries, dispersion of counterfeit currency, and skimming of bank cards has been common. Their most active involvement has been in the commercial sex market. Bulgaria has been the

top source country for victims of trafficking of human beings for sexual exploitation for most of the period 2000–2009 (see UNODC data analysed in Gounev et al. 2009). Belgium, Holland, France, and Germany have been the top destinations. One common characteristic, similar to the migration pattern of labour migrants, is the concentrated movement of prostitution networks from certain towns in Bulgaria to specific cities in Western Europe. For instance, prostitution networks from the region of Pazardjik operate mostly in Bordeaux (France) and Brussels, while prostitution networks from the town of Sliven target specific towns in Belgium (Brussels) or the Netherlands (Groningen) (Gounev et al. 2009: 15-16).

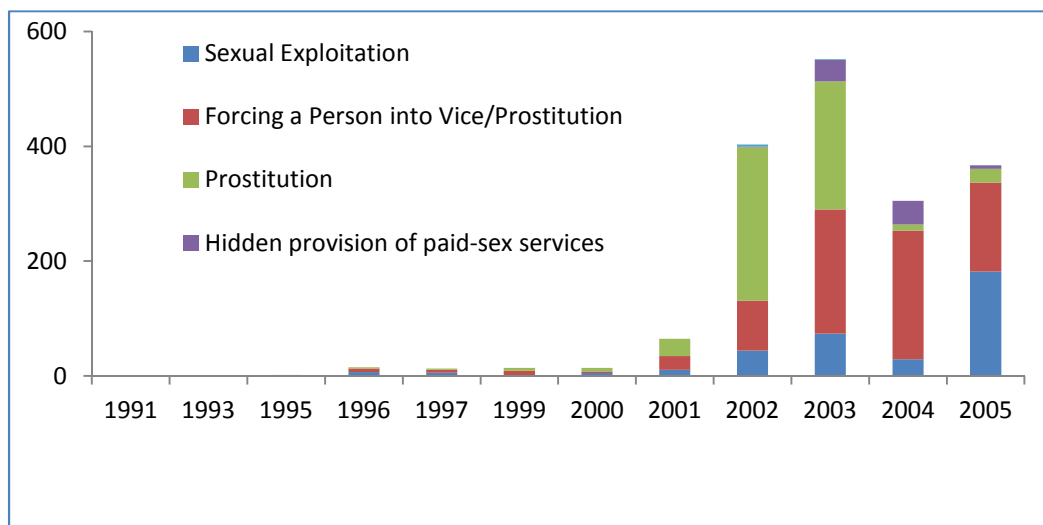


Figure 24. Prostitution-related registered crimes committed by Bulgarians in Belgium

Source: Belgian Federal Police<sup>135</sup>

Sivri (2008: 38-45) explains the role of government policies that facilitated the market entry of Bulgarian prostitution networks in Brussels after 2001. Up until 2001, Bulgarian criminal networks had managed to place only a small number of girls to work in the window-display bars in Brussels' Northern Station district. The 2001 removal of entry visas allowed for easier entry of prostitutes in Belgium. Prior to 2001 these women mostly used counterfeit passports and were largely illegal immigrants. The Belgian police adopted the approach of not prosecuting any of the prostitutes but only the pimps (i.e. the presumed traffickers). To prostitution networks, lower-level pimps are more 'expendable' than the prostituting women, as they could be more easily recruited. Most importantly, the Belgian police focused its investigative efforts

<sup>135</sup> The data was provided by the Bulgarian police liaison officer in Belgium.

on Albanian trafficking networks, which dominated window-display prostitution until 2000-2001. They were considered by the police to be much more violent, resulting in more victims of trafficking than other networks. All of the above provided a 'window of opportunity' to Bulgarian criminal entrepreneurs. Window-display owners also were more likely to prefer 'lower-risk' (i.e. legal) girls who the Bulgarian pimps could provide. (The girls in window-display bars are usually hired by the bar owners as 'waitresses'.) As a result, by 2006, about 80-85% of the girls in the window displays were Bulgarian women controlled by Bulgarian criminal networks (according to a police estimated quoted in Sivri 2008: 34), while hardly any Albanians were left.

The big incentive for the internationalisation of Bulgarian prostitution rings is that profit margins in Western countries are higher than in Bulgaria. Market expansion is the other major push factor. The commercial sex market in Bulgaria, despite a growing number of tourists and an increasing domestic demand, has gradually levelled off. The Belgian case shows that international expansion might not be necessarily fuelled by change in domestic demand, but a mix of supply and 'market regulation' factors.

In the case of car theft (or property crimes in general) the key push factor for migration was not profit margins. The costs of stealing and cloning a car in Spain are higher than in Bulgaria. Car thieves, for instance, reported earning approximately double in Spain than what they earn in Bulgaria (OFI-5 and 7). The key incentives for property crimes, such as car theft, are better criminal opportunities. A parallel could be made with plundering 'a natural resource-rich country'. As one offender stated, 'If I skim a card in Bulgaria I can do at most a couple of hundred euros.<sup>136</sup> In Spain there are all these American tourists that come without limits on the credit cards'. [OFI-15] Another offender added 'If you want to steal some specific type of luxury car in Bulgaria you might cruise around forever and not even find it. In Madrid or Marbella you just go to the commercial centre parking lot and wait for a few hours' [OFI-10]. (The next chapter considers in detail the financial and regulatory barriers that BG criminal entrepreneurs faced when entering the (stolen) used car market in Spain.)

Comprehensive statistical data on the numbers of either labour or criminal migrants are difficult to come across and largely unreliable. The table below provides a very

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<sup>136</sup> That is the cap of most cards in Bulgaria.

rough comparison between the number of Bulgarian labour immigrants and criminal migrants in Europe. There is little correlation between the two, for the above explained reasons.

|             | Estimated number of Bulgarian immigrants (2007) | Registered crimes by Bulgarian offenders (2002) | Prisoners (1998-2009) | Detained as of the end of 2009 |
|-------------|---|---|-----------------------|--------------------------------|
| Greece      | 150 000   |   | 4 333                 | 292                            |
| Spain       | 142 734   | 1200  | 1 506                 | 275                            |
| UK          | 70 000  |   |                       | 250                            |
| Germany     | 53 984  | 2980 <sup>137</sup>                             | 24 432                | 163                            |
| Italy       | 50 000  |   |                       | 321                            |
| Austria     | 12,731  | 729   | 1 460                 |                                |
| France      | 15 000  |   | 2 184                 | 180                            |
| Portugal    | 6,364   |   |                       | 23                             |
| Netherlands | 11,356  | 406   |                       |                                |
| Czech Rep   | 10 000  |   | 1 398                 |                                |
| Belgium     | 4 000   | 1761  |                       | 60                             |

Table 11. Bulgarian immigrants and criminal migrants

Sources: Migration data from the Bulgarian Ministry of Labour and Social Policy; Prison and detention data from Ministry of Justice.

The statistical data on the increased prosecution of ‘foreign’ criminals, including Bulgarians, after 2000 in Western Europe and Spain raises the issue of whether this is the result of police racial / ethnic profiling (Delsol 2006, Palidda 2009) or specific policies targeting certain ethnic minorities (e.g. Tournier 1997: 549 on immigrants in France) which could result in the disproportionate presence of foreigners in the police or criminal justice statistics. The issue of profiling is important for the present analysis because there may have been a disproportionate police effort to prevent the market entry of Bulgarian car-theft groups.

Although this is a legitimate concern, profiling practices have not necessarily contributed to a significant extent to the arrest of Bulgarian car thieves for a number of reasons. First, because Bulgarians and the Spanish are racially similar, and police

<sup>137</sup> Data excludes immigration-related crimes

stops would not affect them.<sup>138</sup> Immigrant crime is largely associated with Moroccans and South Americans and drugs-related crime. Ethnic bias in terms of targeting organised crime groups of foreign origin, and in particular Bulgarian, is likely to exist, the police statistics show that 82% of the criminal groups investigated in Spain in 2008 had 'foreign participants' (Cosido 2010: 7). Bulgarian organised crime suspects, 298 in total in 2008, were in proportion to the number of suspects of other nationalities (Romanian, Moroccan, Colombian, etc.) and reflected the relative size of the overall immigrant populations from these countries (Cosido 2010: 7). The number of all car-theft groups identified and investigated in 2008 in Spain was 32 in total (Casido 2010: 6-7). Yet only 3 of them included Bulgarians (C-0208, C-0408, and C-0508). Next, the negative public opinion towards immigration was still forming along with the increase in the numbers of immigrants – the police did not need to respond to such opinions.<sup>139</sup> Eastern Europeans (apart from Bulgarians and Romanians) have never migrated to Spain in high numbers, avoiding the negative stereotypes prevalent in other Western European countries. Finally, the Spanish police statistics on Bulgarian suspects for all crimes show that crime rates amongst Bulgarian immigrants are very similar to the crime rates in Bulgaria – i.e. there is no process either of over-criminalisation or ethnic profiling.<sup>140</sup>

## 6.2.2 Labour migrants and criminal migrants

The connection between labour migrants and criminal migrants is not straightforward. Much has been written about the use ethnic or kin relations (Paoli 2002, Hobbs 2001), and the importance of trust based on ethnic or kin relations (Gambetta 1988, Lampe 2002c) in the operation of illegal market transactions. Other authors (Bovenkerk 2001, Bovenkerk et al. 2003, and Zaitch 2002) have shown that in the

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<sup>138</sup> One offender event noted: 'Driving a stolen car in Spain is much easier because the police is not here [in Bulgaria], they never stop you unless they have a reason' [OFI-2]. In Bulgaria random checks especially of luxury vehicles are regularly carried out by the Traffic Police. Each of the bigger cities has 'check points' on the motorways where all cars need to pass with 60 km. This is one of the legacies of the communist regime.

<sup>139</sup> In 1996, only 8% of survey respondents viewed immigrants negatively, while by 2004, 32% viewed them negatively, still less than the 39% who had positive views (Pereda et al. 2004)

<sup>140</sup> This argument is only roughly outlined here, and more detailed analysis is needed: first, the actual number of Bulgarians in Spain is not clear. Second, the age and gender distributions of migrants are not known, which is important for any type of comparative analysis. But since the immigrant population is generally younger, as it consists almost entirely of migrants of working age and their children, this rough argument holds even more strongly.



Netherlands, in the Turkish / Kurdish heroin trade, in Colombian cocaine smuggling, or in the Russian-speaking *mafya*, culture or ethnicity factors have little explanatory power 'in understanding the extent, form and content of ethnic minority crime' (Bovenkerk et al. 2003: 26).

The case of Belgium is particularly telling because Belgium has a very small Bulgarian labour immigrant community and a significant presence of prostitution networks. Sivri (2008: 67) also notes that the Bulgarian labour immigrants had nothing to do with Bulgarian prostitution networks, and women / pimps were not locally recruited.

In Spain, the Bulgarian car thieves started to migrate in the 1990s. During that early period they operated more as 'itinerant crime groups' (Van Daele 2008), spending a few months in Spain, and not selling the stolen vehicles locally, but simply driving them to Bulgaria. The criminal enterprises were based in, and run from, Bulgaria. At that time, Spain was only peripheral, as countries closer to Bulgaria were 'plundered' (see Chapter 4). Gradually, in the late 1990s, certain illegal entrepreneurs, as well as some car thieves, started to settle locally. Even so, during that period the need for recruitment and connections with the local Bulgarian community in Spain remained superficial. Whenever a need arose for low-level thieves to be involved, these were brought in from Bulgaria, where such individuals had already established themselves and were trusted. With the influx of immigrants and thieves after the lifting of visa restrictions in 2001, the likelihood of using immigrants as part of a car-theft operation or to facilitate the sale of stolen vehicles increased.

Statistical data, as well as evidence from immigrants and offenders alike, shows that although connections between immigrants and criminals existed, they were not strong and stable enough to provide the social basis needed for the distribution of stolen cars.

In Spain, police MVT data shows that, in the past decade, four regions of the country have been particularly affected by car-theft: the capital Madrid, the region of Andalucía (and especially the provinces of Málaga (Costa del Sol), Cádiz, and Granada), Valencia (the provinces of Alicante, Valencia and Castellon), and to a lesser extent Cataluña (Barcelona) (see Figure 25). The explanation is that these are highly urbanised areas with high concentration of vehicles: Madrid as a natural

concentration of the national wealth; and Costa del Sol as an international luxury home and tourist destination, which has attracted criminals from around Europe since the early 1970s (Resa-Nestares 1999: 47). The mapping of the arrests of the Bulgarian car thieves in the 1997–2008 period shows that almost all the cases fall within the three geographic areas (see Figure 26): 50% of cases reported by the Spanish police were related to Madrid, 20% to Valencia, and 25% to Malaga, Granada, and Cadiz.



Figure 25. Number of stolen vehicles in Spain by region (2004)

Source: Spanish Ministry of the Interior



Figure 26. Arrests of Bulgarian nationals involved in car theft (1997-2010)<sup>141</sup>

Source: Own mapping based on cases from Spanish Civil Guard and Spanish National Police; Map: Google

The data on car registrations indicates that the same areas of the country where most thefts occur are also the largest car-sales markets: Madrid, Barcelona, Alicante, Valencia, and Malaga had the most new registrations (Ministry of Interior of Spain 2005: 529).

In terms of the involvement of Bulgarian car thieves, the early reports suggested that their activities in the 1990s were concentrated primarily in Madrid. The first reports on operations of Bulgarian car thieves in Costa del Sol appear in 2000 (C-0600a, C-0600b), while in other regions (around Alicante or Valencia) they first appear in 2001. In all regions the number of cases grew rapidly after 2001. While it is possible that this demonstrates a gradual ‘catching up’ by the Spanish law-enforcement authorities, it also might be explained by the gradual roll-out of groups that initially focused on the Madrid area. Offender interviewees, though, stated that they have

<sup>141</sup> Each pin on the map reflects an arrest case from the police cases analysed for the purposes of the thesis.

'worked' and lived in a number of other towns, where the police cases did not indicate any arrests. In addition, one interviewee described how, often, in some suburbs of Barcelona or Madrid, groups lived not far from each other (50 km), which allowed them to work together or cooperate when needed.

When compared with the geographic data on Bulgarian labour migrants (see Figure 22. Share of total Bulgarian registered immigrants in Spain per region (2008).) in the previous section some differences stand out. Only two of the car-theft areas, Madrid and Valencia, where respectively 21% and 19% of registered Bulgarian immigrants reside, were areas with concentrated car-theft activity. In the other areas, Malaga and Barcelona, there are far fewer Bulgarian labour immigrants. Andalucia (including Costa del Sol), for instance, hosts only 2.3% of Bulgarian immigrants.

Evidence from the interviews supports and explains the above statistical observations. The labour immigrants interviewed had never heard of, and did not know, particular car-thieves in Spain. They only knew about the issue via the media, especially the Bulgarian media.

For the migrant to engage in an illegal activity, on the one hand requires a number of factors such as being in a financial hardship. Hardly any of the interviewees had had permanent work over the years. They were quite often under stress, spending months without a. Even without these difficulties, the salaries of migrant workers are, for the most part, so low (usually in the range of 800-1,000 euros per month), that even temporary or low-skilled help in a car-theft operation (e.g. helping to drive the vehicle when it is stolen, driving it back to Bulgaria, or following a potential victim to understand their habits) could have provided a significant additional income.

Yet, the only interviewee who admitted to attempts to have been recruited was in a case related to drugs. The respondent was originally from Varna and had had some acquaintances from his home town, who were involved in drugs smuggling in Alicante and Valencia. These people had been involved in the drugs trade in Varna as well. Before leaving Varna, some common acquaintances told him to contact the guys in Alicante / Valencia if he is in 'need' and wants to make some cash. These guys periodically called him and his brother with offers. They tried to present the involvement as a low-risk deal: 'you will just need to drive a car from Valencia to

Madrid and we'll pay you 2,000-3,000 Euros'. The respondent was well educated and he and his wife had stable jobs, with very little incentive to make additional money (IMI-1).

Other respondents shed some more light on the difficulties that criminal networks might face in recruiting labour immigrants into criminal activities. While petty crimes for survival, such as small thefts or frauds, are common, involvement in professional crime, such as car-theft or drugs-distribution is a different matter. One labour immigrant hinted that he had received some offers, but he viewed them as extremely risky, and he did not sufficiently trust the people who made the offer: 'you might not get paid, or they might 'fry you' [i.e. get arrested]'. (IMI-6)

The labour immigrants have many other strategies, including drawing on their savings back in Bulgaria, or borrowing from family back in Bulgaria to make ends meet before another job opportunity in Spain arises. Another interviewee recounted stories of desperate immigrants, especially those of Roma descent, who were so poor that they could not afford even to go back to Bulgaria, and were stuck on the Balearic Islands, homeless. None of them though, was involved in crime. Here, though, one should note again, that for car theft a certain level of education or skills (e.g. a driver's licence) are needed, which makes the involvement of uneducated immigrants unlikely.

Offenders commonly stated that even lower-level mules or look-outs need to be trusted and tested. Usually the thieves formed their own crews of look-outs. The thieves, as explained in Chapter 4, rarely spend any considerable time at one location. They change towns, and even the entrepreneur they work for, every few months. As result, recruiting of the '*brigada*' (the theft crew) is done in Bulgaria. The offenders interviewed stated that usually they did not know all the other people in the group, but they were all from different towns in Bulgaria.

Only one offender-interviewee mentioned that he had gone to Spain to a relative, who was a labour migrant, before connecting later on to a criminal group, when a 'friend called him'. Other offenders reported that they have family members in some parts of Spain, but when they went for 'work' it was to completely different part of the country. One of the car-thieves interviewed explained that most of his immediate family now lives in Spain. 'I haven't thought about going there. What would I do there.

I like it here...you can say I'm a patriot' [OFI-23] In other words, for him as a professional criminal, the fact that his family lives in Spain offers little in the way of criminal opportunities. The second reason is that the destination of migrants, especially those from small towns, is often related to agricultural or construction work, and in different regions from those where car thieves go (Costa del Sol, Barcelona, Madrid). Interviews with members of the Bulgarian immigrant community in Marbella / Malaga (Costa del Sol), showed that there were almost no labour migrants from the Pazardjik area in that region. Yet Marbella was a popular destination for car-thieves from Pazardjik. On the other hand, a major destination for work-migrants from Pazardjik is the Balearic Islands, where there is a significant community around the tourism service industry and construction. The Balearic Islands, though, are off the list of possible targets for car thieves<sup>142</sup>.

The itinerant *modus operandi* of car thieves (or entrepreneurs who were formerly car thieves) pretty much precluded the establishment of lasting relations with Bulgarian immigrant community. On the other hand, as stated in the previous chapter, some of the 'theft enterprises' were run by individuals who had been established locally for a long time. Their connections with other Bulgarians must have been well established: for instance with local car-service or even car-key shops that were run by Bulgarians, (of which there were a 'few dozen'<sup>143</sup> across Spain, including several in Madrid). An offender also indicated that he knew of Bulgarians who ran used-car dealerships and car junkyards, but that they were not related to car-theft entrepreneurs (OF-16). The low-social status of the majority of Bulgarian labour migrants, and their existence outside mainstream society, is probably the key explanation of why the Bulgarian immigrant communities were not well positioned to facilitate the entry of criminal enterprises in the used-car market. The description of the social status of the local theft entrepreneurs was that they were 'rich', and had a nice house, but they usually had some small business, and could hardly be described as part of the local elite, especially in cities such as Madrid, Valencia, or Costa del Sol, where the political elite is an entirely different category.

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<sup>142</sup> As one interviewee noted, removing a stolen car from a small island is difficult and risky (IMI-6)

<sup>143</sup> This estimate is made on combined data obtained from ads in the Bulgarian daily newspaper in Spain, (*Nova Duma*), internet search, interviews with researchers, representatives of the Bulgarian Embassy in Spain, and immigrants. The data showed that almost all knew of some car-repair shops either where Bulgarians worked or which was run by Bulgarians. It was not immediately clear what proportion of the repair shops even dealt with luxury cars.

A more complex answer relates to the question of the role of Bulgarians who reside in towns or cities where car thieves also operate. Here, the answer comes both from migrants and car thieves and concerns the issue of trust. For the migrants, the perceived level of risk is much higher than it is for the offenders, and for them to engage in a risky activity they would really need to trust the other people involved. Otherwise migrants expressed fears of becoming victims of violence if something went wrong, of not being paid as expected, or of being arrested.

The above conclusions of the lack of relations between criminal entrepreneurs and immigrants are not surprising in view of the fact that when international companies enter foreign markets, local migrant communities are rarely a consideration: that would limit a company's expansion to handful of markets. It seems that, similarly, for organised criminals the migrant community is not a consideration. Where large immigrant or ethnic groups exist (e.g. South Asians in the UK, Moroccans in Spain), where they constitute a significant consumer target group, foreign companies might choose to enter a market to meet a need which local companies either do not meet or do so at a higher price. This, though, is a very limited market and counts for little. The recruitment of local immigrants to fulfil staffing needs is also rarely a priority: the main consideration in recruitment is the possession of the required qualifications, which can be met either by bringing staff from headquarters or hire more highly qualified local staff. One target group for some companies in Western European / US markets is illegal migrants, due to the low labour costs. This group is not solely exploited by companies that attempt to enter a market, but by all companies that might seek lower labour costs.

The Spanish police cases that were reviewed for this thesis indicated that the ethnic and the national composition of the networks are quite diverse. One should be careful with police terminology, which often lumps together as a 'group' (and this is partially done to satisfy Penal code requirements) all the participants in a criminal scheme, regardless of whether these are individuals that provide criminal services (falsifying documents, forging VINs) or are clients (e.g. buying stolen cars that are then trafficked and sold in other countries). Yet the data from these files show that in 27 of the 55 cases, the 'group' or 'network' also included other nationalities. In some of these cases the foreign members were Spaniards (responsible for the sale of the stolen vehicles (C-0307), or owners of car-repair shops (C-0707), or just girlfriends of car-thieves (C-0707). In addition, in some cases non-Bulgarian criminal

entrepreneurs hired Bulgarian car thieves for their operations: a Moroccan entrepreneur directly hired six Bulgarians (along with nine Moroccans), to steal cars that were exported to Morocco (C-0209); in another case, an Armenian entrepreneur hired a Bulgarian woman from Pazardjik known to be involved in car theft (C-0706b).

### 6.3 Criminal networks in Spain

As the previous chapter indicates, Bulgarian car-theft enterprises were successful in entering the 'wholesale' illegal market for stolen cars, selling stolen cars to other foreign criminal enterprises (Moroccan, Eastern Europeans) who either exported them for resale outside Spain, or used them to transport drugs within Spain. The main explanation to this success is that Bulgarian criminal entrepreneurs had broad informal relations with other foreign criminal entrepreneurs as they were involved in a number of other criminal markets / activities in Spain.

The car-theft business became the entry point for the involvement of many Bulgarian criminals in the **drugs trade**. Spain is the main entry point for cocaine and cannabis into Europe, and itself has one of the largest per capita consumptions of cocaine and cannabis in the EU (EMCDDA 2008: 14, 37). Since the late 1990s, Bulgarians have sold stolen cars to Moroccan drug traffickers. Gradually, some of the Moroccans started paying for the cars in drugs. Most offender interviewees admitted to have been involved in various low-level drugs market activities – either in Bulgaria or in Spain. As one interviewee stated, 'as a car-mule I can make a couple of thousand Euros driving a car to Bulgaria in a matter of two weeks – [but] to drive some drugs from one town to another in Spain, I can make the same money in a few hours'.

Almost all offender interviewees had some contact and exposure to Moroccan smugglers. Some interviewees recounted that they often lived in Moroccan neighbourhoods, side by side with Moroccan criminals ('as these [neighbourhoods] were the cheapest'), which further facilitated the contacts. Moroccan criminal entrepreneurs involved in car theft usually doubled as drugs smugglers, and investing in stolen cars was a way of repatriating some of the drugs profits.

Bulgarian vehicle thieves, though, took this 'customer relationship' a step further: they sold stolen light trucks or all-terrain vehicles to the drug smugglers after having installed a GPS tracking device in them. Once the drug smugglers had loaded the

cargo, the vehicles were stolen back from them (C-0204b, C-0205; C-0703; C-0607). Another approach described was to follow the vehicles sold and to mix with the traffickers who were expecting the unloading of the drugs shipment at the coast, and then trap them.

In the course of law-enforcement operations against such groups significant quantities of drugs have been recovered. In total between 2003 and 2005, 5.9 tons of hashish and 111 kg of cocaine (C-0905) were confiscated from Bulgarian vehicle-theft networks, including two seizures of 3.7 tons (C-0204B) and 1.3 tons of hashish (C-0205). This scheme seemed to be replicated by a Spanish car-theft network as well, whose investigation in 2008 led the Spanish police to the seizure of 6.3 tons of hashish (Fernández 2008). This network's tactic was to dress as police officers during the secondary thefts.

Law-enforcement interviewees generally describe the involvement of Bulgarians in the drug trade as being at fairly low levels. To some extent, the same booming economy that made Spain an attractive place to work for Bulgarian labour migrants, attracted low-level 'soldiers' ready to enter into a lower echelons of organised crime activities: car theft, burglaries, transporting drugs. Bulgarian drug mules ('swallowers' or '*boleros*'), for instance, are regularly arrested for trafficking cocaine between South America and Spain. Bulgarian boat crews transporting cocaine from South America have also been apprehended. There have been occasions on which Bulgarians have been arrested for the smuggling or distribution of heroin, in most instances, the quantities indicating low-level transportation logistics involvement (C-0204; C-1206).

In one such case, related to trafficking of hashish between Spain and France, luxury all-terrain vehicles supplied by Bulgarians were used by French drug-smugglers to transport several hundred kilograms of hashish to Marseille in a single operation. Such luxury vehicles were needed due to the tactics that the French used: they would use two vehicles, one pilot, followed 3 km behind by the drug-transporting vehicle. Both would drive at high speeds, and the pilot would warn of any police presence (C-0505, C-0703, C20, C27).

The other significant market involvement that provided connections to car-theft entrepreneurs was the **commercial sex market**. Although, prostitution is legal in Spain, in recent years, quite a few Bulgarian-run illegal prostitution rings, involving



mainly Bulgarian women, have been dismantled in Spain (C-1006, C-0404, C-0506). There are at least a couple of cases in which criminal entrepreneurs were involved in both prostitution and car theft (C-1105, C-0702). In these cases, vehicle theft was an additional activity, rather than the principal occupation of the entrepreneurs. One case that the Spanish police described in more depth involved a group, which between 2003 and 2005 had involved at least 600 Bulgarian women in the province of Alicante. Its ability to **forge documents**<sup>144</sup> was used to arrange the immigration documents of the women, while at the same time it was rendering its services to car-theft groups (C-1105). As explained in the previous chapter, prostitution rings in Bulgaria often use luxury cars to launder profits, and many pimps own car-dealerships, some which also distribute stolen cars.

The intertwining of prostitution and car-theft networks is also demonstrated in two other ways. Car thieves and prostitutes may share common facilities, such as accommodation, or use brothels to establish themselves. [OFI-9] In addition, prostitutes and pimps provide information on customers that are potential targets and facilitate the theft. [OFI-9, OFI-11, OFI-7]

In Spain, another typical secondary activity for Bulgarian car thieves or entrepreneurs was the smuggling and **sale of illegal firearms**. For most of the 1990s, and up until around 2005, access to stolen firearms and remodelled guns in Bulgaria was relatively easy (Rynn et al. 2005, Gounev et al. 2006).<sup>145</sup> Some car-theft groups became involved in the illegal arms trade on a small scale, using the readily available supply of guns in Bulgaria, the trafficking channels for cars, and the distribution network connections with the Spanish underground economy (particularly drug-dealers).

The largest amount of firearms ever recovered from Bulgarian car thieves by the Spanish police was in February 2004, when the Guardia Civil arrested a group of vehicle thieves and discovered 17 firearms, including handguns, UZIs and

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<sup>144</sup> The skills required to forge vehicle documents are readily transferable to other domains: forging of lottery tickets, personal IDs, and passports (C-1105). Stolen credit cards used along with fake IDs are also used to rent a vehicle fraudulently and then steal it.

<sup>145</sup> The easy access to firearms was due to problems with security at newly privatized arms-producing plants, the security of military arsenals, and the significant number of unemployed specialists skilled in remodelling gas-pistols into combat ones. (Rynn et al. 2005)

Kalashnikov automatic rifle (C-0204B). In 2003, the police arrested on its arrival from Bulgaria to Gandia (near Alicante) a vehicle whose interior was entirely remodelled and stuffed with 50 new factory-made Makarov pistols without markings,<sup>146</sup> 7 AK-47 assault rifles, as well as numerous car key blades (to make copies of car-keys) and corkscrews (to remove car key locks) (C-1103). On most other occasions, the police reported the confiscation of 12 firearms or less (C-1201; C-0202; C-0803; C-0903) from apprehended theft groups. At that period, several public statements by Spanish law-enforcement officials alleged that Bulgarians were major players in the 'illegal guns' market in Spain.

**The prisons** were also another place where Bulgarian criminals managed to establish connections with other criminals. In some cases, Bulgarian entrepreneurs continued to run their business from prison (C-0707). One car thief recounted that often he got jobs through people that he had met in the various prisons, especially Slavs, such as Serbs or Ukrainians. (OFI-16)

The analysis in this section showed that the informal relations between Bulgarian criminal entrepreneurs and political or economic elites, as well as luxury car dealers, as customers for (stolen) luxury cars were very limited. One explanation is the perception that local elites may have had of Bulgarian entrepreneurs. The 2007 survey of political and economic elites in Europe shows that elites in Spain are very different from the rest of Western Europe, and in many respects their characteristics are closer to those in Eastern Europe. Probably the most important difference from other Western European countries is the importance of being 'Spanish' (to 'be born in Spain' or 'to have Spanish parents') that political and economic elites in Spain attach to the notion of being part of the elite (Jezer Mir and Vazquez 2009).

#### **6.4 The political economy of selling stolen cars in Bulgaria**

As the previous chapter showed, 'entrepreneurs' who sell stolen cars in Bulgaria operate in variety of social settings: from the big cities, such as Sofia or Varna, to the small towns. The two sections below examine two different social settings: Pazardjik,

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<sup>146</sup> There are two companies that produce Makarov pistols in Bulgaria, Arsenal and Arcus JSC, and only one, Arsenal, that produces Kalashnikov. There have been various allegations about the security at Arsenal, the low salaries and poor organization which has for years fuelled thefts from the factory, and numerous illegal arms-producing shops in local towns have been dismantled (Rynn et al. 2005)

which is a bigger town, where criminal entrepreneurs are closely integrated into 'national criminal elites', and Gabrovo, a smaller town with a 'small town' culture.

#### 6.4.1 The case study of Pazardjik

Although being the 14<sup>th</sup> largest city in Bulgaria, with a population of around 80,000, Pazardjik is considered by its citizens to be a small town – the kind of place where everyone knows everyone, with a main street where people stroll after work or on weekends to meet and chat to friends and family. It is also an hour's drive from the capital Sofia, and a 15-minute drive from Plovdiv (Bulgaria's second largest city) situated on a major international motorway connecting the Middle East to Europe (Istanbul is a five-hour drive). It would not be an exaggeration to describe Pazardjik as one of Bulgaria's crime hubs, where international prostitution, drugs, cigarettes, fuels, or stolen-car smuggling rings cross paths in a town where criminal entrepreneurs and the political / judicial / economic elite have managed to exert their influence beyond the limits of the town.

Pazardjik has a picturesque downtown area where the only reminder of the underground economy on which the town runs is the always-present group of stolen-jewellery and mobile-phone dealers. They spend their days right in the middle of the main pedestrian strip, selling either to each other or to occasional passers-by, stolen gold and mobile phones. The many other signs are not visible to the naked eye – the local bars where police officers and criminals spend their time hanging out; or the newly constructed buildings, small stores, entertainment venues, and bingo halls where criminal profits are invested / laundered; and the hundreds of young women graduating from local secondary schools only to be recruited into prostitution.

Corruption is entrenched in the city's culture. An index<sup>147</sup> of Bulgaria's 28 regional capitals ranked Pazardjik as the most corrupt in Bulgaria (Mladenova et al. 2009). Over the period 2000–2010, a number of corruption scandals surfaced, only indicating the possible depth of the corruption issue. In 2004, the city's mayor was accused of having arranged prostitutes for a visiting Russian delegation and other municipal employees and councillors. It came out that, prior to being elected as mayor, he was defence lawyer to the pimp and trafficker in human beings who

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<sup>147</sup> The index is based on a survey of business, non-profit and local administration representatives, as well as analysis of local legislation.

provided the prostitutes.<sup>148</sup> The sex scandal also brought to light a number of other corrupt deals related to public procurement deals arranged by the mayor. (Staridolska 2004) When, in 2006, the regional head of the police resigned, assuming responsibility for an involuntary manslaughter by a police officer, a number of corruption cases were made public, connected to police departments across the Pazardjik region (in the nearby towns of Velingrad and Batak). It emerged that a number of police officers were involved with car-trafficking networks<sup>149</sup> (Terzieva 2006). In 2009, a local judge and a defence lawyer<sup>150</sup> were investigated for taking bribes from a trafficker in cultural goods. (Ilkov and Yordanova 2009) In 2010, the head and deputy head of Pazardjik's anti-organised crime unit were temporarily sacked after allegations of corruption and connections with organised crime. The allegations, made by a local businessman / municipal councillor and supported by 20 convicted / investigated criminals (including some involved in car-trafficking), were dismissed as no evidence was found (BTV 2010).<sup>151</sup> In July 2010, the Deputy Regional Prosecutor of Pazardjik was dismissed after phone call records revealed that on numerous occasions he had contacted an intermediary who arranged top magistrate appointments using corrupt means (the implication was that he was trying to buy the position of Regional Prosecutor of Pazardjik<sup>152</sup>) (24 Chassa 2010).

The criminal elites thrive by using a mass of local criminals, or simply ordinary citizens who are willing to become involved in the informal or illegal economic activities in Pazardjik or in other EU countries. Pazardjik has a few neighbourhoods where criminal activities are concentrated, and where most of petty criminals come from: 'Iztok' [East], 'KAT'<sup>153</sup>, and 'Zapadna' [Western]. 'Iztok' [East]<sup>154</sup> is the biggest

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<sup>148</sup> The pimp's brother was bodyguard to one of the SIC heads and was murdered along with his boss and four other bodyguards in the same year (2004) in one of the most brutal episodes of organised crime bloodshed.

<sup>149</sup> In one of the cases, the VINs of a confiscated car were rigged right inside the police yard.

<sup>150</sup> One of offender described the lawyer, whose husband was a high-level prosecutor, in the following way: 'She can fix you up quite well if she want, but she's very expensive.... she's not someone you can count on...she was the bride's maid at a friend of mine's wedding, but she charged him tons of money (\$20,000) and she fucked him up: his wife and mother in law both went to prison with very long sentences on drugs charges' [OFI-23]

<sup>151</sup> The interviews with offenders (which took place before this scandal broke) supported the allegations.

<sup>152</sup> The so called 'Krassio affair' is one of the biggest corruption scandals concerning the Bulgarian judiciary, which took place in 2009–2010, after it became apparent that a young intermediary was in the middle of arranging top magistrate positions, including positions on the Supreme Judicial Council.

<sup>153</sup> 'KAT' is the abbreviation for Traffic Police [Kontro varhu Avto-Transporta], and the neighbourhood has taken the name from the fact that city traffic police office is located in the neighbourhood.

Roma neighbourhood in Pazardjik. The description provided by a local low-level pimp (who prostitutes his wife) from the balcony of their flat in a building situated in the heart of the neighbourhood best describes the socio-economics of the neighbourhood:

*'The house straight across the street belongs to a pimp who works in France. [...] The one on the left to a guy who 'keeps a few girls' in Germany but his son works in construction in France [...] Next to him is the imam, but his house is bigger than the mosque, which is the building over there. He stole most of the money that some Arab foundation gave for the mosque.[...] The house there and the big yard belong to some guys that deal in scrap metal.<sup>155</sup> The newly constructed house to the right, over there, belongs one of the local loan sharks.<sup>156</sup> [...] Down the street there are a bunch of shops, where you can get [illegal] cigarettes. [Going down the stairs of the building, he pauses on each floor to explain the work the neighbours do] The family that lives in this flat – the wife is a prostitute in Greece, but the husband works in Germany [...]. This family: the wife works as a prostitute in Germany and supports them [...] This family is a normal one, they run a currency exchange business in town. [...] This family – they are in the business of [selling stolen] gold and phones on the main street.'* [OFI-22]

This quick scan of the neighbourhood does not even touch on the heroin trade that is run from the neighbourhood. The socio-economics of the Iztok neighbourhood is quite similar to that of many other Roma neighbourhoods in Bulgaria, particularly the ones in larger cities such as Sofia, Plovdiv, Varna, Kazanlak, or Bourgas.<sup>157</sup> Only two

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<sup>154</sup> The names of many Roma neighbourhoods around the country, given during communism, are 'East' or 'Sunrise'.

<sup>155</sup> Scrap-metal collection points in Roma neighbourhoods rely on metal which is either picked up in garbage or stolen. It is a significant concern. Every year over 5 million euro worth of electricity cables is stolen across the country. (Todorov 2008)

<sup>156</sup> The usurers are widespread in Roma neighbourhoods, where citizens have no access to credit. The interest rates offered are so high, that many Roma get into debt for life. The usurers also take the personal ID cards of their clients. In Pazardjik, they use their influence to sell votes during municipal elections [State Agency for National Security agent, Angel Stoev, quote by *Darik News* 2009], which is a widespread phenomenon in small towns and Roma neighbourhoods in Bulgaria.

<sup>157</sup> The only exception concerns heroin: not all Roma neighbourhoods distribute heroin, as only the Turkish-speaking ones, such as those in Plovdiv and Pazardjik, have connections to Turkey from where most of the heroin is imported.

interviewees involved in car theft came from the Roma neighbourhood. They had only peripheral roles as mules or onlookers. There are two key reasons why Roma are not involved in the theft or sale of luxury vehicles: very few have driver's licences; very few have mechanical or electrical technical skills (as less than 10% graduate from high-school) or are even literate enough to become involved in any of the more sophisticated roles.

The second neighbourhood that had turned into a recruitment ground for petty criminals is known as 'KAT',<sup>158</sup> and it is adjacent to the Iztok neighbourhood. KAT's ethnic make-up is mixed, as Roma and Bulgarians live side-by-side, although it is seen as a predominantly Bulgarian neighbourhood, and the Roma are of a slightly higher social status. KAT has a reputation amongst the town's citizens as being a 'tough neighbourhood' where 'groups of hooligans'<sup>159</sup> roam around, making the streets unsafe (OFI-15, OFI-19). Most of the offenders that were interviewed were from this neighbourhood. If, in the context Pazardjik, the phrase 'everyone knows everyone' is more of a metaphor, in KAT this phrase reflects reality, especially in certain age groups. Interviewees described their growing up in that neighbourhood in different ways: 'It was hell growing up there – lots of fights and violence; you don't wanna know the kind of things that I've seen' (OFI-4); 'In this neighbourhood every second girl is a prostitute' (OFI-18). Another respondent described KAT in the following way 'There is no criminal head [*tartor*] in the neighbourhood, there are rather a few 'authority figures' (*avtoriteti*)<sup>160</sup>. These authority figures control the low-level criminals, by occasionally setting them up with 'jobs', but also extorting a share of their criminal incomes (CDI-2). They also have connections to the higher-level criminal elites (e.g. high-level pimps, or car thieves) and can provide expendable low-level 'garbage' (as police officers or higher-level criminals refer to the lower-level criminals). The main form of control is violence: 'They would line us up, and beat you up if you have hidden money' (CDI-2).

For car theft networks, the historical roots of these connections go back to the 1990s, when many of the low-level criminals worked for one of the 'grupirovki':

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<sup>158</sup> KAT (stands for Control over Automobile Transport) and is the official abbreviation of the Traffic Police. The neighbourhood takes its name from the fact that Pazardjik's Traffic Police headquarters are situated in that part of town.

<sup>159</sup> The concept of 'gangs' is not used in Bulgaria.

<sup>160</sup> The same term is used by Russian criminals (e.g. Varese 2001: 141).

*'I liked going out...it sucked to go out to a club in the evening and hang out over a glass of coke, while you watch the 'lion pups' throwing money. So I started first with thefts of car stereos. Then my friend 'The Frog' taught me how to steal cars. So I started working as 'lion pup' [lavche / лъвче – foot soldier] for Apollo and Balkan. We had also SIC and VIS in town...'* [OFI-8]

If the neighbourhoods provide networks to recruit low-level criminals, there are several 'institutional' networks that provide for the recruitment of criminals with specific skills or connections. One of them is the regional correctional school: a communist heritage, semi-penitentiary institution where 'difficult' children were sent. The mechanical technical school in the city, for instance, is where many technically savvy students meet: some, who could make theft instruments, become car-mechanics, and eventually even become car thieves (OFI-18). Higher-level prostitutes are commonly recruited in the foreign languages school and the specialised gastronomy school (OTI-15). Pazardjik's prison is probably the most notable network. With its 900 prisoners (Helsinki Committee 2002: 23), the prison is not only a place to make connections with other criminals, there is an entire illegal economy around the prison – especially in a small town such as Pazardjik – for drugs and (stolen) mobile phones.

Since 1975 Pazardjik has also been the home of the only 'Police school' (until 1990 its name was the Intermediary Militia School): it is not a police academy, but rather a preparatory school, as well as a professional development school, where around 1,000 students pursue initial police training.<sup>161</sup> Some of the well-known ex-police officers-turned-crime figures are graduates of the school. Interviews and public sources suggest that many other graduates have also followed criminal careers, including car theft. Others have taken different professional paths, such as director of Pazardjik prison, or heads of police departments.

While the police school is unique for the country, the sports intermediary school in Pazardjik, Georgi Benkovski, a boarding high-school school for professional athletes, up to 1990 was one of 36 such specialised sports schools (Tzvetkova 2008: 181).

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<sup>161</sup> After 2000, the school became a specialized training centre of the General Directorate Border Police. ([www.nsgp.mvr.bg](http://www.nsgp.mvr.bg))

The phenomenon of the role professional athletes in organised crime is examined in depth by Petrunov (2006) and Tzvetkova (2008) in Bulgaria, by Volkov (2002: 6-11) in Russia. Graduates of the Benkovski school formed the core of one of the rather well-known private security firms in the early 1990s, 'Gardenia 69', headed by former wrestler. 'Gardenia 69' became involved in some of the bloodiest organised crime conflicts in Sofia. The company declined because 'clients were scared by rumours [that] they're involved in car-theft and [the] gun trade' (Cholakova 2007: 94-100). Two of the offenders interviewed were also graduates of sport school in Pazardjik [OFI-9] and Plovdiv [OFI-12].

*'In the 1990s the centre of town you can see the offices of all the big [racketeering] firms: VIS, SIC, Gardenia (which was associated with Korona Ins), Zora, Apolo and Balkan. They had all divided the turf and there wasn't much of a fight about anything. All these guys knew each other from school and they were friends even though they worked for different companies' [OFI-23]*

Another well known graduate of Pazardjik's sport school is the wrestler athlete already referred to in previous chapters, present-day politician, Mr. Big. Mr. Big is an example of what would be considered the criminal elite. In the early 1990s he was amongst the founders of a racketeering private security companies, whose other partners included the future bosses of SIC and VIS-2 (see chapter 4). He later became involved with Multigroup, an economic empire which has often been seen as the incarnation of oligarchy and organised crime.<sup>162</sup> He later established one of the racketeering insurance companies (where his partner was another present-day politician and former athlete), whose license was rescinded in 1998<sup>163</sup>.

Many sports schools graduates went to the National Sports Academy to pursue university level sports career. Here is how one offender described the social networks established at the Academy:

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<sup>162</sup> There is much work on the background to Multigroup and its significance in Bulgarian political and economic life in the 1990s, until the assassination of Ilia Pavlov in 2003 (see for instance, Glenny 2008: 3-20; Dimitrov 2009).

<sup>163</sup> Mr. Big gradually developed other businesses, becoming involved in the gas trade with Russian partners (who were also former wrestlers). He escaped several assassination attempts in 2002 and 2003.



*'In the Academy one makes tons of connections. Our graduating group<sup>164</sup> was about 30, and about half of them went on to work for the police – in Pazardjik, or in Sofia, or one became a prosecutor in Pazardjik. Some of us though remained on the 'other side'. We all know what the other does. I haven't had a need for an 'umbrella' [cover-up], but you can always count on them for small favours, avoiding administrative stuff...when we get together for a drink we usually talk about other things. We also get together once a year in Borovets [a skiing resort]. [OFI-16]*

The connections between local elites and racketeering private security and insurance companies (who later became the entrepreneurs that run car-theft enterprises) have strong historical bonds. In the 1990s, the widespread racketeering and absence of effective law-enforcement forced local business elites to use the services of racketeering companies for protection, for dealing with competition, solving of disputes, and collecting debt. VIS, SIC, Apollo and Balkan, and Zora, became substitutes for, or rather complements to, law-enforcement and judiciary that were corrupt, slow, and weak. At the local level in small towns and cities, businessmen used the services of the local offices of the big national or regional racketeering companies. On the central level, even large corporations such as Multigroup used the services of VIS (Cholakova 2007) either for debt collection or protection from extortion. Therefore, most businessmen in a small or medium-sized town would know who they might turn to collect debts or settle a dispute.<sup>165</sup>

The distribution of cars within a small town such as Pazardjik, where a few dozen potential customers live, is not very profitable. What is needed for a successful entrepreneur is a wider network that may fulfil year-round demand. The example of Mr. Big shows very well how his background provided a network with access to local economic and political elites beyond Pazardjik.

His network of acquaintances, as well as his professional / business career reveals that he is placed in a network with all the major figures who were involved in the

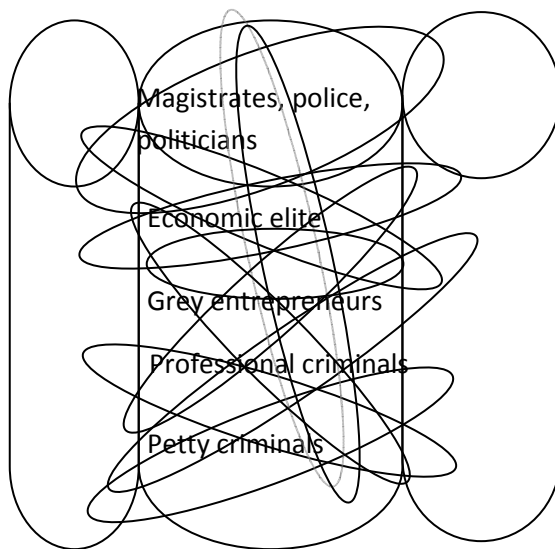
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<sup>164</sup> A graduating class of 150 is usually split in five groups of 30 students. As there are no elective courses, each group takes the same courses. The students in each group therefore get to know each other very well, as they spend their 5 years at the academy everyday together. High-schools are organised in a similar way.

<sup>165</sup> Tzvetkova (2008: 258-306) provides a good empirical account of the services that racketeering companies provide to businesses.

racketeering business in the 1990s, as well as the related car-theft. It also shows how he managed to connect to political and economic elites that come from former wrestling or other athletics backgrounds. In his interviews he admits to having joint business ventures with the mayor (also a famous former athlete) of another town, where major prostitution networks operate.<sup>166</sup> The connection between athletes and the security forces was facilitated by the fact that until the early 1990s the Ministry of the Interior and the Army were the owners of the two largest professional sports clubs in Bulgaria (that included not only the biggest football teams but also any other professional sport). Many athletes in these clubs directly joined the police or the army after their sports careers ended.

Across the country in big and small cities, entrepreneurs with either a police / security background or who are athletes have transformed themselves into local political and economic elites. They have built upon this network, involving local businessmen or businessmen-turned-politicians. At the local level in Bulgaria, there are very few



**Figure 27. Visualising the social environment**

professional politicians, as the local political structures are very weak. During the past decade two governments<sup>167</sup> came to power, run by charismatic leaders, who created new parties, mostly attracting opportunist local businessmen.

Figure 27 aims to visualise the social-economic power relations in a town such as Pazardjik. Each of the three tubes below may represent a town. If the town in the middle tube is Pazardjik,

historical and social circumstances or professional and criminal activities have made the social groups listed in this tube part of several intersecting social networks

<sup>166</sup> For a short time in the late 1990s, Mr. Big was on the board of one of the biggest football clubs, which at the time was owned by Multigroup.

<sup>167</sup> In 2001, the former King of Bulgaria, Simeon Saxe-Coburg-Gotha became Prime Minister. In 2006, the former Secretary General of the Police of the 'King's government', Boyko Borisov, established his own party, which won the 2007 local elections in Sofia, and in 2009, the parliamentary elections, thus becoming first Mayor of Sofia and then Prime Minister. Borisov is also former owner of a private security firm ('Ipon'), and former business partner of one of the SIC founders.

(represented by the different concentric circles). Often these networks extend to nearby towns or to bigger regional centres or the capital, Sofia.

At the core of these networks in a town, such as Pazardjik, is the economic elite, which consists of a legitimate businesses and grey entrepreneurs. Some grey entrepreneurs are also involved in illegal market activities – they usually have a criminal background, but have managed to launder and legitimise their profits. They usually finance higher level illegal market deals or provide protection from prosecution to the professional criminals (e.g. the car-theft groups). These ‘grey entrepreneurs’ may have all sorts of professional backgrounds including lawyers, former police, or public officials that have access to magistrates or police and can provide protection. They simply use their legitimate economic and social positions to influence the political / administrative ‘caste’: local politicians, police, tax officials, or magistrates. In a worst-case scenario they might even directly participate in politics, covering themselves with a veil of legitimacy.

The symbiosis between the police-magistrates-politicians on one side and the grey businessmen on the other is strong and resistant to political change. The businessmen are the main source of additional income, in the various forms of bribes and favours to these public officials and politicians. And, vice-versa, the public officials and politicians are a source of income to the businessmen (e.g. from rigged public contracts) and are also a source of protection – not only of their unlawful business practices, but also from prosecution for any illegal enterprises the businessmen might be protecting or financing.

The professional criminals coming from sports or police schools – the higher-level supervisors (e.g. including the technology-savvy car thieves, higher-level pimps, drug area supervisors, the escort service girls) are the people actually moving and coordinating the illegal deals. They know and control through violence the petty criminals, with whom they might have grown up in the same neighbourhood (the ‘expendable’ criminal participants, the prostitutes, drugs dealers, the pimps, and cigarette smugglers). These are for the most part, just employees working for their ‘back’ [*grub*] – illegal entrepreneur. Regardless of which social group one pertains to, there are always relations and connections to other towns (represented by the two tubes on the side). Over time, the social networks are recreated or new ones are

being added and shifting, as people move from one to another social group, or the social environment and institutions impact the milieu.

#### 6.4.2 The case of Gabrovo

If the case of Pazardjik accounts for the wider social environment within which much of the car-sales take place in big cities or towns with a significant presence of former *grupirovki* or illegal enterprises involved in other illegal activities, the case of Gabrovo is more representative of the situation in other smaller towns around the country.

Gabrovo is about a third smaller than Pazardjik in terms of population (62,000). In the early 20<sup>th</sup> century and during communism it was an industrial powerhouse; however, the city declined economically in comparison with its pre-1990 glory. The city is away from all major international routes. Unlike Pazardjik it does not have a prison, a sports school, police school, or a Roma neighbourhood. 'We've had a couple Gypsy families that have been here for decades but they've never given us real problems' (LEI-14). In addition, during the 1990s the presence of racketeering private security / insurance companies was much weaker than in other towns. 'The *grupirovki* never really managed to do much here. People quickly got fed up with them<sup>168</sup> and started coming to the police complaining, and they [the *grupirovki*] did not have either police or political support to do much' (LEI-14). Gabrovo (and the region to which it is an administrative centre) have had the lowest unemployment for years, and higher than average incomes. Emigration, either to other bigger towns (Sofia and nearby Veliko Tarnovo), or to Spain (in particular Madrid and Valencia) has been common since the late 1990s.

Much like other smaller towns – the city has a small economic elite consisting of local entrepreneurs: some former state-enterprise managers; local entrepreneurs that built on grey economy activities (starting from the few security firms, to construction, clothing and footwear production, or the logging business); or those who managed to run properly privatized state enterprises. The city also is also a small IT hub, built around the Gabrovo Technical University. The local politics is closely enmeshed with local business, as municipal councillors or mayors are usually local businessmen.

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<sup>168</sup> The local office of the *grupirovki* is described as a bunch of local tough guys without much influence. (LEI-14, OTI-11) The local representative of SIC, in addition to several arrests on racketeering charges (in 1996 and 1999), was eventually convicted on pimping charges and imprisoned.

The small judiciary (a dozen judges and five prosecutors) is closely linked to the few lawyers in the city, who provide an efficient corruption network to serve the city's business-elite interests.<sup>169</sup> The city has a very low crime rate, and petty crime is the major focus of the handful of local detectives. There are no neighbourhoods that have a concentration of criminals. Petty criminals are few, and they often feel pressured to leave town (either to Spain or to bigger cities), where the police does not know them. In fact much local crime, including car theft, is the work of 'itinerant' criminals who raid the city from other towns. [LEI-14] The city has not had any politicians, police or judicial representatives investigated for corruption. Gabrovo has hardly any drugs, cigarettes, or prostitution markets, as the nearby slightly bigger town of Veliko Tarnovo (which sits on a major motorway) is where all illegal goods could be bought. Gabrovo's 'international crime' connections are quite weak, as the city has little to offer in terms of local markets or resources, and other 'export crime hubs' (see Gounev et al. 2009) are used instead (LEI-14).

The city has a dozen used-car dealers, mostly selling cheap cars either imported from Italy or Germany, or bought at the Gorublyane and Dupnitsa open-air markets. The car-dealers are small local businessmen without any other business [LEI-14, LEI-15, OTI-11]. All this makes the picture of the selling of stolen cars by the few local 'sales entrepreneurs' very different to the one painted above in Pazardjik. For some of them, e.g. the Pirana, described in the previous chapter, the 'Spanish experience' has furthered his international and domestic contacts, allowing him to sell stolen cars to sales entrepreneurs in Macedonia and Albania, or to other 'sales entrepreneurs' in bigger cities around Bulgaria. He also has a reputation as a stolen-car importer with regional criminal networks in Northern and Central Bulgaria (LEI-14). For him, as well as for the other one or two local sales entrepreneurs, their personal contacts, and the contacts of their contacts, provide them with access almost to all potential clients in the region: i.e. the local economic elites in Gabrovo and the nearby towns. The few private security entrepreneurs in the town have identical career path to the ones seen in other towns: former athletes, who set up private security companies in the early 1990s, and who were (and continue to be) involved not only in protection, but also in debt collection (which implicitly relies on the threat of physical violence). With the real-estate and car-trade boom after 2001,

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<sup>169</sup> Corruption amongst local lawyers is such an issue that often local businessmen are forced to hire lawyers from the capital Sofia, to avoid the influence of competing businessmen, or corrupt officials over the local lawyers.

they became involved in car-imports as well as construction, gradually transforming themselves into local businessmen. The former local office of SIC is now transformed into Bullns, and continues to provide (without being a protection racket) insurance to local businesses. The former racketeering / private security businesses continue to have the exposure to both legitimate and 'underground' networks, mostly because in a small town, once established, such networks endure and are continuously reinforced by the fact that a small town provides very few social opportunities and lack of any exclusive opportunities for social interaction (elite clubs, restaurants, societies, etc.). This historical background explains why even in a town like Gabrovo, local business elites and stolen-car sales entrepreneurs belong to the same social milieu.

The local customer base though remains fairly small (probably not more than a few hundred potential customers in a region where these networks are fairly strong). Local stolen-cars entrepreneurs make more intensive use of Internet used-car websites or local dealerships to access *bona fide* customers.

It is not only the entrepreneurs that need to some type of protection in small towns such as Gabrovo or even Pazardjik. One interviewee, a local 'grey entrepreneur' explained the need for protection in respect to the purchase of real-estate in this way:

*'In a town like Gabrovo, most of the real estate sold is usually around 20–30,000 thousand euros. A deal for anything more than this immediately attracts the Revenue Service guys, who start sniffing around. Not that this is a problem, I can always arrange it with them, and give them their cut, but otherwise it is a problem'. [OTI-10]*

The issue with luxury cars is very similar [LEI-20]<sup>170</sup>. The luxury cars in a town like Gabrovo number a few dozen. The police and the local elite usually know who the owners are. 'In Gabrovo there are 12 Audi Q7, and I know which one belongs to whom.' [OTI-11] The buying of a stolen car towards 2010 was seen already as a reputational, social risk, or potentially even legal risk. Therefore, another local businessman explained:

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<sup>170</sup> In 2009, the National Revenue Agency started the first of a series of tax inspections of owners of luxury cars and yachts. Although, such a measure may seem discriminatory, the only 'risk' profile used by the NRA was the value of the car – all owners of 'Bentley' were audited. In the first round of such audits in 15 out of the 45 inspections showed that the owners had no sufficient declared income that would explain how they bought their cars (possibly indicating that some of the cars purchased were stolen cars). (Vedomost 2009)

*'If I was to buy a stolen car, I would probably try to get one rather from Sofia or Plovdiv, because buying it from someone like Pirana, whom I know well, might be risky: we're a small town, he'll get drunk and start bragging around that he sold me the car...I see him hanging around with cops once in a while.. The guys that I know that drive the stolen cars or luxury cars, are usually guys that made quick money, and wanted to quickly to show-off. For most of these guys today the business has dried out and they're struggling to pay their lease payments....*  
[OTI-12]

*'The car confirms their status as members of this elite.'* [LEI-20]

The effect of the small town is that someone without the right connections would quickly attract attention of authorities who might try to 'extort' him: if not the Revenue Service it would be the police; if not the police, it would be a prosecutor; if not the prosecutor it might be the mayor or the municipal administration.

The description of the above 'social organisation' best explains the access to customers for 'sales entrepreneurs'. Much like it was shown in the case of Spain, in Bulgaria there are professional criminal networks (e.g. around drugs, prostitution) that help car-theft entrepreneurs to tap into another type of 'social capital'. What is different from Spain, though, is the specifics of the car-theft industry in Bulgaria, which makes the car-thieves generally the category of criminals with one of the widest social networks. This is due to the reliance of this network to carry out the car-theft for ransom schemes, which have dominated the domestic car-theft industry for over a decade.

### **6.4.3 Distribution of stolen cars and criminal networks**

The distribution of stolen cars nationally relies also on the connections of both entrepreneurs and car thieves. The well-known car thieves are usually hired by different entrepreneurs and they gradually develop their own informal network through which sales can be arranged. In Pazardjik, for instance, there are two brothers, nicknamed the 'Tomatoes', who were technically savvy and skilful car thieves. Most interviewees and law-enforcement officers referred to them during the interviews. Both brothers had worked in Spain, and both were occasionally hired by

entrepreneurs around Bulgaria for local jobs. According to law-enforcement sources both had 'a wide network of contacts' across Bulgaria (LEI-4).

*'The Tomatoes were both athletes from the sports school. They were good, you know. But these guys had a lot of connections. They did not work specifically for any of the racketeering companies. But they were part of the same group of people and they knew all these guys [from the racketeering insurance companies]. When you're in the business for a long time you develop lots of connections and you can the cars...It's easy to steal a car but to land a sale, it's tough' [OFI-23]*

The distribution of stolen cars in Bulgaria relies on a very important set of relations – those used for the return of cars stolen and returned for ransom. As Chapters 3 and 4 explained, during the past two decades most cars in Bulgaria had been stolen to extort a ransom (up to 60% of stolen vehicles in some years). The organisation of these thefts is quite complex, as it consists of multiple layers of intermediaries used to return the car to the victim. In Sofia (Figure 28 below), for instance, there are three entrepreneurs that run theft for ransom enterprises. They coordinate the 'watchers' who select the potential victims ('1' in Fig.28), the brigades of auto-thieves who steal the vehicles (2), and the intermediaries who return the car to the victim (4 and 5).



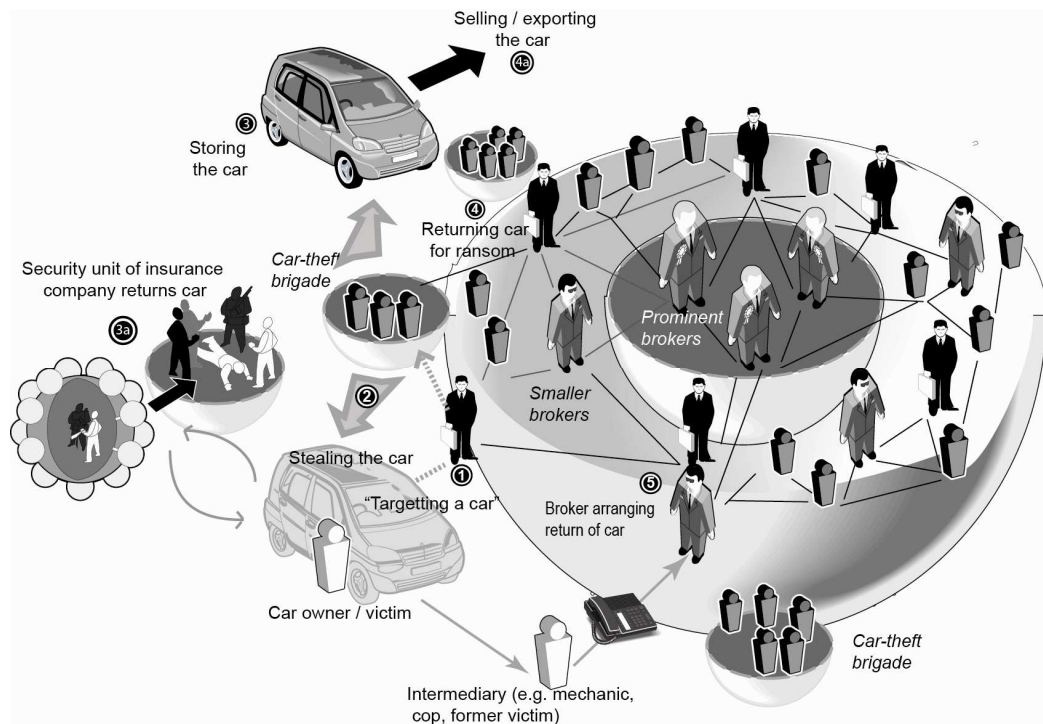


Figure 28. Relating car-theft for ransom and sale

Source: Adapted from Bezlov et al. 2007

Where the active use of informal networks comes into play is in the return of the stolen vehicles. There are a number of ‘brokers’ or intermediaries, who work along with the entrepreneurs (‘prominent brokers’) in arranging the return of the vehicle. They usually rely on the ‘small world’ model, trying to access the friends or acquaintances of the victim and inform them about the possibility of getting their car back for a ransom. To do this, and to arrange the exchange of the money for the car, the brokers use a network of local repair shops, parking garage, neighbours, corrupt police officers, or a locally known criminals, or anyone else that the victim might know and trust. If the car is insured by one of former racketeering insurance companies their security unit might use violence and recover the car (3a). In some instance, the insurance may even act as an intermediary in the return of the car, as the victim pays the ransom. If the victim does not pay the ransom (and the car turns out to be insured by some company that does not use marking stickers), the car may be sold for parts, sold to an entrepreneur who is involved in car-export, or on rare occasions simply ‘burn’ it as a threatening sign. Sales entrepreneurs may use these same networks to arrange the sale of stolen cars (OTI-1). In addition, the car thieves, who often work for entrepreneurs involved in car theft for resale, use these networks to access potential customers.

The effectiveness of these networks was also demonstrated during a series of ransom-seeking **kidnappings** that took place between 2007 and 2009 in Bulgaria. At least 12 well-known businessmen and criminal entrepreneurs were kidnapped (several victims were killed or mutilated). The main perpetrators and organisers of the kidnappings were all well-known car thieves (two well-known car thieves were also executed, apparently after having supplied vehicles by means of which the victims were abducted). A number of arrests made in December 2009 and January 2010 revealed connections to one of the major insurance companies. The investigations showed that amongst the kidnapped victims there were a well-known drugs boss, car-theft entrepreneur (and former customs officer). The basic skills acquired in ransom-seeking car theft were used in the kidnappings: victims were usually taken at gun-point from their vehicles to remote locations (several villages near Sofia were used). Their return, though, involved tapping into slightly different informal networks to communicate and obtain the ransom. Corrupt police officers and former police officers facilitated the kidnappings, leaked information to the kidnappers, or arranged for convicted prisoners to leave prisons for short periods of time to participate in the kidnappings. (Sega 2009)

## 6.5 Social barriers to market entry

The present chapter has described two very different social environments within which criminal entrepreneurs dealing in stolen vehicles operate. In Bulgaria such entrepreneurs constitute part of, or are in many ways connected to, local economic elites, which represent the biggest part of the customer base. In addition, they are connected to a multitude of other social networks (criminal, educational, professional, neighbourhood, sports) that expand the opportunities to access potential customers. All these facilitate greatly the sale of stolen cars.

In Spain, on the hand, the criminal entrepreneurs could be in one of three situations: 1) they might remain 'itinerant criminals' moving every few months from town to town, disassociated from local social structures; 2) they might settle and become associated with local immigrant criminal structures; 3) they might settle and run a small legitimate business; in any of these cases, linguistic or cultural barriers prevent them from becoming part of local political-economic elites. In the few cases where

they have managed (either by laundering significant criminal profits) to become part of local economic elites, their social environment is usually restricted to one locality – a resort area, and without the reach required to carry out a sufficient number of sales.

In illegal markets, such as drugs or cigarettes, the level of mutual trust that seller and buyer need is minimal. Therefore, for a criminal enterprise that deals in cigarettes, for instance, and has access to wholesale supply, the entry barriers at the retail level could be low (unless competition or law-enforcement agencies put up barriers).

In the case of stolen cars, though, the retail distribution holds a higher risk for the retailer and for the (non-*bona fide*) buyer, and it requires some level of trust. Selling stolen cars to *bona fide* customers as private sellers makes the deal risky for the buyer, who needs to make a significant financial investment without much guarantee either of the origin or the quality of the product. The use of complicit used-car dealerships to sell stolen cars to *bona fide* customers is also risky for the car-dealer. Used-car dealerships rely on their reputation to a great extent, and that provides them with a competitive advantage in comparison to other dealerships. The sale of a stolen car, though, carries a reputational risk (if the car is confiscated by authorities, which sometimes the case), as well as the risk of being detected by law-enforcement agencies.

In some illegal markets, immigrants might be able to establish their own distribution network around an immigrant community or neighbourhood (as might be the case with some stolen goods or illegal products). The data presented in this chapter show that the facilitating role of the Bulgarian immigrant community in selling stolen cars is very limited. The fact that Spain became a destination for car thieves had little to do with the presence of a significant Bulgarian immigrant minority there. The Bulgarian immigrant community remains an urban labour or rural agricultural community with little connections to the type of economic or administrative elites that might either be connected to used-car dealers or to the potential customers to buy either stolen or luxury cars.

Therefore, to sell stolen cars in Spain, Bulgarian illegal entrepreneurs needed access either to *bona fide* buyers directly, or via used-car / franchise dealers. The main issue with accessing either of these is the fairly restricted social networks within which these entrepreneurs function. In small or resort towns, or even in large urban suburbs

(where some offenders or reports indicated that these entrepreneurs were based), the social networks remain restricted to local connections, and even there, acceptance by locally established legitimate political or administrative elites is difficult, unless one becomes significantly involved in the local legitimate economy (which could attract attention from the police about the origin of funds). The second option, using small independent car-dealers, likely to risk their reputation to sell stolen cars, also provides limited opportunities: first, because the majority of luxury cars are sold via franchise used-car dealers; second, because a relationship would mostly be built at the local level, which is not sustainable for the business model of selling stolen cars, which requires a wider distribution network.

The lack of relations between labour and criminal immigrants shown in this chapter is more in agreement with the findings of Bovenkerk et al. (2003) than with Vander Beken and Van Daele (2010), who explain that members of itinerant crime groups initially came to Belgium in search for [legitimate] work, 'made contact with people in the same situation, and in this way, got involved in crime'.<sup>171</sup> It seems unlikely that professional criminals, who might have come for a short period of time, would meet by chance and enter into a serious criminal enterprise, where relationships of trust are quite important. Vander Beken and Van Daele (2010) add that 'in several cases, offenders originated from the same region or even the same town', and that 'it is quite likely that they have known each other beforehand' (ibid. p.4). A much more likely explanation is that, even in cases when criminals came from different regions, they were recruited directly or via intermediaries who knew them prior to coming to Belgium.

The limits to information imposed by the secretive nature of the subject matter of the present thesis leave a number of questions unanswered. The fact that no 'established criminal entrepreneurs' in Spain were directly interviewed poses the question of whether there were social constraints on selling stolen cars within their 'social networks'; immigrant entrepreneurs, even if criminal, attempt to have a legitimate face. In Spain, and especially in a small town, the social network could have been a constraint rather than a social capital to carry out the sales of stolen cars. The sale, just like the purchase of stolen cars [OTI-11] carries in Spain a social risk, which is missing in Bulgaria. To an immigrant who is trying to enter the local

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<sup>171</sup> The analysis is based on the description of 27 police cases of 'itinerant' groups in Belgium (some of which were also involved in vehicle theft).

elite, this risk could be significant, and therefore could well be a reason for not selling locally, even if one has access to a limited number of potential buyers.

## 7 Market entry: barriers and social structures

The previous chapters showed how Bulgarian-run criminal enterprises involved in car theft operated in Spain and Bulgaria, mostly during the period 1998–2008. The key empirical question that remains to be answered is given the following factors: (1) the sale prices for used cars in Spain were higher than those in Bulgaria; (2) Spain is big-enough market where cars could be stolen in one city and sold safely far away in another one (3) in the period 1998–2008 the demand for luxury used cars in Spain was even greater than the one in Bulgaria; and (4) there was an additional expense and risk in trafficking the stolen cars across international borders to Bulgaria, why did Bulgarian criminal enterprises fail to sell the stolen cars locally (i.e. enter the local market for used cars), but were successful in carrying out a significant volume of sales in Bulgaria?’

There are a wide range factors that need to be considered. The present chapter will engage in this analysis by offering two perspectives. The first one draws on a range of pure business / economic rationality, whose explanatory power, as demonstrated in the following pages, has significant limitations. Therefore, the second aspect that brings together some of the historical and sociological materials from the preceding chapters, seeks to expose a more fundamental explanation.

### 7.1 Criminal enterprise finance

The economic *rationale* of criminal entrepreneurs could be examined through two fairly narrow analytical frameworks: that of strategic management and of economic theories of ‘market entry’. Before going into this analysis, some further empirical data may serve as useful tool: a ‘profit and loss’ statement of a criminal car-theft enterprise. Table 12 below summarises the possible expenses that the ‘theft’ and the ‘sale’ enterprises might incur during, respectively the theft / trafficking, and the sale of one stolen vehicle. The case is fictitious and it assumes that the final price at which the customer buys the vehicle is €40,000.<sup>172</sup> The categories of expenses and costs are taken from the various interviews with offenders, car-dealers, and law enforcement officers. Each of the costs has been verified by several sources, and on

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<sup>172</sup> The sale price of stolen vehicles for committing other crimes (e.g. to Moroccan drug-dealers) is generally very low [OFI-4], as they are usually not cloned; only the registration plates are changed.

several occasions, the table was shown to offenders and law-enforcement officials for comment.

|                  | Process                 | Expense category  | Minimum expenses per vehicle | Maximum expenses per vehicle |
|------------------|-------------------------|---|------------------------------|------------------------------|
| Theft enterprise | Stealing                | Thieves (3-4 thieves and watchers)                                | € 2,000                      | € 4,000                      |
|                  |                         | Spotters (1-3 spotters)   | € 300                        | € 1,000                      |
|                  |                         | Prostitute / pimps (occasional)                                   | € -                          | € 200                        |
|                  | Cloning                 | Forging of VIN numbers  | € 1,000                      | € 2,000                      |
|                  |                         | Forging of documentation  | € 200                        | € 500                        |
|                  |                         | Changing parts (e.g. locks)                                       | € 300                        | € 1000 <sup>173</sup>        |
|                  |                         | Documentation of clone vehicle                                    | € -                          | € 500                        |
|                  | Trafficking             | Mule(s)   | € 1,500                      | € 2,500                      |
|                  |                         | Gas / Tolls / Ferry (Spain - Bulgaria)                            | € 500                        | € 500                        |
|                  | Sunk / Fixed costs      | Coordinator's salary (commission)                                 | € 500                        | € 1,000                      |
|                  |                         | Rent of space for cloning stolen car                              | € - <sup>174</sup>           | € 300                        |
|                  | Laundering              | Rent of temporary storage of stolen cars                          | € -                          | € 200                        |
|                  |                         | Laundering of profits   | € -                          | € 500                        |
|                  |                         | <b>Total expenses of theft enterprise</b>                         | <b>€ 6,100</b>               | <b>€ 14,200</b>              |
| Sale enterprise  | Import and registration | Registration fee and traffic police bribes                        | € 500                        | € 2,000                      |
|                  |                         | Customs bribes to disguised car as non-EU                         | € 50                         | € 200                        |
|                  |                         | Mules (to drive car internally)                                   | € 100                        | € 200                        |
|                  |                         | Nominal owner fee for multiple registrations that disguise origin | € -                          | € 500                        |
|                  | Sale                    | Car-dealer sales commission                                       | € -                          | € 2,000                      |
|                  |                         | Local sales coordinator   | € 500                        | € 2,000                      |
|                  |                         | VAT: (20% on pre-tax price of €33,334)                            | € 100 <sup>175</sup>         | € 6,666 <sup>176</sup>       |
|                  |                         | Laundering of profits   | € -                          | € 500                        |
|                  |                         | <b>Total costs of sale enterprise</b>                             | <b>€ 1,700</b>               | <b>€ 14,066</b>              |
|                  |                         | <b>Combined costs of sales &amp; theft enterprises</b>            | <b>€ 7,800</b>               | <b>€ 28,260</b>              |
|                  |                         | <b>Sale price of stolen vehicle</b>                               | <b>€ 40,000</b>              | <b>€ 40,000</b>              |
|                  |                         | <b>Profit of theft entrepreneur (negotiable)</b>                  | <b>€ 13,500</b>              | <b>€ 7,534</b>               |

<sup>173</sup> This expense depends on the model, and may reach into the thousands of euro. Other parts that have been marked might also need to be changed if the car is to be sold to a bona fide customer.

<sup>174</sup> Established entrepreneurs often have their own space, or the VIN changers may incur the expense. Entrepreneurs who set up their own space might need to rent a place, and then the cost of several thousand euros is spread over the cost of the 8-10 vehicles that are stolen each month.

<sup>175</sup> Avoiding the payment of VAT is typically associated with sort of a documentary fraud, and laundering of the profits. The payment of VAT is not needed, when the transaction is between private individuals.

<sup>176</sup> The payment of VAT is mandatory for used car dealerships, but, often used-car dealerships in Bulgaria (especially) and Spain use VAT-avoidance schemes.

|  |  |          |         |
|--|--|----------|---------|
|  | <i>Profit of sales entrepreneur (negotiable)</i> | € 18,700 | € 4,200 |
|--|--|----------|---------|

Table 12. Car theft operational profit and loss statement

The majority of the costs are incurred by the ‘theft enterprise’, showing that the minimum investment required to steal, to clone, and to traffic a vehicle is minimum around €6,000. This cost excludes any operational overhead (phones, electricity, travel) or fixed investments (e.g. technical devices needed for stealing the vehicle) that the criminal enterprise incurs. In addition, there are occasional costs associated with police seizing stolen vehicles. Theft costs have been generally on the rise since the late 1990s, due to new security measures and inflationary pressures on salaries in Bulgaria.<sup>177</sup> Some other interesting observations related to the cost of laundering the profits. The investigation into the assets of criminal entrepreneurs show that often there is little though (and expense) put into laundering the profits, as spending it on ‘lifestyle’ (drugs, prostitutes, parties, clothing etc.) is often a priority. This is especially true for lower level criminals: several interviewees lamented ‘how much money has passed through their hands’ [OFI-5, OFI-22]

The above cost estimates, though, could look very differently for non-luxury vehicle thefts. With the 2009 financial crisis, a new type of ‘low-cost thieves’ appeared, who sold in Bulgaria for about 7 to 10,000 euros mid-range cars, stolen in Spain. This illicit enterprise, which operated for about a year, managed to make profit from such low final price only by cutting corners, increasing risks, and hiring only a small crew. The group focused only on one type of car, the Renault Laguna, as they invested only in one type decoder. They drove the cars to Bulgaria themselves. One member was a counterfeiter, which saved money on counterfeiting. In addition, they used very low quality VIN rigging, which they tried to compensate by bribing the Bulgarian traffic police officer, who did not inspect properly the cars during their registration. They sold the cars directly to customers through internet, car-exchanges, and personal connections without any intermediaries. The bottom line for this transnational enterprise was that its members pocketed only around 1500-2000 euros per month per person in profits (putting them somewhere on the lower end of middle class in Spain). [C-0911] [LEI-21]

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<sup>177</sup> Between 2001 and 2007 average household incomes in Bulgaria doubled (Tomova et al. 2008: 11).



One question that arises from the costs table above is: how are the profits split between the 'theft' and the 'sales' entrepreneurs?<sup>178</sup> This brings up the question as to how the final sales price is determined at all, especially in the cases when the car is sold to a customer who is aware that the car is stolen and expects a significant discount.

Much like regular used car dealers, illicit sales entrepreneurs may expect profit margins that may even exceed the cost of acquiring the vehicle (i.e. selling for double the price at which they got it). Similarly, Bulgarian used-car dealers often import €500 cars from Western Europe which they sell, after a 'facelift', for €2,000 [CDI-1, CDI-2, OFI-3]. The 'market price' of a stolen vehicle, especially from the point of view of some buyers who are aware that the car is stolen, is also difficult to determine. This market segment could be best described as a 'thin market' (Cook et al. 2005): there are very few buyers and sellers, and obtaining information about the market price of a *stolen* car is difficult. Therefore the final sales price (and the related profit margin) remains subject to negotiations.

There are other factors that may drive the desired profit margins that the 'sale enterprise' or the 'theft enterprise' may seek to achieve. On the one hand, the risks of detection as well as the investment associated with the 'theft' enterprise are significant. On the other hand risks of the sales enterprise are lesser as the car is delivered usually already 'cloned' (i.e. legal) and a buyer is identified in advance. The 'sales enterprise' in Bulgaria may only be an intermediary making a small cut of the overall profit, as many imported stolen cars are trafficked further to the Middle East or former Soviet Union. Finally, before the car reaches the final customer it often passes through a number of sale entrepreneurs, each making a small profit. Their commissions can amount to a few hundred or a few thousand euros each. All this reselling spreads the profit across several entrepreneurs and can easily make the cost of selling higher than the cost of stealing and trafficking the vehicle.

Law enforcement officers and lower-level offenders were generally unaware of the exact profit split. Offenders who had been involved in or knew of such deals stated that the price at which a 'theft enterprise' sells the stolen car to the 'sales enterprise'

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<sup>178</sup> Luxury car dealers' profits are generated not only through the sale but also through the supply of spare parts and financing arrangements (Hoover's Inc. 2008).

is always subject to negotiations and depends on the type(s) of vehicle, the quantity ordered, and the terms of the deal (e.g. speed of delivery) [OFI-12, LEI-4, OFI-22].<sup>179</sup> The table above provides a couple of different profit scenarios, but they are arbitrary, and are not based on actual cases.

The above profit and loss analysis questions some widely quoted estimates, such as the one of Europol, which is based on police reported crime data. According to Europol's calculations organised crime's **income** (revenues) generated from stolen vehicles in the EU was €6.75 billion (Europol 2006). This estimate is based on the total number of non-recovered vehicles reported by EU police forces (450,000), multiplied by an estimated average vehicle value of €18,000. If one takes into account the analysis of expenses, it could be argued that the **profit** that serious criminals accumulate is significantly less: not exceeding €3 billion per year.

Europol's estimate is inaccurate for other reasons as well. First, the €18,000 is quite arbitrary, and not based on actual "cost of stolen vehicle" averages, as most police forces do not provide such estimates. The crime victimisation data from Bulgaria shows that the average price of stolen cars is less than 5000 euros, which is likely to be the case for most other EU countries with a similar age of their national car fleet. There are no credible estimates about share of cars which were stolen and sold for parts or scrap, where profit margins and costs are quite different. Some profits from sales to bona fide customers, may go not to 'organised crime', but to legitimate used car dealers. Finally, the inclusion of motorbikes in the stolen vehicle data or the different criteria for 'recovery rates', makes the police data any estimates based on this data unreliable.

The above cost estimates provide a basis upon which one could analyse the *rationale* of the economic behaviour of illicit entrepreneurs and other market actors, in an effort to explain factors that influence market entry. The two analytical frameworks that complement each other, and could be used to examine the factors that influenced the market entry of Bulgarian criminal entrepreneurs (from the point of view of some rational economic behaviour) are: the 'OLI paradigm' (Ownership-Location-Internationalisation) and the 'barriers to entry'.

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<sup>179</sup> One offender (OFI-6) claimed that it is the 'sales entrepreneur' who makes the biggest profit, the rest are more or less 'coordinators' who work on a percentage basis.

## 7.2 Internationalisation of criminal enterprises

The OLI paradigm through which Dunning (2004) explained 'internationalisation' of multinational corporations is relevant only to some of the cases of Bulgarian illegal entrepreneurs: the cases of individual entrepreneurs (such as Mr. Z or Parana), who ran car-theft businesses in Bulgaria and then moved their operations to Spain. These cases would be typical examples of 'internationalisation' of a firm, which the OLI paradigm addresses. The Bulgarian illegal entrepreneurs who had already settled in Spain and had other (criminal) businesses, and became involved in the car-theft business only when the demand for such cars started to grow were in a different position. They did not need to internationalise or 'transplant' their operations. Yet they still needed to enter the local used-car market. The 'barriers to entry' framework is therefore more appropriate to analyse the cases of the majority of Bulgarian entrepreneurs who seemed to have been already based in Spain prior to getting into the car-theft business.

The motivations of enterprises to 'internationalise' (i.e. move operations into another country) could vary: to seek new or cheaper 'natural resources' (including cheaper labour), to expand sales into a new market, to improve efficiency of production or sales, to acquire the strategic assets of a competitor, to escape regulatory restrictions in the home market, or to support (e.g. logistically) their overall business activities (Dunning and Lundan 2008: 73). The motivations of criminal entrepreneurs who came from Bulgaria and tried to establish themselves in Spain fall largely into two categories. First, these were entrepreneurs who were **only** seeking cheap 'natural resources' (i.e. more and better luxury cars that could be stolen).<sup>180</sup> Second, an additional motivation for some entrepreneurs was their intention to increase their revenues by selling the stolen cars in the Spanish used-car market or in markets elsewhere in Europe and Africa. All entrepreneurs who came to Spain had some experience in running their own illegal car-theft enterprise or working for one in Bulgaria.

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<sup>180</sup> In Bulgaria, including amongst car thieves, there is a perception that used cars in Western Europe are generally in better condition due to the better road infrastructure and maintenance habits of owners.

Susman and Stites (2007: 232) argue that two main strategies are used to enter a market when an enterprise decides to 'internationalise': The first strategy is the 'following the customers' approach. In this case the enterprise is likely to invest in building its own 'sales assets' because they already have a local customer base. An example could be a producer of certain car parts, who follows a car producer that is building a factory in a new market. The second strategy, usually adopted by 'market seekers', (i.e. enterprises who enter a new market without having customers) is to sub-contract or buy the 'sales assets' of an enterprise that is familiar with the local market.

The entry mode is also influenced by three other interdependent factors: risk (of investing too much without being able to sell with sufficient return), uncertainty (because the firm has little knowledge about the way the local market operates), and control (the use of an external sales agent diminishes the level of control over the firm's operations). (ibid. 2007: 233)

When examining the case of Bulgarian car-theft entrepreneurs in light of the above factors, several observations can be made:

- None of the Bulgarian entrepreneurs who moved from Bulgaria were in a position to 'follow their customers'. Their motivations to internationalise were: (a) to establish direct control over the supply and increase their profits by directly selling to an already existing customer-base in Bulgaria; and (b) to find local customers to whom to sell directly.
- The entrepreneurs most likely underestimated the difficulties of finding local customers and linking to local distributors. The cost advantage alone proved insufficient for the distributing of stolen cars.
- Sub-contracting and buying local 'sales assets' proved difficult, as they were in a position of direct competition with local car-theft groups. Pricewise, Bulgarian criminal enterprises could offer probably a cheaper product (due to the fact that Bulgarian car thieves, VIN riggers, mules, etc. were low-paid). This discount, though, is offset by the increased cost of risk, which was priced in by the potential local 'buyers' or 'external sales assets' (e.g. resellers), who take the risk of entering into a deal with a new market player.
- The question then arises: if entrepreneurs could subcontract the falsification of documents, the mules, and occasionally even the VIN rigging, to local collaborators, why wasn't it possible to outsource the selling of cars? The

answer is that the selling of the stolen car requires such levels of skill and breadth of connections that whoever possesses them could run his own illegal enterprise. In that sense, giving up control over such an important part of the operations was considered unacceptable.

If the OLI paradigm is more appropriate to analyse behaviour of entrepreneurs who moved from Bulgaria to Spain between 2001 and 2007 and tried to run an illegal enterprise, the 'market entry barriers' is more comprehensive as it would help examine also the behaviour of Bulgarian criminal enterprises that were already established in Spain.

### **7.3 Incumbents and barriers to entry**

As already noted in the introduction to this thesis, 'barriers to entry' is an economics term used to analyse the advantages that domestic incumbent firms might have over new-comers in a given market. Bain (1954) and later Porter (2008) have discussed a number of market entry barriers: 'supply-side economies of scale', 'demand-side benefits of scale', 'switching costs', 'capital requirements', 'incumbency advantages', 'unequal access to distribution channels', and 'restrictive government policy'. The sections below will examine whether and how each of these barriers might have prevented the Bulgarian criminal entrepreneurs from entering the used car market in Spain and why it did not prevent the successful sale of stolen cars in Bulgaria.

Before doing this, however, one methodological clarification is needed: Who are Bulgarian criminal enterprises competing with in the sale of stolen cars in Spain? There are two categories: (1) other criminal enterprises and (2) legitimate actors (such as private sellers and used-car dealers). From the point of view of the Spanish market the Bulgarian 'theft enterprises', which tried to enter the local market, also operated as 'sales enterprises', either selling directly to final customers or to used-car dealerships. A challenge that both used and stolen car entrepreneurs face, though, is 'the number of players' and 'similarity of players' (i.e. dealerships).

### 7.3.1 Supply-side economies of scale

The first barrier to entry considered is defined by Porter (2008: 81) as ‘supply-side economies’. It arises when established firms that produce larger volumes enjoy lower costs per unit because they can spread their fixed costs over more units. Established firms may also employ more efficient technologies, or may enjoy better terms of trade with local suppliers. To overcome these barriers, the new entrant should either start producing on a large scale and spread the fixed costs over more units, or to accept that its costs are higher, and accept a lower profit margin.

Car-theft enterprises have a significant cost-advantage (especially in the case of luxury cars) over their legitimate competitors. The costs, compared to those of legitimate enterprises, could be as little as a half to one-third, depending on the value of the car.

A strategic competition analysis of the used-car market in Spain shows that the single most important factor that shapes the used-car market and provides a competitive advantage is the ability to provide a low-cost product (Euromonitor (2007: 17). While most sellers usually set their price according to estimated values based on depreciation and car mileage, the risk minimisation strategy of car thieves usually pushes them towards lowering prices to ensure quick sales.

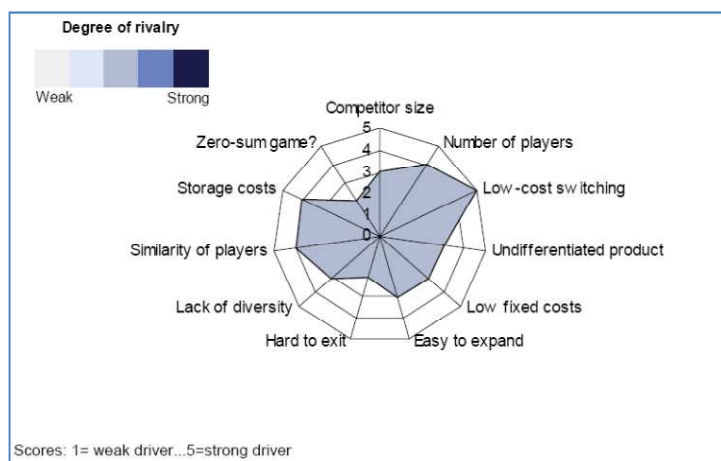


Figure 29. Drivers of degree of rivalry in the used-car market in Spain, 2007

Source: Datamonitor (2007: 17)

The used-car market is generally considered to have low entry barriers, requiring a small initial investment. In Bulgaria, small dealers selling cars on the open-air exchanges there are no fixed costs: only the investment in buying the used cars and monthly per-car fee made to the owner of the used-car exchange lot. The start-up costs for a luxury used-car dealership, on the other hand, could be high: customers of luxury vehicles might even expect the dealership to have a luxury showroom (such as the 'integrated services centres' in Spain). A great number of luxury used-car dealerships invest at least in a good location, if not a purpose-built showroom.

Unlike a legitimate used-car enterprise that might build a showroom and sell a few hundred cars per year, the illegal sales enterprise needs to find many distributors (dealerships) / buyers. Therefore it does not have the 'start-up' fixed cost of building a showroom. The illegal enterprise may also have expenses related to renting of space where the stolen vehicles could be stored. For car theft enterprises such costs are lower as they hardly ever store more than a few cars in one place. Due to the risks of detection, these spaces are not purchased but rented, so that they can be quickly abandoned if the need arises.

Other costs that should be considered are the labour costs. Bulgarian criminal enterprises enjoyed significant advantages over local competitors in Spain in terms of labour costs. In the same way that cheap labour migrants from Bulgaria filled the demand for low-cost labour in agriculture and construction, the Bulgarian criminal migrants filled the positions of watchers, spotters, mules, and car thieves. None of these offenders work on a fixed salary for an illicit entrepreneur – they are only paid on a per stolen car basis. Even though offenders often go to work in Spain because salaries are higher there than those in Bulgaria, they are hired for less than Spanish criminals. The only exception are the high-profile technically savvy car thieves who are hard to come across, are usually well-paid, and often become entrepreneurs themselves. These are often described as 'loners who work for themselves and only show up for a few minutes to open and start a car' [OFI-16]. It is unlikely that Bulgarian car-theft groups have any 'cost-saving' advantage over other 'ethnic' criminal networks, such as those from Lithuania or Morocco.

One significantly higher cost that new illegal enterprises incur, in comparison to incumbent legitimate or illegal enterprises, is the **cost of risk**. Typically, an already

established legitimate used car-dealers or illegal enterprises will have reputation<sup>181</sup> either with final buyers or with used-car dealers respectively. The new-comers though, usually need to lower their prices as buyers perceive them as riskier. Bovenkerk et al. (2003: 27), for instance, explain that ethnic reputations could play either a positive or negative role, depending on the social context. In the case of Bulgarian car-theft enterprises, the ethnic reputation gradually became an additional cost, due to the negative image built by the local law-enforcement in the media. Bona fide car-dealers and buyers had become suspicious and careful when buying cars from Bulgarians.

### 7.3.2 Demand-side benefits of scale

Another barrier that exists originates from the behaviour of the customers. Porter (2008: 81) argues that a 'buyer's willingness to pay for a company's product increases with the number of other buyers who also patronize the company.' As Chapter 3 indicated, reputation and 'informal' networks are very important for the sale of used cars, due to the information asymmetry about the quality of the car between buyers and sellers. Therefore, the reputation of a locally established dealer or criminal entrepreneur certainly provides them with a competitive advantage over new-comers from Bulgaria who have no reputation.

In Bulgaria established sales entrepreneurs usually have a network of potential customers. These buyers perceive the purchases of stolen cars as low-risk transactions. The number of buyers within these informal networks therefore increases as more and more transactions occur without detection or punishment.

The most difficult 'variable' to analyse and compare, and for which little data exists, is the **demand for stolen** and used luxury cars in Spain and in Bulgaria. One cannot presume that it is equally strong in both countries and that illegal enterprises had equal incentive to supply stolen cars on the Spanish and Bulgarian used-car markets. In the description of the used-car market (Chapter 3) it was shown that in both

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<sup>181</sup> Porter (2008: 81) groups a number of additional advantages that incumbent companies may have: 'proprietary technology, preferential access to the best raw material sources, pre-emption of the most favourable geographic locations, established brand identities, or cumulative experience'. Some of these have either already been discussed or are not relevant for the purposes of the present analysis.



Bulgaria and Spain the demand for used / new luxury cars was quite strong, and that the Spanish market, being much bigger, provided more sales opportunities to illegal enterprises. This demand though relates mostly to bona fide buyers. Although the blurring of 'licit and illicit' trade and lack of empirical data make it difficult to compare the consumer demand for stolen cars in Bulgaria and in Spain, one should attempt to, at least analytically, disentangle the demand for stolen from the demand for legitimate used cars. There are several factors that make such an analysis a complicated matter.

The ratio of bona fide to non-bona fide buyers of stolen cars in either country is difficult to estimate. Only if these ratios are known, could one estimate the ratio between the demand for used luxury cars vs. the demand for stolen luxury cars. The argument made in previous chapters, based on police reports, is that in Spain a greater proportion of buyers are bona fide buyers, while in Bulgaria it is vice versa. Although police and offender interview data are not completely reliable, analysing how demand for stolen cars is structured in Bulgaria or Spain might provide further explanation of the behaviour of illegal entrepreneurs.

The non-bona fide customer has a clear choice of buying an illegal or a legal product. The factors that influence the likelihood of a buyer choosing illicit products have been probably best understood in studies of customer demand for counterfeit products (e.g. counterfeit brand-name goods, pirated CD / DVDs, and so on). The purchase of stolen cars, especially luxury cars, bears many resemblances with that of brand-name counterfeit products: in both cases the customer is willing to buy an illicit luxury product or one that mimics a luxury product (Crăciun 2009) at a lower price, with limited knowledge of the quality of the product, and with knowledge of the illicit nature of the product.<sup>182</sup>

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<sup>182</sup> The production of counterfeit luxury cars is rare as it requires significant skills and investment, and cannot be done on a large scale. In some Asian countries such production outfits exist. Car parts from some brands are assembled and remodelled into high-end luxury vehicles (e.g. the chassis of a Toyota MR2 is used to make a Lamborghini, or an Opel Carrera to make an Aston Martin). The costs are significantly higher than those of theft and cloning, because the cars are handmade and may require some expensive parts (Beiser and Gershon 2011)

A number of factors have been analysed to understand what influences the demand for counterfeit goods: price benefits, product features, psychographic<sup>183</sup> or demographic characteristics of consumers, and social influences (Bian and Moutinho 2011: 2). Buyers who knowingly purchase counterfeit goods have different consumer profiles than those who purchase goods, unaware that they are illegal. Basic demographics (age, sex, education, income) have little explanatory power (de Matos et al. 2007: 44, Veloutsou and Bian 2008: 6), but two factors seem to be statistically significant: risk perceptions (de Matos et al. 2007: 44, Mitchell 1999, Albers-Miller 1999, Wee et al., 1995) and psychographic characteristics of buyers (de Matos et al. 2007: 44; Ang et al. 2001: 224; Bian and Moutinho 2011; Wee et al. 1995).

Marketing scholars generally differentiate between objective risk factors related to buying a product<sup>184</sup> and the risk, which buyers *perceive* to exist. Ever since the term 'perceived risk' was introduced in the marketing literature by Raymond Bauer in 1960 it has been used to explain consumer behaviour for many product categories (Mitchell 1999). The perceived risks could be about physical threat (e.g. arrest), social risk (others may detect that the item is counterfeit), or financial / performance risk (the quality of the product may not be as expected) (Veloutsou and Bian 2008). Perceived levels of risk differ between countries. (Veloutsou and Bian 2008: 15) In China, for instance, where the government tolerates the sale of counterfeit items, consumers who choose to buy illicit and those who buy licit products have similarly low risk perceptions, and social constraints play little role (Phau and Teah 2009).

The second set of factors that explain demand for counterfeit goods are psychographic factors. Consumer research in Singapore has indicated that buyers of counterfeit goods are characterised as being 'less successful, less confident, and had lower perceived status', characteristics associated with individuals who seek 'accomplishment, comfortable living, and social recognition' (Ang et al. 2001: 224).

When considering the risk perceptions and psychographic characteristics of buyers of stolen cars, applying the framework used to analyse counterfeit goods, a couple of points could be made. While the objective risk of buying a stolen car in Bulgaria and

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<sup>183</sup> 'Psychographic' characteristics: this is a marketing term that refers to behavioural characteristics related to the customer's lifestyle and the influence that it has on their buying behaviour. Different market segments could be identified using these various characteristics.

<sup>184</sup> Here the risks that scholars have in mind include health or quality.

Spain might be comparable (it is prosecuted in both countries), the subjective, or the 'perceived' risks differ. The perceptions of law-enforcement officials and offenders – that 40–50% of some luxury car models on the streets were in fact imported stolen cars from Western Europe ([LEI-4; LEI-5; LEI-21 OFI-10], as well as the corruption networks with which the majority of buyers are involved at the local level – indicate that for non-bona fide buyers in Bulgaria, the perceived risk involved in buying a stolen car is quite low. A survey of the EU of attitudes and experiences with counterfeit goods, shows a similar difference: whereas in Bulgaria, 47% of respondents admitted to having bought counterfeit goods (and were much less aware of the anti-piracy legislation), in Spain only 26% did so (Eurobarometer data in Barneveld 2010). Similarly, the general public's perceptions (and experiences) of the corruption of the police and judiciary in Bulgaria are significantly higher than those in Spain (Eurobarometer 2009: 23). Even more telling, this perception of lower risk in Bulgaria accompanies the illegal lifestyles (illegal houses, informal economic activities) described in Chapter 5. It could be therefore argued that the demand for stolen cars (defined as the proportion of non-bona fide to bona-fide buyers) was probably higher in Bulgaria than in Spain.

Regarding the psychographic factors, it is difficult to estimate how different are the levels of prestige or status that owners attach to luxury vehicles in Spain and

Bulgaria. One possible explanation is the complete absence of luxury vehicles until 1990, and the inability of the economic elite to purchase such vehicles for most of the 1990s.<sup>185</sup>

The class stratification and inequality that developed in the 1990s created a market for low-priced and used luxury cars (similar to that for counterfeit goods<sup>186</sup>). This was a



**Figure 30. Street vendor in Pristina, Kosovo, selling flags out of a BMW-X5. At the time this picture was taken (2007) this model was worth over €20,000 (Photo credit: Reuters)**

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<sup>185</sup> Prior to 1990 the Communist elite almost exclusively drove Russian luxury cars – *Chaika* and *Volga*, either of which were technologically very far behind Western luxury brands. Only foreign diplomats in Sofia could be seen in luxury Western cars, such as Mercedes or BMW, which eventually came to be used by the very top of the Communist elite.

<sup>186</sup> Even for brand-name sports goods, only exclusive licence production took place: for instance *Adidas* had authorized the production of one model of trainers that were produced for over a decade. Therefore the company had strong brand presence, but after the 1990s most Adidas goods were simply beyond the purchasing power of most consumers in Bulgaria.

phenomenon throughout Eastern Europe, which in Albania (where private cars were completely banned during Communism) went to an extreme: the country was soon nicknamed 'Mercedes country', after (second-hand imported) Mercedes became the most popular car (Simpson 2002). With the increase in living standards and mass imports after 2001, the cheap used luxury brands gradually stopped being a status marker. Luxury cars, though, as in any country, are affordable to only a few consumers, and remained such a marker.

In Bulgaria, the luxury car is more than a symbol of status: it is not used to simply to show your peers (or the opposite sex) that one is successful. It is also a symbol of power and of being beyond the reach of the law: 'I bought this type of car [a luxury Audi model] because now they think I'm a *mutra* [a tough guy] – on the highway other cars get out of my way...the police don't dare to stop me... [more importantly] the real *mutras* also think I'm one of them and don't dare fucking with me'. (OTI-13)

It could be argued, though, that the number of people that aspire to a higher social status in Bulgaria is greater than in Spain, largely due to the common perception of social inequality (Redmond et al. 2002: 15-16). A 2004 national consumer survey of intentions to buy vehicles in Bulgaria showed that people with high-school and secondary education, and those from small towns and villages, were much more likely to have the intention to buy a 'brand new latest model car' than people with a college education, or the ones from Sofia (i.e. those on lower incomes aspired to buy new car more than those with a higher income). (Vitoshka Research 2004: 15-16)

There are two conclusions that can be drawn from the above analysis. The lesser demand for stolen cars from non-bona fide buyers in Spain forced Bulgarian criminal entrepreneurs to compete directly on the used-car market with legitimate used-car dealers and private sellers. It also created the need for potential accomplices such as legitimate used-car dealers. This created a number of additional challenges discussed further below.

### 7.3.3 Switching costs

Another barrier, again related to customer behaviour, is the cost (switching costs) that customers might incur if they decide to buy the products of a new entrant (Porter 2008: 81). It might appear that since Bulgarian car-theft enterprises offer a low-cost

quality product, local customers might even reduce their costs by changing their supplier. There is a key switching cost for customers, especially non-bona fide ones, which is the cost of 'risk'. Pricing risk, especially in such market, where the penalty (e.g. imprisonment) is usually valued more than an individual stolen vehicle, is difficult. Risk is also a perception issue depending on the specific market environment. To Bulgarian buyers, normally the cost of risk is low: first, the enterprise might be willing to mitigate its own risks or the risk for the buyer by securing protection from arrest / prosecution. Alternatively, the customers, often members of economic elites, might be able to mitigate their own risks through their personal connections (i.e. they do not need to transfer the entire cost of risk to the 'sale entrepreneur'). In Spain, though, these options are not available, and the risks to buyers are higher. As noted in Chapter 5, some Bulgarian entrepreneurs started to engage in schemes where they would sell light trucks to drug-traffickers, only to steal them back later. These practices inevitably became known to drug-traffickers, and the negative reputation increased the switching costs, as Moroccan drug-traffickers became more cautious about buying stolen cars from Bulgarian groups. Therefore, the switching costs represent a significant barrier to a new market entrant.

#### 7.3.4 Capital requirements

A classic 'entry barrier' that Bain (1954) formulated has been the need for newly entering companies to have capital that is higher than that of the incumbent companies. This alone cannot constitute a barrier if the expected return on investment is high enough (Porter 2008:81). The initial capital of a car-theft enterprise could be estimated to be anywhere between 50,000 and 100,000 euros at least for a 'theft' enterprise, and significantly more, probably over 100,000 for a 'sales' enterprise. These enterprises need at least a month's worth of revenue turnover time to deal or sell 10 cars.<sup>187</sup> As indicated, the average number of cars that legitimate dealerships sell, especially in Spain, is much greater.<sup>188</sup> The initial capital seems to have been a small issue, as entrepreneurs already had legitimate businesses, or used counterfeit euros to start their businesses, were involved already in other criminal activities such as drugs, or had a successful car-theft business in Bulgaria from which they could fund their involvement in Spain. Several cases and

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<sup>187</sup> This is based on the fact that weekly thefts are 1-3 cars, as reported by offender interviewees.

<sup>188</sup> The annual revenue of one of the mid-size luxury car dealership in Sofia was around €5 million, indicating that an operating capital of a few hundred thousand was needed.

interviewees mentioned that revenues from stolen property or cash were also used to fund vehicle-theft operations. (C-0298; C-0303; C-1006B)

### 7.3.5 Law-enforcement and criminal justice policies

The government has the power to prevent (through 'restrictive government policies') or encourage the entry of foreign companies into an industry (Porter 2008: 82). There are several factors that could be considered in analysing the government policies and actions that could facilitate or inhibit the entry of a criminal enterprise into a foreign market: penal policies, law-enforcement policies, industry regulations, and government corruption. In neither Spain nor Bulgaria is there any regulation of the 'used-car industry', so this factor will not be examined. The industry regulation that could be analysed comes down to criminal justice and law-enforcement policies on prosecuting tax evasions or the distribution of stolen cars.

#### *Penal policy*

Several interviewees pointed out that Spain is an attractive place for car-theft, due to its lax penal policy related to car theft (OFI-1, OFI-2), not necessarily in comparison with Bulgarian penal policies, but in comparison with other European countries (e.g. Greece or France). Similar views have been detected amongst offenders from other countries by the Spanish Civil Guard (ABC 2006). If the police find the stolen car within 48 hours following the victim's report that it has been stolen, even if it is driven by the thief, it is considered merely as an 'undue use'. Only if this period is exceeded, and if there is evidence of forced entry<sup>189</sup> into the vehicle, does the law define it as 'theft': for which the penalty amounts to between one and three years in prison. Spain's 1995 Criminal Code did not specify that driving a stolen car is a crime. To accuse someone of 'stealing' a vehicle, the thief needs to be arrested while entering and driving away with the vehicle. If the thief is simply stopped while driving a stolen vehicle, s/he can claim that s/he did not know that the vehicle was stolen or who stole it. Recent amendments to the Spanish Penal Code changed this only slightly. Art. 244 stipulates that 'to take away or to use without proper authorization a motor vehicle, whose value exceeds 400 euros, without the intent to appropriate it, will be sentenced to community service of between 31 and 90 days or a fine if they return it within a period not exceeding 48 hours.'

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<sup>189</sup> In luxury vehicles 'forced entry' is normally avoided by the thieves, as replacing car locks can cost several thousand euros.

In addition to the lax penal policy is the slow criminal justice process in Spain, which forces authorities to release car thieves so that they await the trial free. 'As a result most car-thieves spend 5–6 months in detention, and as soon as they are freed, they change their identity and continue to work' (Officer of Car Trafficking Unit of the CNP, quoted by Cholakova 2005) 'We need new laws and we need that the judges change their understanding of the problem'. (Head of Car Trafficking Unit of the CNP quoted by Gómez 2005: 210)

The Bulgarian penal system (as most former socialist countries) has a fairly robust approach and imprisonment is most often the penalty given by courts. For instance, art. 345a of the Bulgarian Penal Code<sup>190</sup> implies that the cloning of a vehicle, such as VIN rigging, should result in '3 to 10 years of imprisonment', or 'up to 3 years of imprisonment' even if only the ID numbers of the vehicle's parts are changed. In Bulgaria 'undue use' is still punishable by '1 to 8 years of imprisonment' (art. 346), or 1 to 10 years of imprisonment if a ransom is asked for, the vehicle is abandoned, 'or the offender had been drunk, or has committed the crime for a second or more times' (art. 346.2). The use of force in stealing a car, or stealing it as a part of an organised crime network, or 'an attempt to export it outside the country, or changing the VIN or registration numbers' carries 3 to 12 years of imprisonment (art. 346.5).

This seemingly aggressive law is not applied in practice, as comparison of judicial and police statistical data shows. In 2009, for instance, 4470 registered crimes under Art. 346 and 346a resulted only in 321 court cases, of which only 19 involved 3 or more individuals. As a result, out of the 365 individuals sentenced in connection to the 321 cases, only 261 were imprisoned, while the rest were fined or put on probation. The majority of the sentences were short term: 222 were less than 1 year long, 37 were between 1 and 3 years, and only 2 individuals were given 3 or more years-long penalty<sup>191</sup>. Therefore in Spain and Bulgaria the law seems to be equally lenient towards car-thieves.

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<sup>190</sup> State Gazette No.67, as amended as of 29.07.2008.

<sup>191</sup> The statistical data on conviction is based on judicial statistics published on the website of the National Statistics Institute ([www.nsi.bg](http://www.nsi.bg)). The police data is drawn from the police statistics provided to the author by the Ministry of Interior.

The sale or storage of a stolen vehicle, on the other hand, is not specifically outlined as part of the relevant sections on 'vehicle theft' either in the Bulgarian or the Spanish Penal Code (unlike, for instance, the storage and distribution of drugs or illegal excisable goods). Based on the above, it could be concluded that, at best, the penal policy of Spain facilitated, and if nothing else posed lesser risks to, Bulgarian illegal enterprises that tried to steal and sell stolen cars in Spain.

#### *Law-enforcement policies*

Spain has a complex law-enforcement system, largely due to its ethnic make-up and history. A multitude of law-enforcement units are occupied with countering vehicle theft. The leading law-enforcement agencies in Spain are the National Police Corps (NPC) and the militarised Civil Guard Corps (CGC), aided by local municipal police forces.<sup>192</sup> Several different types of investigation squads were created between 2000 and 2007 specifically aimed at tackling organised crime.<sup>193</sup> The CGC has seven regional units that specialise in the fight against organised crime, called Counter-organised Crime Teams (ECO – Equipos contra el Crimen Organizado).<sup>194</sup> The NPC has two main specialised organised crime investigation squads: (1) the Drugs and Organised Crime Unit (UDYCO stands for Unidad de Drogas y Crimen Organizado), situated in larger cities and (2) GRECO, which stands for Groups of Special Response against Organised Crime.<sup>195</sup>

The interviews and the police cases analysed show that all of these specialised investigative units have been involved in investigating Bulgarian criminal enterprises. In some cases, as many as 150 officers (C-0306) were involved in the operations against car-theft networks. Compared to the spread and type of operations that Bulgarian law enforcement has carried out during the same period, the Spanish

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<sup>192</sup> The Civil Guard is supposed to control the countryside, while the National Police are responsible for the cities. In practice the Civil Guard has a strong presence throughout the country. The decentralisation movement after the fall of Franco, the increasing autonomies of Cataluña, Navarra, and the Basque Country (Pais Vasco) led to the establishment of autonomous police forces, independent of the NPC.

<sup>193</sup> In addition, in September 2006, a National Intelligence Centre against Organised Crime (CICO – Centro de Inteligencia contra el Crimen Organizado) attached to the Ministry of the Interior was established. CICO coordinates mainly counter-narcotics operations between various government agencies, including the CNP, the CGC, Customs and the Ministry of Defence.

<sup>194</sup> The ECOs are located in regions where there is higher organised crime activity: Alicante, Malaga, Barcelona, Pontevedra, Baleares, Las Palmas, Tenerife.

<sup>195</sup> GRECO groups, which might include UDYCO officers, are located in regions with a high level of organised crime, and are headquartered at six locations: Malaga (Costa del Sol), Cadiz, Canarias, Beleaes, Levante, and Galicia.



operations seem to be not only much more regular, with a greater spread (not limited to 1 or 2 offenders), but also more effective, at least in terms of temporarily disabling operations or confiscating assets.

In Bulgaria, the system of enforcement against car theft has undergone a transformation, generally leading to reduced risks for car thieves. The special unit for vehicle crime at the General Directorate for Combating Organised Crime closed down in 1999.<sup>196</sup> The investigations were transferred to the criminal police's local units, and a small national-level car-theft unit was established at National Police Headquarters which has fewer than ten officers who mostly work international investigations. The result has been that there have not been any significant investigations: most have targeted only one to four individuals of a particular brigade, or intermediaries in 'theft for ransom' schemes. Overall attention has been directed towards the theft for ransom schemes as they constituted the majority of reported car thefts. The result is that in Bulgaria no major car-theft enterprise has been dismantled, unlike in Spain where authorities usually arrest 15 to 20 offenders and target the entire enterprise. Therefore, the 'attention' that Bulgarian criminal enterprises received in Spain was much greater than in Bulgaria. The key difficulty that Spanish law-enforcement forces faced was the 'itinerant nature' of criminal operations. Especially at the lower level, the constant rotation of criminals did not allow police to get to know them.

In Bulgaria, on the other hand, especially at local level, the police have very good knowledge as to who the car-thieves are, their whereabouts, and even their assets. Well-known car thieves are periodically summoned to the Sofia-city police station for a 'talk', and then released. Investigations in which 'entrepreneurs' are arrested and convicted are an exception. When this is done it is usually on other charges (e.g. drugs) rather than car theft. The criminal assets of car thieves are never investigated by criminal investigation units, even in cases when they are known (as is the case in small towns like Pazardjik or Gabrovo, where law-enforcement interviewees knew details about the type and number of real-estate or business investments made by the criminal entrepreneurs).

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<sup>196</sup> According to a former officer at the unit, the reason for closing it down was that the unit had accidentally interrupted the operations of one of the major smugglers (Fatik), who was at the time so well connected with the government that he ensured that the unit was permanently closed.

The effect of the intensive operations of the Spanish police is difficult to judge, partially because law-enforcement had little experience with investigating this type of criminal networks. 'In the first period, in the 1980s car theft was the work of Italian, French, Belgian, and German criminals. [In Spain] this was *white collar* crime. People stole car documents and falsified them... [Spain] was on the *receiving end*.' [emphases added] (Gomez 2005: 210). There are other factors that influence the effective dismantling of criminal enterprises. First, police did not put away car thieves for very long (because as noted above the penalties are fairly mild). In no year did the number of arrests exceed 100. 'In 2004 we had four big operations and we arrested between 70-80 Bulgarians. Most of them are now free. Some are not in Spain, while others are back here under a fake identity.' (Raul Fuentes, Head of Car Trafficking Unit of the NPC, quoted by Cholakova 2005). Second, most operations targeted the 'car thieves' and their crews, who are 'expendable' from the point of view of the criminal entrepreneur, who can hire another 'brigade'. On only a few occasions have the police successfully prosecuted the criminal entrepreneurs. The issue of investigative capacity to deal with Bulgarian car theft networks, is also underlined by the Head of the Car Trafficking Unit of the NPC, who admitted that 'we need one hundred officers to have a true effect over these criminals' (quoted in Gómez 2005: 210). Lastly, there were very few international operations that targeted both 'theft' and 'sales' enterprises. As one law-enforcement officer involved in cross-border investigations put it, 'going after an entire network at all levels in Spain and Bulgaria is impossible'. [LEI-4]<sup>197</sup> Therefore, enterprises that were operated by Bulgaria-based entrepreneurs, rather than a locally based one were not dismantled.

Yet, it could be argued that the media campaign, which the police led, motivated principally by its own public relations strategy, seemed to have had an effect of raising 'public awareness', or at least creating a negative reputation. Therefore, the widespread newspaper and TV publicity portraying Bulgarians as car thieves worked as an impediment to market entry. It made 'bona fide buyers' of used cars, including car-dealers, far more suspicious of Bulgarian sellers. As one Bulgarian car thief

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<sup>197</sup> One additional minor law-enforcement policy aspect that some offenders pointed to as an advantage in Spain, is that cars could be stopped by traffic police only if there is an infraction. In Bulgaria, on the other hand, traffic police can stop cars without a specific reason just to inspect the car documents: in addition, on all outgoing roads of major cities the police have control points where car can be stopped. [OFI-1, OFI-5]

stated, 'Imagine a Romanian trying to sell you an expensive car here in Sofia, would you ever buy it?' [OFI-3]

### *Corruption*

The role of law-enforcement should be analysed also in light of the issue of corruption in law-enforcement and the judiciary. Corruption has already been discussed at length in the preceding chapters. As explained, the access to corruption as tool to Bulgarian criminal enterprises in Spain was very limited. Although some interviewees indicated that corrupt links existed,<sup>198</sup> it was usually at the police level (typically to provide information on ongoing investigations) and did not reach the courts or local political level. In terms of using corruption to facilitate the registration of stolen cars as a way of facilitating the sales, in Spain this is not needed to the same extent as it is in Bulgaria. As one interviewee explained: '*The registration control in Bulgaria is much tighter than in Spain. It's easier to register a stolen car in Spain because they don't check the identification numbers. Here [in Bulgaria] if they want to they will easily detect. Well, now it's easier since they changed the law and they don't check the VIN numbers when a car simply changes owners.*' (OFI-1)

Until 2006 in Bulgaria, the traffic police closely inspected vehicles for traces of VIN tampering, and the Interpol database.<sup>199</sup> Therefore, corruption in Bulgaria becomes a necessity to avoid complications. Where corruption really provides an advantage is in cases of investigation, and lowering the risk of detection or prosecution.

Therefore, while the penal policies in Bulgaria are much more robust than in Spain, in practice corruption softens the impact of penal policies to a great extent. Overall, it could be argued that the absence of access to widespread corruption in Spain possibly played a role in deterring used-car dealers or Spanish partners from partnering with Bulgarian criminal enterprises. Corruption, though, is of secondary importance, as trust and informal relations are preconditions that need to be in place

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<sup>198</sup> One interviewee for instance, who participated in a joint operation (and was seconded in Spain) between the Bulgarian police and the Civil Guard, was warned that the National Police unit working on the Bulgarians had a problem with information leaking.

<sup>199</sup> All imported cars were given a one-month temporary registration while the car was checked against Interpol databases. After 2006, a car's VIN is only checked against Interpol's database. The police may still check the VIN if they suspect that the car is stolen. Therefore, bribing the traffic police remained a necessity even after 2006.

in a relationship with a business partner before corruption can be used. The absence of widespread corruption is also a structural characteristic of the Spanish used-car market environment that makes market entry more difficult. Nevertheless, the sale of stolen vehicles takes place in Spain in this environment, and Bulgarian criminal enterprises needed to find a way around it.

The local criminal enterprises dominated by Spaniards seem to use corruption more frequently<sup>200</sup>. None of the 65 police cases that concerned Bulgarian organised criminal groups reported the use of corruption in Spain, while in almost all of the handful of cases involving Spaniard-dominated criminal groups the use of corruption was reported. In one case the group used 'connections in the used-car industry, such as independent used car or franchised dealers, service agencies,<sup>201</sup> which facilitated access to reports on vehicles and potential customers' [C-1203b]. In another case, a police officer and a civil guard were implicated in the schemes [C-0705]. In a third case, several bank directors and a used-car dealership were involved in the fraudulent acquisition of vehicles and their subsequent sale. [C-0708]

### **7.3.6 Unequal access to distribution channels**

The difficulty of access to efficient distribution channels to sell stolen cars is probably the most obvious observation that could be made to explain the inability of Bulgarian criminal entrepreneurs to sell stolen cars in Spain. The reasons behind this 'unequal' access can only be partially explained via a standard economic / management analytical framework.

Reuter (1985) suggests that illegal enterprises are characterised by a narrow local geographic scope of operations. Used-car distribution is also a highly localised market: typically car-dealers do not have more than one or a few showrooms in a city or region. Until 2010 there were geographic limitations on the operations of franchised dealers as well (see Chapter 4). While for legitimate firms geographic limitation is not an issue, as they may advertise locally and invest in establishing a

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<sup>200</sup> The Spanish police reported that 15% of the 616 organised crime groups investigated in 2009 were known to have used corruption. (Spain: Ministry of Interior 2010)

<sup>201</sup> These are companies that provide services related to the sale of a car (especially between private persons) that include the transfer of the title, the registration of the car, driving licence renewals, etc.

local reputation, for an illegal firm, establishing an efficient distribution network is an expensive and time-consuming process.

The illegal car-theft enterprise needs a geographically wide distribution network. A highly concentrated distribution network increases the risks of being uncovered. Several cases (C-1010, C-0305, C-1002) show that concentrating the distribution of stolen cars in a single outlet (usually a single used-car dealership) attracts police attention. For a new entrant, the ability to establish a reputation throughout numerous regions in Spain is almost beyond reach in the short term (2001–2007) when most of the enterprises operated, before the used-car market crashed with the financial crisis hitting Spain in 2008.

Building a customer base in such a short period is not impossible, but keeping in mind that many entrepreneurs have faced interruptions, and most have never felt the need to establish a viable local client-base, as they had a readily available one in Bulgaria, it is understandable that this timeframe proved insufficient. For a legitimate enterprise, most likely, this would have been sufficient time, as they could rely on advertising, on setting up their own showrooms, and concentrating activities at high-profit locations.

Theoretically, the use of the used-car sale internet websites should have put the Bulgarian criminal enterprises on an equal footing with private sellers or used-car dealerships, who all use the same sites. That did not happen for at least two reasons: first, internet sales of expensive cars from private individuals are risky; whereas dealerships provide some level of security, so that if something happens then the buyer can go back to the dealer. Second, the Bulgarians' negative reputation meant that they would need a Spanish intermediary to successfully sell the car, which increases the costs.

On the other hand, in Bulgaria, the criminal enterprises had exactly this type of dispersed nationwide distribution network built around long-term relationships and reputations. This network was a significant cost advantage that is factored in by entrepreneurs, as the cost of risk is considered low by both the 'theft' and the 'sales enterprise'.

If, in Spain, Bulgarian criminal entrepreneurs needed to enter a market and compete with legitimate car dealers (which proved risky and difficult), in Bulgaria they had parallel distribution networks, which were just as efficient and often overlapped with legitimate distribution networks, and occasionally were controlled by or closely related to criminal entrepreneurs. One entry barrier typical of many illicit markets concerns the strategies that incumbent firms may take – using violence or corruption of law-enforcement officials to preserve their territory (as may be the case with drugs distribution), or to protect their market share. The distribution of stolen cars is different in that respect, as the market is characterised by such a great number of distributors and buyers, and the internet allows for such global reach, that no one's market share is known. As a result, criminal entrepreneurs involved in selling stolen cars face few or no reprisals from their competitors.

#### **7.4 Beyond the economic rationale**

The 'barriers to entry' and OLI analytical frameworks provide a good understanding of the financial rationale behind the motivations and decisions of the economic actors involved in the market for (stolen) used cars. The present chapter showed that most classic barriers to entry were not the obstacles that stopped the Bulgarian criminal enterprises from successfully entering the Spanish used cars market: the criminal enterprises could afford very low costs (especially cheap labour), sufficient to compete with other illicit or licit competitors. Illicit entrepreneurs could afford to offer low sales prices that compensated for the perceived higher risks that local buyers might have had from switching to a new supplier of used cars. Also, there was no need for significant capital investments for new market entrants that could have made Bulgarian criminal entrepreneurs non-competitive. In terms of government policies: Spanish penal policies were a magnet that attracted many car-thieves from across Europe to Spain. Spanish law-enforcement actions, despite a significant number of arrests only marginally affected some individual illicit entrepreneurs. The lack of access to corruption as a tool to reduce risks could have been a barrier to market entry, but only of marginal importance, as the penal policies were already quite lenient.

The factors that constituted the most significant barrier were the lack of access to distribution channels. The analysis based on the barriers to entry and OLI paradigms

is useful only in-as-far as it helps to provide an answer the question 'what' but does not help with answering what logically follows from this conclusion: the answer to the question 'why?' In other words, these analytical frameworks convincingly provided an answer of the question 'What factors created a barrier to the Bulgarian criminal entrepreneurs from entering the Spanish used-car market?': the lack of access to distribution networks. Focusing the analytical attention to this answer logically brings up the follow-up question – 'Why did not the Bulgarians develop adequate distribution networks or used existing networks, or 'sub-contracted' distributors?'

Financial and economic theoretical frameworks provide no pointers about answering this question. One needs to revisit then the economic and political history of the used car market in Bulgaria (Chapter 5) of the period of transition to democracy in Bulgaria, of criminal histories and biographies, as well as of the socio-economics of Bulgarian (criminal and labour) migrant communities in Spain. One set of these factors could be defined as 'structural': such as the structure and operation of the used-car market / industry in Bulgaria and the corruption of the political and criminal justice processes. Another set of factors could probably be best described as 'functional' factors: the historically determined social or professional informal networks that facilitated the distribution of stolen cars in Bulgaria.

All of these aspects were already discussed in Chapter 3,4, 5 and 6: the control of organised crime over used-car dealers and open markets since the early 1990s; the general 'grey economy' and informal market practices that characterised the used-car business – including tax evasion and money laundering; the role of the insurance (former insurance / private security racketeering) companies; corruption in the criminal justice system, traffic police, customs, or the private sector (car dealerships, software engineers, service shops). As many of these issues were already discussed in depth throughout the thesis, the final concluding chapter that follows will bring together some of these arguments in a more cohesive manner.

## 8 Conclusions

### 8.1 Overview

The present thesis set to examine the factors that influence the entry of illicit enterprises into the markets for illicit goods and services, particularly the ones in country different from their traditional area of operations. The empirical journey of this thesis started with the description of the mechanics of the car-theft enterprise and its intertwining with the car-market. To understand how the two interact, it then provided a detailed examination of their historical, social, and economic underpinnings.

Bulgarian criminal entrepreneurs moved to Spain for different reasons and in different periods. Some escaped justice or the lingering violence and control of former racketeering criminal syndicates in Bulgaria. Others ran away from law-enforcement in Central and Western Europe. Some criminal entrepreneurs were not initially involved in car theft but in drugs, prostitution, firearms smuggling, or credit card fraud. The growing demand for luxury cars in Spain, Eastern Europe, Middle East, and Africa in the late 1990s pushed many of them in the profitable business of stealing and selling luxury cars and commercial vehicles.

The actual volume of cars that Bulgarians stole and sold was small (possibly around 2,500 annually) in comparison to the tens of thousands of car-thefts that the Spanish police and the media publicly tried to attribute to Bulgarian criminals. This number of cars, though, was significant for the twenty or so Bulgarian car-theft enterprises that operated at any given time in Spain (between around 2000 and 2008). They needed to sell such a number of cars continuously throughout the year to bona-fide buyers or, via informal networks, to customers who were aware that the cars were stolen. Most buyers of stolen cars in Spain were potentially bona-fide ones, but Bulgarian nationals already suffered from bad reputation as car-thieves. Therefore to effectively sell stolen cars these entrepreneurs needed to gain access to numerous informal networks of potential non-bona fide buyers: a task that proved too challenging for Bulgarian criminal entrepreneurs in Spain.



The present thesis examined a key structural factor that prevented criminal enterprises from effectively distributing stolen cars in Spain, but facilitated their sale in Bulgaria: the structure of the markets for used and new cars in Bulgaria and Spain. The nature of car retail industry and the market structure in both countries influenced in an important way the behaviour of criminal entrepreneurs.

The data showed that the structure of the used car market in Spain was not conducive to facilitating the sale of stolen cars there. First, consumers were much more inclined to buy new cars, rather than used ones (in comparison to many other Western European countries). Second, unlike in Bulgaria, in Spain the majority of luxury used cars were distributed via the same channels as new ones: franchised car-dealers and large networks of luxury car dealerships. These retailers were very unlikely to sell stolen cars and would do so only if they had been deceived by the criminals.

This picture contrasted with the Bulgarian market for used cars, which was marked by a very recent history of control by mafia-type racketeering organised crime groups up until the late 1990s. The used car market in Bulgaria is also different from the Spanish one as it is populated by numerous risk-prone actors. First, the main luxury used-car dealers are often with criminal past or actively involved in corruption networks. Next, every bigger town or city in the country has used-car 'exchanges' where thousands of individual semi-professional dealers sell used cars that they have personally imported. Most of these dealers are involved in various tax frauds. Unlike Spain, franchised dealers in Bulgaria play insignificant role in the sale of used cars.

The analysis presented in this thesis showed that some factors were not decisive in influencing the market entry of Bulgarian illegal entrepreneurs in Spain. The Bulgarian immigrant community did not serve as an efficient distribution network for stolen cars, like other immigrant communities do for drugs or illegal cigarettes. The corruption in Bulgarian law-enforcement probably facilitated the distribution of stolen vehicles but was not a decisive factor, just as the non-corrupt law-enforcement prosecution efforts of the Spanish police proved little more than a hassle, an additional cost to criminals (even though a few enterprises were dismantled). In the end it was the 2008 economic crisis and the shrinking of the car market that forced

most Bulgarian car-theft enterprises to discontinue their operations and turn to other illicit activities.

Several financial factors were also considered in Chapter 7. The significant cost advantages that Bulgarian criminal entrepreneurs enjoyed (cheap labour and low fixed costs), and which would have given a legitimate enterprise possibly a sufficient competitive advantage to enter the Spanish used-car market, were insufficient. The costs of risk made some criminal enterprises non-competitive, while for others the cost of distribution proved to be too high. In Bulgaria, the historically blurred social boundaries between criminals, criminal entrepreneurs, legitimate businesses, and wealthy buyers are at the core of a social milieu that enables and condones the sale and use of stolen cars.

The empirical data in the thesis provides some ground to speculate that the demand for stolen cars in Bulgaria was greater than the one in Spain. This was due to the broader illicit lifestyles of the economic elite in Bulgaria and the non-economic symbolic value vested in a luxury car. In Bulgaria the stolen car is only part of a lifestyle full of 'irregular', stolen, untaxed, or otherwise illicit assets, including one's house, or company incomes, as Chapter 5 shows. The special value of the luxury car is rooted in the history of the shortage of cars during the communist period, the prestige that Western cars brought in the post-1990 period, and finally the *power* and *prosperity* symbol that luxury vehicles still bring in the present day. In Spain, on the other hand, the used car, also for historical reasons, is less valued, and economic prosperity and access to financing pushes most buyers towards the purchase of a new car. Therefore, even though the Bulgarian used car market was much smaller than the Spanish one, the number of potential customers for stolen cars in Bulgaria probably rivalled the one in Spain.

In Bulgaria, a buyer's behaviour, though, is explained not only by the value vested in the car but also by the historically predetermined relations within which he lives: the access to corrupt public officials who could mitigate the risk of losing the car to law-enforcement seizure; and the access to sellers with whom he has history of relationships of trust built during the 1990s, when private security / insurance racketeers protected his business interests. Therefore, the market transaction from the buyer's perspective is embedded in this complex web of relations, 'learned behaviours' and 'dispositions' that make the purchase both socially acceptable and

safe. It is even more so as the transactions are embedded in a public morality where many government and police officials drive stolen cars that had been seized by law enforcement agencies.

If the Bulgarian used car market was a structural factor that facilitated the sale of stolen cars, ultimately, the decisive factor that enabled the selling of stolen cars was the access to distribution channels in Bulgaria: the ability to reach members of criminal and other (economic, political, judicial, and law-enforcement) elites. These elites constituted the main customer base for stolen cars. This access was grounded in a mix of historically and economically shaped development of the car-market, as well as by the broader political and social history of 1980s' and 1990s' Bulgaria.

If one uses the social networks approach (Granoveter 1985, 2005; DiMaggio and Louch 1998) to examine how criminal entrepreneurs and buyers of stolen cars related and transacted, this would provide a very narrow understanding of the market or their social network. The observation would, most likely, be that all economic actors are operating 'within multiple cross-cutting networks of criminal and legitimate opportunities' (Hobbs 1998b: 415). It would probably allow one to logically trace how a market transaction starting with the stealing and then selling of a car moves through these interconnected networks and their 'knots': from (1) the networks of 'thieves' who have a contractual relation with (2) the criminal entrepreneur whose legitimate business investments, in turn, connect him to (3) the local social network of the economic elite (within which buyers for the stolen cars are to be found). Such an analysis could have led one to the classic criminological conclusion that the bonds of **trust**, created through the existence of such informal networks and the 'within network exchanges' (DiMaggio and Louch 1998), explain the great number of sales of stolen cars in Bulgaria.

This, though, is more of an observation than an explanation. Cross-cutting social networks that allow car thieves to sell to wealthy customers exist also in Spain. Yet they remained closed to Bulgarian criminal entrepreneurs. It is therefore the understanding of how these networks developed over time and the social-cultural milieu within which they function that explain a criminal enterprise's ability to operate within them.

The network approach, therefore, provides an 'ahistorical vision' of economic behaviour (Bourdieu 2005: 5), making the need for a historical view of market relations (Lie 1997: 351) even more salient. It deprives one of an explanation of the 'genesis of economic dispositions' (ibid.) of the key economic actors involved in a market transaction of a stolen car: thieves, criminal entrepreneurs, other actors (insurance companies, and used-car dealers).

The access of criminal entrepreneurs to potential buyers within the local economic elite cannot be explained without looking at the pre-1990 history of elites in Bulgaria. During the communist era the only elite that was exclusive, and could be described as a separate class, was the highest level of Communist Party functionaries and the immediate privileged circle around them. They were concentrated primarily in the capital, Sofia and to some extent in the five big cities. In small towns, even though there were privileged individuals connected to the security structures and the Communist Party, it is difficult to speak of 'elite' in the sense of an exclusive or separate class. There were few social opportunities (e.g. schools or social venues) to maintain this kind of exclusivity. Therefore the social distance between the elite and the rest was not significant, even after the elite assumed privileged positions in the local economy after 1990. In the 20 years since the beginning of the 1990s, economic inequality created some social distance in the bigger cities, while in smaller towns these social structures were difficult to change, as developing transport infrastructure and rising incomes started to stimulate geographic and social mobility mostly after 2001.

The historic roots of relations between criminal and economic elites could be sought in the late 1980s and early 1990s, when the contraction of the State Security apparatus when thousands of former security officers were dismissed, and either went into private sector or in criminal careers. The extortion and protection rackets during the 1990s provided the 'glue' that ultimately connected much of the criminal and economic elites. Extortion racketeering companies described in this thesis (VIS, SIC, Apollo and Balkan, etc.) controlled car-theft, the sale of stolen cars, local markets for used cars, and the transnational trafficking of stolen cars. At the same time, they provided protection (most of the time in the form of a racket) to most legitimate business. These relations remained strong even after extortion racketeering disappeared, as at that time the former racketeers had already turned into legitimate business partners.

The process of criminal elite's entry into the legitimate economy intensified in the late 1990s, when reinvesting the profits from car-theft in illegal activities did not necessarily bring the highest rates of returns. The rigged privatisation process, which intensified after the 1997 parliamentary elections, provided lucrative investment opportunities. It enticed many criminal entrepreneurs to enter the legitimate economy. The years 2000–2009 also provided very good investment opportunities with a tremendous rate of return in the real estate and development sectors<sup>202</sup>: both car dealers and illicit entrepreneurs turned to investments in this area, as Chapter 3 showed. All these legitimate investment opportunities were lower-risk than investing in illicit businesses. Most importantly in this way many criminal entrepreneurs tried to become part of the legitimate business elite or even enter local politics.

The connections were especially strong between criminal entrepreneurs and grey entrepreneurs: those who avoided paying taxes, import duties, or used corruption. They often became the core of local economic elites and key players in many industries in Bulgaria: construction and real estate development, agriculture, fuels distribution, alcohol production, used-cars distribution, gambling, and Internet provision services. Such public exposure (and impunity) created an atmosphere of a large degree of social acceptance of illicit incomes and investments. It also legitimised the relations that existed amongst illicit and licit entrepreneurs as part of market and economic realities. On a local as well as national scale it legitimised the connections between criminals and grey entrepreneurs on one side, and law enforcement, politicians, magistrates, or public officials on the other, because the distinction between the licit and illicit provenance of their capital was blurred.

Finally, Chapter 5 has shown how car-theft entrepreneurs were related to other criminal elites. There were very few car-theft entrepreneurs who were solely involved in car-theft. Very often drugs trafficking, prostitution, smuggling of excisable goods, distribution of counterfeit currencies, or bank card fraud were either at times the main or supplemental activities to car theft. The historic view in Bulgaria provides an explanation of these relations: protection racketeering firms and the criminal

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<sup>202</sup> The real-estate bubble brought minimal profits in comparison to the massive market in land swaps between individuals and corrupt municipalities. (Center for the Study of Democracy, p. 95)

entrepreneurs that succeeded them were the ones who controlled the various monopolies in the drugs, prostitution, card fraud, or other markets for illicit goods and services. In Spain, although this access to criminal elites also existed, it was much more limited geographically (to the areas of operations) and structurally (to lower and middle levels of criminal networks).

## **8.2 Markets, illegality and global crime**

The questions that this thesis attempted to answer are narrowly defined but have complex answers and broad policy and theoretical implications. The issues examined are not simply the ability of criminal enterprises to enter a foreign market, but also their ability to globalise, the implications of 'social embeddedness of crime' in a globalised world, the boundaries of the 'illegal' market, even the ability of criminal groups to influence international relations (Friman and Andreas 1999). These issues call into question the law-enforcement strategies used to reducing car-theft, or the (lack of) regulation of the used-car market to prevent the sale of stolen cars.

The empirical data presented questioned the parameters of the criminological / sociological concepts that were used: especially the 'illegality' of markets. The traditional definitions of 'organised crime' as markets for illicit goods and services (Cressey 1969, Shelling 1971) or even present-day definitions (Albanese 2004, Hagan 2006) are increasingly challenged by realities, as organised criminals become important actors in markets for licit goods: cigarettes, apparel, art, alcohol, fuel, arms, or cars. The word 'illicit' in reality refers primarily to the origin of the goods: which may have been stolen, counterfeited, or illegally imported. In reality, the sellers of all these goods are fully fledged actors in legitimate markets. They end up competing with sellers of legitimate goods. Looking for the limits of the 'illicit market', therefore, is difficult, while the 'legitimate' market is expanded and enriched with a much more nuanced range of actors or market spaces.

The thesis also questions the conclusions about effects of product 'illegality'. Reuter (1985: 21-23) has argued that one of the results of product illegality is that enterprises attempt to remain 'local' in their geographic scope (to ensure better control of operations, reduce risks of long-distance transport, or reduce counteraction from multiple enforcement agencies). Yet, the Bulgarian enterprises preferred to spread their operations to more locations and internationally, despite all these risks.

The same considerations (listed above) that traditionally kept the operations of criminal groups local, in a globalised world pushed them to reach outside their immediate area of activity. For Bulgarian criminal entrepreneurs it became easier / safer to ship and sell cars across the EU.

The present thesis goes beyond the obvious that previous authors (Berdal and Serrano 2002, Castells 2000:171; Naim 2006; Thachuk 2007, Glenny 2008) have made: that illicit markets are now global and the criminal groups now have a global reach. These studies largely focused on the factors that created the opportunities for illicit entrepreneurs to become global, seeking parallels with the forces that were attributed to the spur of global flows of people and goods: the development of cheap global transport and communication infrastructures. More importantly, none of these studies examined in depth what factors limited the 'march' of criminal globalisation. The present thesis partially fills this empirical gap. Even more, it shows that different criminal activities and markets are governed by market-specific forces and conditions. Therefore, speaking in general terms about globalisation of crime does little good to understanding the real forces and issues behind it. What is true about illicit drugs, may not be true about stolen cars, or sex trade.

The present thesis also contradicts the findings of one of the few studies that examine the foreign market entry: Varese's (2011) study on the ability of 'mafia'-like organisations to impose protection rackets in a foreign country. Although, his overall conclusion is that there are limits to the globalisation of crime, Varese's basic argument is that when demand for protection rackets and supply of Mafiosi meet, then there is successful 'transplantation' of mafia activities. The present thesis shows that there is more the market equilibrium of than supply and demand factors. In 'thin' markets, such as Spain's market for stolen cars, with little information about other customers and prices, a more complex set of relations between sellers and buyers of illegal goods need to be met. In Spain both, supply of stolen cars and demand for luxury cars, were in place but the market entry failed to materialise.

In addition, the present thesis showed that a number of factors were only marginal in explaining the behaviour of criminal entrepreneurs. Some of the findings of the thesis, especially about the role of the Bulgarian immigrant community were in line with other academic (Varese 2011, Bovenkerk 2001, Bovenkerk et al. 2003, and Zaitch 2002) and contradicted others (Bruinsma and Bernasco 2004) by showing that

this community played no role in facilitating the market entry of Bulgarian criminal enterprises.

The thesis also questions the economic approach that some criminologists have embraced (Naylor 2004; Reuter 2004; 1985; Fiorentini and Peltzman 1995). They seek to find in 'rational' economic arguments the main explanation about the behaviour of criminal entrepreneurs, and they seek to draw parallels between legal and illegal firms. Such an approach, though, stops short of providing a comprehensive answer to the question of the failure of Bulgarian enterprises to enter the Spanish market, or fully understanding their ability to sell stolen cars in Bulgaria. What this thesis has shown is that analysis of the roles of historical determinants, broader ethical norms, and institutions help one understand how two seemingly similar markets for used cars in Spain and Bulgaria differ.

### **8.3 Policy implications**

In addition to the above considerations for criminological thought that the empirical data of this thesis provokes, there are several policy implications. The analysis of the markets for used cars in Bulgaria and Spain showed that there is a direct relation between, on the one hand, the market demand for used and new luxury cars, and on the other, the level of activity of car-theft networks. Therefore, the demand for stolen cars may not be differentiated by the demand for cars in general: the same underlining economic principles drive both. With the economic crisis that engulfed Bulgaria and Spain, the sales of new and used cars plummeted as did registered motor vehicle thefts. As a result new low-profile actors appeared, stealing and selling mid-range, rather than luxury cars. Therefore, the monitoring of car markets in countries that are 'receivers' of stolen cars may point to the trends also in the sale of stolen cars, and focus law-enforcement attention on market segment that has higher risk.

The other important implication concerns the structure of the enterprises and the way they interact. Normally, police focuses its efforts on the lowest levels of criminal structures, the car-thieves, who much like low level 'drug dealers' are replaceable. There are significant difficulties in gathering evidence against such low level criminal actors as well, as in many countries, including Spain, 'misappropriation' and 'car-



theft' are often difficult to set apart. A significant impact requires investigative efforts that focus on criminal entrepreneurs (either theft or sales). On a local level, the impact of apprehending a highly skilled car-thief, may also have a temporary impact, as such individuals are, at least in the short term, difficult to replace.

Another effort of law-enforcement should focus on the Internet. Much like the sale of stolen art via auction websites has forced some law-enforcement agencies (like the Italian police) to develop 'crawling software' that identifies possible stolen art objects sold on auctions sites, similar software may in the very near future be the right tool to prevent the sale of stolen cars via used-car websites, which are bound to become an ever more influential sales outlet. (Capgemini 2011: 14-16)

From a policy point of view, one of the issues that interests regulators is the effect of organised crime on the legitimate market, in this case the market for used cars. Apparently, there are two very different situations in Spain and Bulgaria. The impact is difficult to assess, as in both Bulgaria and Spain there was already a significant part of the used-car industry that was informal, involving tax-irregularities, or various other consumer frauds. Yet, this impact seems to be limited. The involvement of international corporations and major franchised dealer networks significantly reduced the opportunities for sellers of stolen cars. The few thousand stolen cars that were sold in Spain had little impact on distorting the overall market of 1.6 million cars, or on reducing consumer confidence in legitimate car retailers. In Bulgaria, there were few market constraints on criminals, as the dealer networks were either related to organised crime or likely to engage in irregular practices. As the confidence of consumers was already shaken due to years of flooding the market with stolen cars, the government took measures and introduced services such as inspection of cars for VIN interventions, or consulting Interpol databases before purchase and registration of a car. With stolen cars becoming remaining mostly in the luxury class, the overall market impact in Bulgaria was gradually minimized.

In both cases, and especially in Bulgaria, the absence of any form of government used-car industry regulation left space for 'backdoor traders' to come in. A set of regulatory measures, such as licensing or the introduction of industry standards could certainly reduce not only informal market practices but also the number of stolen cars sold via used-car dealers.

## 8.4 Foresight

Although at the end of 2010 luxury car theft had gone out of ‘fashion’, its future seems as bright as ever, awaiting the next economic cycle in Eastern Europe or in Northern Africa, where aspiring economic elites will be buying (stolen) luxury cars. Regardless of the types of security measures developed by car makers, or the tracing systems that Interpol or law-enforcement agencies implement, criminal entrepreneurs will continue, just as they do presently with some lag, to surmount security systems and ‘clone’ vehicles. Yet, the lowering costs of security and tracking systems are likely to focus the efforts of car-thieves on high-priced vehicles. The economic development that is yet to occur in much of Eastern Europe and the rest of the developing world promises a healthy number of potential buyers, who will be lured by the symbolic power that such cars will continue to endow their owners with. Grey economies in such countries will facilitate the sale of stolen cars while weak law-enforcement and judiciary will allow economic elites to enjoy the same illicit lifestyles as observed in Bulgaria, which sustain the normalcy of buying cheap stolen luxury cars.

Criminal syndicates will continue to ‘globalise’ and move between national jurisdictions in order to avoid justice. They increasingly will use technologies not only to avoid detection and facilitate crimes, but also to participate in legitimate markets. With consumer habits and access to technology in constant flux, Internet sales portals, from auction web sites to used car sale sites or dating sites<sup>203</sup> will increasingly provide the disguise and opportunities to distribute various illicit goods and services.

Yet, some fundamental market principles and behaviour of legitimate actors will continue to impose limits to the market participation of criminals. Government and industry bodies will increasingly use new technologies and regulation to limit the opportunities for illicit entrepreneurs: whether it concerns the traceability of stolen goods or detection of counterfeit or illegally imported goods. In addition, the inevitable transformation of global or national retail trade, which is increasingly

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<sup>203</sup> Such sites are increasingly used by prostitution networks to find customers.

transferred within the control of multinational companies, will further constrict the product distribution opportunities of high-risk 'grey' or illicit entrepreneurs.

## Annex 1: Map of Bulgaria



## Annex 2. Interview codes

### Law-enforcement interviewees

| Code   | Position / Department                                       | Institution   | City / Country    |
|--------|---|---|-------------------|
| LEI-1  | Head of Vehicle Crime unit                                  | Regional Police Directorate                           | Varna, Bulgaria   |
| LEI-2  | Former Investigator   | General Directorate Combating Against Organised Crime | Varna, Bulgaria   |
| LEI-3  | (Former) Head of Vehicle Crime Unit                         | City Police Directorate                               | Sofia, Bulgaria   |
| LEI-4  | Investigator, Vehicle Crime Unit - International operations | Police Headquarters                                   | Sofia, Bulgaria   |
| LEI-5  | Investigator  | City Police Department                                | Sofia, Bulgaria   |
| LEI-6  | Police Liaison Officer                                      | Embassy of Bulgaria                                   | Brussels, Belgium |
| LEI-7  | Police Liaison Officer                                      | Embassy of Bulgaria                                   | Madrid, Spain     |
| LEI-8  | Investigator  | Gendarmerie   | France            |
| LEI-9  | Council   | Embassy of Bulgaria                                   | Madrid, Spain     |
| LEI-10 | Former Head Customs Intelligence and Investigation          | National Customs Administration                       | Sofia, Bulgaria   |
| LEI-11 | Investigator  | National Customs Administration                       | Sofia, Bulgaria   |
| LEI-12 | Investigator  | National Police, UDYCO, Vehicle Crime Unit            | Algeciras, Spain  |
| LEI-13 | Administrator   | Customs   | Algeciras, Spain  |
| LEI-14 | (former) Head of Criminal Investigations                    | Regional Police Directorate                           | Gabrovo, Bulgaria |
| LEI-15 | Head of Criminal Investigations                             | Regional Police Directorate                           | Gabrovo, Bulgaria |
| LEI-16 | Former investigator   | General Directorate Combating Against Organised Crime | Sofia, Bulgaria   |
| LEI-17 | Former Minister of the Interior (1994-1995)                 | Ministry of Interior                                  | Sofia, Bulgaria   |
| LEI-18 | Former head of department                                   | General Directorate Combating Against Organised Crime | Sofia, Bulgaria   |
| LEI-19 | Investigator  | Economic Police                                       | Sofia, Bulgaria   |
| LEI-20 | Investigator  | Customs (Spain)                                       | Madrid, Spain     |
| LEI-21 | Investigator  | Economic Police                                       | Sliven, Bulgaria  |

### Offender interviewees

| Code  | Age | City  | Description                          | Criminal career / int'l experience        |
|-------|-----|-------|--------------------------------------|---|
| OFI-1 | 30  | Sofia | Car-thief                            | 10 years of experience in Italy, Bulgaria |
| OFI-2 | 30  | Sofia | Car-thief & legitimate job in sports | 10-15; Location: Bulgaria, Spain          |
| OFI-3 | 42  | Sofia | Car-thief / used car dealer          | 16 years of experience in Sofia, Spain    |

| Code   | Age | City      | Description  | Criminal career / int'l experience  |
|--------|-----|-----------|--|---|
| OFI-4  | 30  | Pazardjik | Former car thief & pimp; presently drug dealer                           | Worked in Spain (2003-2004) / Belgium   |
| OFI-5  | 27  | Pazardjik | Drug dealer / mule for car-theft rings                                   | Worked in Spain (2006-2008)   |
| OFI-6  | 36  | Pazardjik | Car-thief  | Legitimate jobs; starts with thefts; spent time in prison for car-theft; starts with car-theft in 2000 in Spain |
| OFI-7  | 39  | Pazardjik | Car-thief since 1995   | Drug dealing, robberies; worked in Spain & Germany, France  |
| OFI-8  | 29  | Pazardjik | Robber, car-thief, drug-dealer   | Spain , Austria (2005)  |
| OFI-9  | 40  | Pazardjik | Former police officer / athlete, car-thief, presently drug-dealer        | Spain, Bulgaria   |
| OFI-10 | 33  | Pazardjik | Worked as a bar-tender; then fake documents, car-thief around 2001-2002; | Spain (2003)  |
| OFI-11 | 29  | Pazardjik | Prostitute (started in 1997)   | Worked in Spain (2005-6), Germany, Italy (2002-05)  |
| OFI-12 | 32  | Pazardjik | Former athlete; since 2000 car-thief; presently mid-level drug smuggler  | Italy / Spain; Significant experience across Latin America & Western Europe                                     |
| OFI-13 | 30  | Pazardjik | Drug dealer; car theft since 2003 (France / BG)                          | Austria, France   |
| OFI-14 | 29  | Pazardjik | Car thief / VIN rigging expert since 1998; drug dealer                   | Car repair technician; Germany  |
| OFI-15 | 45  | Pazardjik | Former athlete (sports school); car-thief / low mid-level drug dealer;   | Started in 1991 in Hungary Czech Rep; Spain, Germany, Austria   |
| OFI-16 | 28  | Pazardjik | Low level drug-dealer / pimp; used to work as spotter / mule             | Germany   |
| OFI-17 | 27  | Pazardjik | Tool-maker; low-level pimp   | Spain (labour migrant / petty criminal; France (pimping)  |
| OFI-18 | 32  | Pazardjik | Prostitute on Pazardjik ring-road  | Greece, Germany   |
| OFI-19 | 33  | Pazardjik | Pimp (pimping his wife – OFI-18)   | Greece  |

| Code   | Age | City                     | Description  | Criminal career / int'l experience                           |
|--------|-----|--------------------------|--|--|
| OFI-20 | 36  | Sofia                    | former car-thief, presently drug-dealer & legitimate job   | Worked in Sofia for a SIC-related brigade up until 2002-2003 |
| OFI-21 | 35  | Septemvri <sup>204</sup> | burglar / heroin dealer; former car-theft crew driver      | None;  |
| OFI-22 | 33  | Septemvri                | Former car thief (1997-2001); present heroin dealer / user | Mostly in Sofia, most family in Spain (labour migrants)      |
| OFI-23 | 36  | Pazardjik                | Document counterfeiter / assisted car theft groups         | Sports school grad; drugs; fake document maker / fraudster   |

### Immigrant Interviewees

| Code   | City in Spain   | Job in Spain               | Age | Sex | Time in Spain  | Prior job in Bulgaria               | City of origin |
|--------|-----------------|----------------------------|-----|-----|----------------|-------------------------------------|----------------|
| IMI-1  | Madrid          | Legal services             | 37  | F   | Since 10 years | legal                               | Sofia          |
| IMI-2  | Marbella        | Retail / landscaping       | 38  | M   | Since 9 years  | Engineer                            | Gabrovo        |
| IMI-3  | Barcelona       | Drug rehab / prostitution  | 30  | F   | Since 2 years  | Prostitute                          | Pazardjik      |
| IMI-4  | Barcelona       | Retail                     | 30  | M   | 7 years        | None / student                      | Varna          |
| IMI-5  | Barcelona       | Agriculture / prostitution | 27  | M   | 3 months       | Family retail/prostitution          | Pazardjik      |
| IMI-6  | Balearic Island | Construction               | 38  | M   | 1.5 years      | Photography / construction          | Pazardjik      |
| IMI-7  | Balearic Island | Construction / Agriculture | 52  | M   | 1 year         | Small business (1 stores & 1 kiosk) | Pazardjik      |
| IMI-8  | Balearic Island | Musician                   | 55  | M   | 6 months       | Musician                            | Pazardjik      |
| IMI-9  | Barcelona       | Agriculture / prostitution | 27  | M   | 6 months       | Prostitute / retail family business | Pazardjik      |
| IMI-10 | Benavente       | Construction               | 32  | M   | 6 m            | Municipal worker / NGO              | Peshtera       |

### Other interviewees

| Code | Type | Based in | Subject experience |
|------|------|----------|--------------------|
|------|------|----------|--------------------|

<sup>204</sup> Septemvri is a town situated 16 km. away from Pazardjik

| Code   | Type          | Based in  | Subject experience  |
|--------|---------------|-----------|---|
| OTI-1  | Academic      | Sofia     | Research on car-theft in Bulgaria, including interviews with offender, police, criminal entrepreneurs   |
| OTI-2  | Academic      | London    | Research on Bulgarian migrants in Spain – anthropological fieldwork in Spain                            |
| OTI-3  | Academic      | Sofia     | Research on Bulgarian migrants in Spain – sociological work in Madrid                                   |
| OTI-4  | Lawyer        | Madrid    | Involved in defense of Bulgarian and other immigrant offenders  |
| OTI-5  | Entrepreneur  | Madrid    | Construction company owner with multiple sites throughout Spain   |
| OTI-6  | Academic      | Prague    | Researcher on organised crime in the Czech Republic   |
| OTI-7  | Academic      | UK        | Researcher on organised crime in Greece   |
| OTI-8  | Academic      | Slovenia  | Researcher on organised crime in the Balkans  |
| OTI-9  | Academic      | Milan     | Researcher on organised crime in Italy  |
| OTI-10 | Entrepreneur  | Gabrovo   | 'Grey' entrepreneur (money-laundering, developer); part of local elite                                  |
| OTI-11 | Entrepreneur  | Gabrovo   | 'Grey' entrepreneur (private security company owner, used-car importer, developer); part of local elite |
| OTI-12 | Entrepreneur  | Gabrovo   | 'Grey entrepreneur' (sole proprietor in plastics recycling)   |
| OTI-13 | Entrepreneur  | Sofia     | Businessman and former government official  |
| OTI-14 | Social-worker | Sofia     | Representative of an NPO working with offenders   |
| OTI-15 | Social worker | Pazardjik | Representative of an NPO working with offenders   |
| OTI-16 | Researcher    | Sofia     | Researcher at a researcher on organised crime at think-tank in Sofia                                    |
| OTI-17 | Lawyer        | Sofia     | Former employee at one of the former racketeering insurance companies                                   |
| OTI-18 | Driver        | Sofia     | Former driver of car transporter lorry from Western Europe  |

### Used-car market participants

| Code  | Position                            | Type of business    | International experience | City / Country      |
|-------|-------------------------------------|---------------------|--------------------------|---------------------|
| CDI-1 | Owner                               | Used-car dealership | Germany / Italy          | Sofia – Gorubliane  |
| CDI-2 | Employee                            | Used-car dealership | Germany                  | Pazardjik / Plovdiv |
| CDI-3 | Car mechanic / independent used-car | Car-service shop    | Germany                  | Sofia               |



|              |                                |                                  |       |                 |
|--------------|--------------------------------|----------------------------------|-------|-----------------|
|              | dealer                         |                                  |       |                 |
| <b>CDI-4</b> | Director of leasing operations | Leasing company                  | n/a   | Sofia, Bulgaria |
| <b>CDI-5</b> | Sole entrepreneur              | Used car dealing at car exchange | Italy | Dupnitsa        |

## Annex 3. Summary of police cases analysed

The tables below summarise some basic information about the 83 investigation cases carried out by Spanish law enforcement that were analysed in the thesis. Some links refer to newspaper websites but the source is still a police press release that was printed by the media. There are three types of cases in the three tables below:

- Cases of Bulgarian car-theft networks / groups
- Cases of Bulgarian-run criminal enterprises, whose primary criminal activity was different from car-theft (prostitution, drugs, credit card fraud)
- Cases of other, non-Bulgarian, car-theft networks / groups

The information derived from these cases was much more substantial than the summarised version provided below. Each case was about 2 pages long, in which details about the police actions and the basic modus operandi of the criminal network were provided: the number of offenders, their age, gender, and nationality. In some cases the city of birth or previous criminal record was also listed. The brands and numbers of the cars seized, or any other evidence collected (usually implicating the participants in other crimes was also found), involvement in other crimes, the modes of selling or trafficking the vehicles, and the trafficking destinations. All websites were accessed between 2007 and 2010.

### Cases of Bulgarian groups involved in car-theft

| No | Code   | Source: Link to Police, Civil Guard, or media website   | Area of theft    | Total Bulgarians involved | Destination for sale of stolen cars | Involvement in other crimes |
|----|--------|---|------------------|---------------------------|-------------------------------------|-----------------------------|
| 1  | C-0495 | <a href="http://www.elpais.com/articulo/madrid/ESPANA/BULGARIA/MADRID/COLLADO_VILLALBA/_MADRID/MADRID/GUARDIA_CIVIL/Desmantelada/red/venta/vehiculos/robados/elpepiespmad/19950419elpmad_4/Tes">http://www.elpais.com/articulo/madrid/ESPANA/BULGARIA/MADRID/COLLADO_VILLALBA/_MADRID/MADRID/GUARDIA_CIVIL/Desmantelada/red/venta/vehiculos/robados/elpepiespmad/19950419elpmad_4/Tes</a> | Collado Villalba | 4                         | North Africa                        | n/a                         |
| 2  | C-0497 | <a href="http://www.elpais.com/articulo/madrid/MADRID/MADRID/_MUNICIPIO/BARAJAS/_DISTRITO/_MADRID/banda/dedicaba/robar/coches/Barajas/elpepiespmad/19970420elpmad_14/Tes">http://www.elpais.com/articulo/madrid/MADRID/MADRID/_MUNICIPIO/BARAJAS/_DISTRITO/_MADRID/banda/dedicaba/robar/coches/Barajas/elpepiespmad/19970420elpmad_14/Tes</a>   | Madrid           | 2                         | Eastern Europe / Africa             | N/A                         |
| 3  | C-0897 | <a href="http://www.elmundo.es/papel/hemeroteca/1997/08/10/madrid/287389.html">http://www.elmundo.es/papel/hemeroteca/1997/08/10/madrid/287389.html</a>   | Madrid           | 3                         | Morocco, Bulgaria                   | N/A                         |
| 4  | C-1197 | <a href="http://www.elpais.com/articulo/madrid/ESPANA/BULGARIA/CUERPO_NACIONAL_DE_POLICIA/Desarticulada/banda/bulgaros/dedicada/robo/coches/lujo/elpepiespmad/19971108elpmad_8/Tes">http://www.elpais.com/articulo/madrid/ESPANA/BULGARIA/CUERPO_NACIONAL_DE_POLICIA/Desarticulada/banda/bulgaros/dedicada/robo/coches/lujo/elpepiespmad/19971108elpmad_8/Tes</a>                         | Madrid           | 7                         | Eastern Europe                      | N/A                         |

| No | Code    | Source: Link to Police, Civil Guard, or media website   | Area of theft  | Total Bulgarians involved | Destination for sale of stolen cars  | Involvement in other crimes                                 |
|----|---------|---|--|---------------------------|--|---|
| 5  | C-0298  | <a href="http://www.elmundo.es/papel/hemeroteca/1998/02/25/madrid/372873.html">http://www.elmundo.es/papel/hemeroteca/1998/02/25/madrid/372873.html</a>   | Madrid   | 9                         | Bulgaria / Morocco   | Credit card fraud, robbery; counterfeiting money;           |
| 6  | C-0798  | <a href="http://www.elpais.com/articulo/madrid/MADRID_/COMUNIDAD_AUTONOMA/MADRID_COMUNIDAD_AUTONOMA/Desarticulada/banda/robo/experto/centenar/coches/elpepiespmad/19980801elpmad_8/Tes">http://www.elpais.com/articulo/madrid/MADRID_/COMUNIDAD_AUTONOMA/MADRID_COMUNIDAD_AUTONOMA/Desarticulada/banda/robo/experto/centenar/coches/elpepiespmad/19980801elpmad_8/Tes</a> | Madrid   | 3                         | N. Africa  | N/A   |
| 7  | C-0100  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2000/np011401.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2000/np011401.htm</a>   | Madrid   | 1                         | via Ceuta to Morocco   | N/A   |
| 8  | C-0600  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2000/np062803.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2000/np062803.htm</a>   | Madrid, Costa del Sol  | 4                         | Morocco; Eastern Europe  | N/A   |
| 9  | C-0600b | <a href="http://www.admin.mir.es/DGRIS/Notas_Prensa/Policia/2000/np062803.htm">http://www.admin.mir.es/DGRIS/Notas_Prensa/Policia/2000/np062803.htm</a>   | Costa del Sol  | 2                         | Spain  | N/A   |
| 10 | C-1100  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2000/np111501.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2000/np111501.htm</a>   | Pozuelo (Madrid); Miraflores de la Sierra (Madrid)                             | 1                         | N. Africa ; Eastern Europe   | N/A   |
| 11 | C-0501  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Guardia_Civil/2001/np051004.htm">http://www.mir.es/DGRIS/Notas_Prensa/Guardia_Civil/2001/np051004.htm</a>   | Madrid   | 16                        | export / n/a   | N/A   |
| 12 | C-1201  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2001/np120701.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2001/np120701.htm</a>   | Madrid   | 1                         | n/a  | Firearms trafficking/ Extortion, illegal protection of pubs |
| 13 | C-0202  | <a href="http://www.elmundo.es/papel/2002/02/15/madrid/1107086.html">http://www.elmundo.es/papel/2002/02/15/madrid/1107086.html</a>   | Madrid, Avila, Alicante  | 22                        | Eastern Europe   | N/A   |
| 14 | C-0202b | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2002/np022201.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2002/np022201.htm</a>   | Stolen in Germany, Sweden, Finland, Spain, France, USA, and recovered in Spain | 2                         | Spain; Africa  | N/A   |
| 15 | C-0502  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2002/np050901.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2002/np050901.htm</a>   | Madrid   | 2                         | Bulgaria   | N/A   |
| 16 | C-0203  | <a href="http://www.elmundo.es/elmundo/2003/02/27/madrid/1046362467.html">http://www.elmundo.es/elmundo/2003/02/27/madrid/1046362467.html</a>   | Madrid area: Colmenar de Oreja, Aranjuez, Fuenlabrada, Getafe                  | 9                         | Exported abroad  | Burglary  |
| 17 | C-0703  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2003/np071607.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2003/np071607.htm</a>   | Costa del Sol  | 7                         | Bulgaria   | N/A   |
| 18 | C-0803  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2003/np082601.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2003/np082601.htm</a>   | Madrid / Tenerife  | 3                         | N/A  | Firearms trafficking, document and money counterfeiting     |
| 19 | C-0903  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2003/np090501.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2003/np090501.htm</a>   | Stolen Costa del Sol; and transferred to Madrid                                | 6                         | via Greece to Eastern Europe; via Turkey to Persian Gulf   | N/A   |
| 20 | C-0903b | <a href="http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=1374">http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=1374</a>   | Madrid   | 8                         | Eastern Europe   | Firearms trafficking  |
| 21 | C-1203  | <a href="http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=1427">http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=1427</a>   | Madrid (Guadalajara - suburb of Madrid)  | 5                         | Eastern Europe   | N/A   |
| 22 | C-0104  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np012302.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np012302.htm</a>   | Alicante, Málaga, Murcia, Orihuela y Lorca                                     | 17                        | Some in Spain; the majority via Italy / Greece to Bulgaria and other Balkan countries and former Soviet Union; via Turkey towards Persian Gulf | N/A   |
| 23 | C-0204  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np020503.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np020503.htm</a>   | Leganes, Madrid  | 3                         |  | Drug trade (heroin / hashish)/ counterfeit money            |

| No | Code    | Source: Link to Police, Civil Guard, or media website   | Area of theft   | Total Bulgarians involved | Destination for sale of stolen cars   | Involvement in other crimes  |
|----|---------|---|---|---------------------------|---------------------------------------|--|
| 24 | C-0204B | <a href="http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=1464">http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=1464</a>               | Fuengirola y Marbella (Málaga); Madrid                      | 5                         | Eastern Europe                        | Extortion of other criminal groups; (stealing drugs)<br>Firearms trafficking |
| 25 | C-0204C | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np022608.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np022608.htm</a>                       | Marbella; Mijas Costa                                       | 6                         | N/A                                   | N/A  |
| 26 | C-0704  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np060702.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np060702.htm</a>                       | Canillas, Madrid  | 11                        | Eastern Europe                        | Credit card fraud  |
| 27 | C-1204  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np120302.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np120302.htm</a>                       | Madrid  | 14                        | Eastern Europe; UK                    | N/A  |
| 28 | C-0205  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2005/np022802.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2005/np022802.htm</a>                       | Costa del Sol (Arroyo de la Miel Benalmadena)               | 4                         | Domestic - Moroccan drug-dealers      | Drugs  |
| 29 | C-0305  | <a href="http://www.noticias.info/Archivo/2005/200503/20050322/20050322_53774.shtm">http://www.noticias.info/Archivo/2005/200503/20050322/20050322_53774.shtm</a> | Gandia (near Valencia)                                      | 19                        | Germany                               | N/A  |
| 30 | C-0805  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2005/np080203.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2005/np080203.htm</a>                       | Huelva, Madrid  | 6                         | Eastern Europe / other countries      | N/A  |
| 31 | C-0905  | <a href="http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=1805">http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=1805</a>               | Madrid, Alicante, Málaga y Guadalajara                      | 7                         | N/A                                   | Drugs trafficking, document / money counterfeiting ; stolen art              |
| 32 | C-1105  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2005/np111201.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2005/np111201.htm</a>                       | Alicante / Palma de Mallorca                                | 15                        | Bulgaria                              | Prostitution   |
| 33 | C-1205  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2005/np120701.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2005/np120701.htm</a>                       | Madrid  | 4                         | Eastern Europe                        | N/A  |
| 34 | C-0206  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np022408.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np022408.htm</a>                       | Burgos y Valladolid   | 15                        |                                       | N/A  |
| 35 | C-0306  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np032402.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np032402.htm</a>                       | Madrid, Toledo y Guadalajara;                               | 20                        | to criminal gangs in Spain            | N/A  |
| 36 | C-0706  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np071802.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np071802.htm</a>                       | Costa del Sol Madrid  | 6                         | N/A                                   | N/A  |
| 37 | C-0706B | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np071801.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np071801.htm</a>                       | Madrid, Costa del Sol, Valencia, Alicante                   | 1                         | via France, Italy, Turkey, to Armenia | N/A  |
| 38 | C-1006  | <a href="http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=2054">http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=2054</a>               | Madrid, Toledo, Valencia                                    | 1                         | Mauritania & Senegal                  | N/A  |
| 39 | C-1006B | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np102801.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np102801.htm</a>                       | Orense y la Costa del Sol, (Seville)                        | 2                         | Spain - domestic sales                | Costa del Sol (Fuengirola, Benalmádena)                                      |
| 40 | C-1206  | <a href="http://www.policia.es/prensa/061213_1.htm">http://www.policia.es/prensa/061213_1.htm</a>   | Madrid ; Pozuelo de Alarcón<br>Maquillaje: Toledo, Marbella | 8                         | Eastern Europe / other countries      | Drugs  |
| 41 | C-0307  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Guardia_Civil/2007/np030201.html">http://www.mir.es/DGRIS/Notas_Prensa/Guardia_Civil/2007/np030201.html</a>         | Cantabria, Madrid y Vizcaya                                 | 2                         | Spain - domestic sales                | N/A  |
| 42 | C-0407  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np041809.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np041809.html</a>                     | Madrid  | 5                         | export / n/a                          | N/A  |
| 43 | C-0407B | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np041809.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np041809.html</a>                     | Madrid  | 5                         | Eastern Europe                        | Document and money counterfeiting  |
| 44 | C-0607  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np060102.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np060102.html</a>                     | Valencia  | 7                         | export / n/a                          | Forgery of documents and credit cards, drugs trafficking                     |
| 45 | C-0707  | <a href="http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=2224">http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=2224</a>               | Madrid y Toledo,  | 2                         | Spain / other EU countries            | N/A  |
| 46 | C-0707B | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np070301.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np070301.html</a>                     | Mijas y Fuengirola  | 3                         | N/A                                   | N/A  |
| 47 | C-1007  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np100101.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np100101.html</a>                     | Madrid; Alicante  | 3                         | Africa (Nigeria and Cameroon)         | N/A  |

| No | Code   | Source: Link to Police, Civil Guard, or media website   | Area of theft                              | Total Bulgarians involved | Destination for sale of stolen cars | Involvement in other crimes |
|----|--------|---|--|---------------------------|-------------------------------------|-----------------------------|
| 48 | C-0208 | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2008/np021101.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2008/np021101.html</a>   | Madrid, Barcelona, Villanueva de la Torre. | 9                         | via France & Italy                  | N/A                         |
| 49 | C-0408 | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Ultimos_comunicados/np040901.html">http://www.mir.es/DGRIS/Notas_Prensa/Ultimos_comunicados/np040901.html</a>   | Madrid / Barcelona                         | 12                        | Spain - domestic sales;             | N/A                         |
| 50 | C-0508 | <a href="http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=2381">http://www.guardiacivil.es/prensa/notas/noticia.jsp?idnoticia=2381</a>   | Madrid, Alicante y Malaga                  | 16                        | Spain and elsewhere in Europe       | N/A                         |
| 51 | C-0209 | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np022001.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np022001.html</a>   | Malaga, Algeciras, Estepona.               | 6                         | North Africa                        | Drugs                       |
| 52 | C-1209 | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np121701.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np121701.html</a>   | Madrid                                     | 4                         | Bulgaria                            | N/A                         |
| 53 | C-0310 | <a href="http://www.policia.es/prensa/20110323_1.html">http://www.policia.es/prensa/20110323_1.html</a>   | Madrid                                     | 1+                        | Spain (internet); Iraq and Russia   | N/A                         |
| 54 | C-1010 | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2010/np101401.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2010/np101401.html</a>   | Oviedo, Pamplona                           | 6                         | Spain (stolen in Bulgaria)          | N/A                         |
| 55 | C-1210 | <a href="http://www.diariodecadiz.es/article/provincia/868478/detenidos/por/robar/coches/y/venderlos/marruecos.html">http://www.diariodecadiz.es/article/provincia/868478/detenidos/por/robar/coches/y/venderlos/marruecos.html</a> | Cadiz, Malaga                              | 5-7 (out of 15)           | Morocco                             | drugs                       |
| 56 | C-0911 | LEI-21  | Madrid                                     | 5                         | Bulgaria                            | Counterfeiting, robberies   |

## Cases of Bulgarians involved in other crimes

| No | Code    | Source: Link to Police, Civil Guard, or media website   | Region                                | Arrests | Other nationalities            | Primary criminal activity |
|----|---------|---|---------------------------------------|---------|--------------------------------|---------------------------|
| 1  | C-1106  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np112501.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np112501.htm</a>             | Madrid                                | 6       | 1 Moroccan, 1 Spaniard         | Drugs trafficking         |
| 2  | C-0702  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2002/np072201.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2002/np072201.htm</a>             |                                       | 1       | 20 Romanians                   | Prostitution              |
| 3  | C-0807  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np082401.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2007/np082401.html</a>           |                                       | 3       |                                | Drugs (heroin)            |
| 4  | C-1006  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Guardia_Civil/2006/np101701.htm">http://www.mir.es/DGRIS/Notas_Prensa/Guardia_Civil/2006/np101701.htm</a> | Madrid                                | 6       | 1 Albanian, 5 Spaniards        | Prostitution              |
| 5  | C-1106  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np112803.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np112803.htm</a>             |                                       | 11      | 1 Spaniard                     | Drugs (hashish)           |
| 6  | C-0404  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np040501.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2004/np040501.htm</a>             |                                       | 2       |                                | Prostitution              |
| 7  | C-1103  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2003/np111003.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2003/np111003.htm</a>             | Valencia, Alicante                    | 6       |                                | Arms trafficking          |
| 8  | C-0803  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2003/np080601.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2003/np080601.htm</a>             | Madrid, Alicante                      | 6       | Greek, Argentinean             | Document forgery          |
| 9  | C-0706  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np071304.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np071304.htm</a>             | Madrid ( Fuenlabrada, Getafe suburbs) | 8       |                                | Credit card fraud         |
|    | C-0506  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np051202.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2006/np051202.htm</a>             | Baleares                              | 5       | Bulgarian, Spaniard            | Prostitution              |
| 11 | C-0707c | <a href="http://www.elmundo.es/elmundo/2007/07/23/espana/1185190430.html">http://www.elmundo.es/elmundo/2007/07/23/espana/1185190430.html</a>           | Almeria, Valencia                     | 4       | Romanina, Lithuanian, Canadian | Credit card fraud         |
| 12 | C-0702  | <a href="http://www.elmundo.es/elmundo/2002/07/19/sociedad/1027095280.html">http://www.elmundo.es/elmundo/2002/07/19/sociedad/1027095280.html</a>       | Madrid, Samora                        | 7       |                                | Grand theft               |

## Cases of non-Bulgarian groups / networks involved in car-theft

| No | CODE    | Source: Link to Police, Civil Guard, or media website   | Region of operation / theft                               | Number / Nationalities               | Country where cars are sold  | Involvement in other crime           |
|----|---------|---|---|--------------------------------------|--|--------------------------------------|
| 1  | C-0208  | <a href="http://www.elpais.com/articulo/espana/Desmantelada/banda/robo/coches/Andalucia/elpepuesp/20080226elpepunac_20/Tes">http://www.elpais.com/articulo/espana/Desmantelada/banda/robo/coches/Andalucia/elpepuesp/20080226elpepunac_20/Tes</a>   | Granada, Málaga y Almería                                 | Lithuanian                           | Lithuania  | n/a                                  |
| 2  | C-0602  | <a href="http://www.elpais.com/articulo/Comunidad/Valenciana/detenidos/Alicante/vehiculos/lujo/robados/elpepiespval/20020605elpeval_28/Tes">http://www.elpais.com/articulo/Comunidad/Valenciana/detenidos/Alicante/vehiculos/lujo/robados/elpepiespval/20020605elpeval_28/Tes</a>   | Alicante  | Spaniards, Hungarian                 | Spain  | Illegal migration / document forgery |
| 3  | C-0497  | <a href="http://www.elpais.com/articulo/espana/MADRID/MADRID/MUNICIPIO/EUROPA_CENTRAL/EUROPA_ORIENTAL/policia/desarticula/banda/internacional/Madrid/vendio/2000/coches/robados/elpepiesp/19970427elpepinac_11/Tes">http://www.elpais.com/articulo/espana/MADRID/MADRID/MUNICIPIO/EUROPA_CENTRAL/EUROPA_ORIENTAL/policia/desarticula/banda/internacional/Madrid/vendio/2000/coches/robados/elpepiesp/19970427elpepinac_11/Tes</a> | Madrid  | Polish (13), Portuguese, 3 Spaniards | Eastern Europe   | Robbery / burglary                   |
| 4  | C-0699  | <a href="http://www.elpais.com/articulo/Comunidad/Valenciana/Guardia/Civil/detiene/britanicos/Torreveja/requisa/coches/robados/elpepiespval/19990627elpeval_15/Tes">http://www.elpais.com/articulo/Comunidad/Valenciana/Guardia/Civil/detiene/britanicos/Torreveja/requisa/coches/robados/elpepiespval/19990627elpeval_15/Tes</a>   | Alicante  | UK                                   | Algeria  | n/a                                  |
| 5  | C-1203b | <a href="http://www.elpais.com/articulo/madrid/Desarticulada/banda/dedicada/trafico/ilicito/coches/robados/elpepiespmad/20031216elpevad_17/Tes">http://www.elpais.com/articulo/madrid/Desarticulada/banda/dedicada/trafico/ilicito/coches/robados/elpepiespmad/20031216elpevad_17/Tes</a>   | Madrid  | Spain                                | Spain  | drugs                                |
| 6  | C-1002  | <a href="http://www.elmundo.es/papel/2002/10/20/madrid/1253413.html">http://www.elmundo.es/papel/2002/10/20/madrid/1253413.html</a>   | Madrid  | Spaniards, South American            | Spain  |                                      |
| 7  | C-0504  | <a href="http://www.guardiacivil.org/prensa/noticias/noticia.jsp?idnoticia=1525">http://www.guardiacivil.org/prensa/noticias/noticia.jsp?idnoticia=1525</a>   | Seville, Madrid, Huelva, Murcia, Barcelona                | Spain                                | Spain  | VAT fraud                            |
| 8  | C-0204  | <a href="http://www.guardiacivil.org/prensa/noticias/noticia.jsp?idnoticia=1463">http://www.guardiacivil.org/prensa/noticias/noticia.jsp?idnoticia=1463</a>   | Alicante  | 24 Lithuanian                        | Lithuania<br>Spain   | Drugs / counterfeit money            |
| 9  | C-0104  | <a href="http://www.guardiacivil.org/prensa/noticias/noticia.jsp?idnoticia=1440">http://www.guardiacivil.org/prensa/noticias/noticia.jsp?idnoticia=1440</a>   | Cadiz; 'Sale enterprise'; cars stolen in EU               | 1 Pole; 2 Spaniards                  | Spain  | n/a                                  |
| 10 | C-0705  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2005/np072901.htm">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2005/np072901.htm</a>   | Barcelona, Madrid, Seville, Huelva, Marbella and Alicante | 16 Spaniards                         | Spain (stolen in Germany, Belgium, Italy, US, Holland, Luxembourg) | VAT fraud                            |
| 11 | C-0909  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np090902.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np090902.html</a>   | Madrid (Castilla la                                       | 22 in Spain & 9 in                   | Germany / France (in used-   | N/A                                  |

| No | CODE    | Source: Link to Police, Civil Guard, or media website   | Region of operation / theft                            | Number / Nationalities             | Country where cars are sold                     | Involvement in other crime    |
|----|---------|---|--|------------------------------------|---|-------------------------------|
|    |         |   | Mancha) / Grenoble                                     | FR/IT                              | car dealerships / internet)                     |                               |
| 12 | C-1108  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2008/np112406.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2008/np112406.html</a>   | Valencia   | 10 Polish, Venezuela               | Poland  | N/A                           |
| 13 | C-1108  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2008/np111001.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2008/np111001.html</a>   | Alicante, Valencia, Madrid, Guadalajara                | n/a                                | Spain (imported from Germany, Holland, Belgium) | VAT fraud                     |
| 14 | C-0708  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2008/np070803.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2008/np070803.html</a>   | Madrid   | 6 Spaniard; 9 Brazilian            | Spain   | Fraud                         |
| 15 | C-0509  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np052201.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np052201.html</a>   | Barcelona  | 8                                  | Spain (Stolen in France)                        | Burglary / robbery            |
| 16 | C-1009  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np100701.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np100701.html</a>   | France / Germany                                       | 15 (2 in Spain)                    | Spain – Germany - France                        | This is only a VAT fraud case |
| 17 | C-0409  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np042106.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np042106.html</a>   | Vitoria  | 3 Romanian                         | Outside Spain                                   | N/A                           |
| 18 | C-0409b | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np040206.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np040206.html</a>   | Ciudad Real, Jaén, Gerona, Badajoz, Córdoba and Madrid | 3 Spaniards                        | Spain (via Internet)                            | N/A                           |
| 19 | C-0309  | <a href="http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np032003.html">http://www.mir.es/DGRIS/Notas_Prensa/Policia/2009/np032003.html</a>   | Malaga   | 3 Ghana                            | Ghana   | N/A                           |
| 20 | C-1010  | <a href="http://www.elperiodico.com/es/noticias/sociedad/20101016/desmantelada-una-banda-que-robaba-coches-lujo-catalunya-para-venderlos-marruecos/537797.shtml">http://www.elperiodico.com/es/noticias/sociedad/20101016/desmantelada-una-banda-que-robaba-coches-lujo-catalunya-para-venderlos-marruecos/537797.shtml</a> | Vallès Occidental (Cataluña)                           | Spaniards and Moroccans (16 total) | Morocco   | drugs                         |
| 21 | C-0707d | <a href="http://www.hoy.es/prensa/20070706/regional/mayoria-afectados-fraude-venta_20070706.html">http://www.hoy.es/prensa/20070706/regional/mayoria-afectados-fraude-venta_20070706.html</a>   | Merida   | Spaniards                          | Spain   | n/a                           |
| 22 | C-0211  | <a href="http://www.elmundo.es/elmundo/2011/02/19/andalucia_malaga/1298108699.html">http://www.elmundo.es/elmundo/2011/02/19/andalucia_malaga/1298108699.html</a>   | Marbella   | Spaniards; different               | Spain   | n/a                           |

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