



**REPORT**

An OLAF representative carried out a mission to Bulgaria from 09.06.2008 to 20.06.2008. •

The purposes of the mission were

- to provide information about the already established SAPARD irregularities;
- to provide information about other alleged and established irregularities or fraud linked to the NIKOLOV-STOYKOV-GROUP;
- to verify the cooperation and communication between the various Bulgarian State Services involved in dealing with the matter,
- to verify the cooperation and communication between these Bulgarian State Services... and OLAF;
- to present the established and alleged irregularities as well as the result of the verifications to a number of representatives of various Bulgarian Ministries and Services;
- to advise on possible measures to be taken by the Bulgarian authorities to deal with the serious problems involving the SAPARD programme^ .

During the mission the OLAF representative met representatives of various Bulgarian Services. In these meetings the results of their investigations in the cases concerned as well as the cooperation and communication between these services and the other Bulgarian State Services dealing with the matter, were discussed,

On 18.06.2008 the OLAF representative presented the established and alleged irregularities as well as the result of his verifications to representatives of various Bulgarian Ministries and Services. Furthermore, the OLAF representative recommended some measures to improve the situation.

**A: SAPARD IRREGULARITIES** (←p to nw not imkai to & NIKOLOV-STOYKOV-GROUP)

In the SAPARD projects of the companies YUPER, HELKOM, TOP KONSERV, KFM (two projects) and MECOM the beneficiaries each used at least one falsified tender offer to support their individual SAPARD applications. There are indications that this type of cases will become more numerous as OLAF's investigation continues..

The financial impact on the Community budget for these projects is approximately EUR 2m.

**B: OTHER SAPARD IRREGULARITIES (paid project, i)** (to row not linked to the NIKOLOV-STOYKOV-GROUP)  
OLAF requested a Member State concerned to verify the authenticity of a number of tender offers which were used to support SAPARD applications in Bulgaria. The Member State's authorities established irregularities related to a considerable number of these tender offers. The Member State's authorities have commenced criminal investigations against the companies involved and they will provide the results of these investigations to the Bulgarian authorities in August 2008.  
The financial impact on the Community budget for these projects is approximately EUR 4.5m

**C: IRREGULARITIES LINKED TO THE NIKOLOV-STOYKOV-GROUP**

The NIKOLOV-STOYKOV-GROUP is a criminal company network composed of more than 50 Bulgarian enterprises and various other European and off-shore companies. This criminal company network is managed and/or financed by two Bulgarian individuals (Mr. Mario NIKOLOV and Mr. Ludmil STOYKOV), who are said to have close links to the current Bulgarian Government. One of the individuals allegedly financed the election campaign of the current Bulgarian President and is a business partner of the former Deputy Minister of Foreign Affairs, who, according to information available, attempted to influence an ongoing investigation into that individual. The NIKOLOV-STOYKOV-GROUP is highly flexible and has shared responsibilities related to the various illegal activities referred to.

It has been established that the NIKOLOV-STOYKOV-GROUP is involved in tax fraud, subsidy fraud, forgery of documents, money laundering, illegal imports into Bulgaria and exports to the EU (during pre-accession) of Chinese rabbit and poultry meat with falsified health certificates. In addition, it is involved in alleged irregularities involving the purchase and resale of second-hand railway carriages.  
Details are as follows:

**C I: SAPARD IRREGULARITIES (paid project, i)**

In the framework of the SAPARD projects of the companies RODOPA GOLD, RODOPA MEAT, RODOPA KONSERV, EUROFRIGO, PALMGRA and PTTZEKLANITZA CHOUBRA which are all linked and controlled by the NIKOLOV-STOYKOV-GROUP, the responsible individuals used falsified and inflated offers to support their SAPARD application.

The Criminal Group sold old second-hand meat processing equipment (originating from ex-GDR) from their own Bulgarian companies - via two own companies, based in the USA (KINGSTON ENTERPRISES) and Ireland (MKFORM LTD), respectively - to accomplices in Germany. These German companies then resold the equipment in question back to SAPARD applicants in Bulgaria using highly inflated invoices.

In the framework of the SAPARD project of the company RODOPA 97 which is also linked and controlled by the NIKOLOV-STOYKOV-GROUP, the responsible individuals purchased trucks and trailers which were not used in accordance with the SAPARD rules.

The financial impact on the Community budget for these projects is approximately EUR 6.1m.

#### C.2: SAPARD DZREGULARTTIES (p«a projects z)

In the framework of five SAPARD projects under investigation (companies RICOM, SOLVEX MERA FRUCT, SHIKS KERA MANMANOVA, KARTEL VALENTIN JANEV and SOLARIS), the Bulgarian Public Prosecutor's Service has informed OLAF that there are certain indications that the beneficiaries in these projects, having submitted false offers, are also linked to the NIKOLOV-STOYKOV-GROUP.

The financial impact on the Community budget for these projects is approximately EUR 1.8m

#### C.3: SAPARD B3REGTJLARITEES (\*M)

OLAF is also aware of seventeen other SAPARD projects which are linked to the NIKOLOV-STOYKOV-GROUP and being investigated by the Bulgarian Public Prosecutor's Service. These projects also involve the use of falsified offers. Payments for these projects were stopped as a result of OLAF's early intervention.

If paid, the financial impact on the Community budget for these projects would have been approximately EUR 18m.

#### C.4: IMPORT INTO BULGARIA AND EXPORT INTO THE EU OF CHINESE MEAT

It has also been established that in 2004 and 2005 the NIKOLOV-STOYKOV-GROUP illegally imported huge quantities of Chinese rabbit meat into Bulgaria and resold it, after repacking, using falsified Argentinean health certificates, to clients in Germany, France and Spain (possible impact on public health). In 2006 the NIKOLOV-STOYKOV-GROUP offered further illegal consignments of Chinese rabbit and poultry meat to clients in the EU. OLAF is currently investigating the matter.

#### C.4: SUSPICIOUS TRANSACTIONS WITH SECOND HAND RAILWAY CARRIAGES

On 23 February 2005 the National Energy Agency sold National Train Infrastructure Agency debts, amounting to approximately EUR 30m, for EUR 11.5m to the companies EUROMETAL and KINGSTON ENTERPRISES which are linked to the NIKOLOV-STOYKOV-GROUP. Concerning the payments, the contracting parties agreed to a prepayment of approximately EUR 2m and to 30 monthly payments of approximately EUR 0.6m.

On 25 March 2006 the National Train Infrastructure Agency confirmed its debts to EUROMETAL and KINGSTON ENTERPRISES for an amount of approximately EUR 27.5m plus 6.7% interest. Concerning the payments, the contracting parties agreed to 30 monthly payments of approx. EUR 0.9m.

This contract was secured for an amount of EUR 15m for the disposal of 5824 railway carriages (+/- EUR. 2500 each). It has also been established that KINGSTON ENTERPRISES had sold approx. 800 railway carriages for an amount of EUR 6.2m (+/- EUR 8000 each) to off-shore companies (TREFERN CONSULTANTS LTD, Seychelles, and PHANTOM GROUP LTD, Grant Turk) controlled by the NIKOLOV-STOYKOV-GROUP.

It is obvious that, in the course of the transactions with the debts and the railway carriages, certain irregularities took place. OLAF is now verifying whether the purchase of the railway carriages in question were subsidised by Community funding.

#### **D: RESULTS OF THE VERIFICATIONS**

The result of the verifications are as follows:

- The State Fund Agriculture failed to:
  - (0) initiate timely recovery procedures concerning the paid SAPARD projects of RODOPA GOLD, RODOPA MEAT, RODOPA KONSERV, EUROFRIGO, PALMIGRA and PTZEKLANITZA CHOUBRA despite having all the necessary evidence of fraud;
  - (ii) forward information to OLAF or the Public Prosecutor's Service concerning other SAPARD-funded projects linked to the NIKOLOV-STOYKOV-GROUP;
  - (ui) make any contact with the Public Prosecutor's Service with a view to obtaining information which would assist it in recovery procedures after the criminal investigation had commenced in Bulgaria,

The National Authorising Officer failed to inform OLAF or the Bulgarian Public Prosecutor's Service of further projects linked to the NIKOLOV-STOYKOV-GROUP.

The investigations into the NIKOLOV-STOYKOV-GROUP were split and carried out by different services with no central control.

The Public Prosecutor's Service failed to:

- (i) inform the State Fund Agriculture on a regular basis about the ongoing investigations in order to allow it to commence recovery procedures;
- (ii) forward information to OLAF concerning further SAPARD *projects* linked to the NIKOLOV-STOYKOV-GROUP;
- (iii) forward information to OLAF or other Member States concerned about possible fraud in 2006 involving possible illegal transactions of Chinese rabbit and poultry meat;
- (fv) forward information to OLAF about possible fraud carried out by another organised criminal group affecting the Community budget (this information was received by OLAF as a result of a Rogatory letter from a third country);
- (v) provide the "Commission for Establishing of Property Acquired from Criminal Activity" with details of the incomes of those involved in the Criminal Group.

The Bulgarian courts: -

- (i) quickly granted bail, after a very short period of detention, to a number of the main suspects of the NIKOLOV-STOYKOV-GROUP in early 2007, following their arrest (the case involved alleged fraud amounting to +/- BGN 15m, ' however, bail was set at a nominal amount of BGN 10 000 (+/- EUR 5 000) for

some suspects while other suspects were simply instructed to report regularly to a police station);

- (ii) have recently overturned two legal Decisions which were obtained by the State Fund Agriculture to recover the SAPARD funding fraudulently claimed by two beneficiaries linked to the NIKOLOV-STOYKOV-GROUP;
- (iii) further instructed the State Receivables Agency to release assets seized from beneficiaries linked to the NIKOLOV-STOYKOV-GROUP (amounting to approximately BGN 3m);
- (iv) also instructed the State Fund Agriculture to pay reparation/compensation amounting to BGN 68 000 (+/- EUR 34 000) to beneficiaries linked to the NIKOLOV-STOYKOV-GROUP.

## **E: RECOMMENDATIONS OF THE OLAF REPRESENTATIVE**

The OLAF representative recommended to the Bulgarian authorities that, in order to restore the confidence of OLAF, the Commission and the other Member States, they:

- cooperate with these institutions and countries in a transparent way; •
  - improve the cooperation and communication between the various Bulgarian State Services involved in dealing with the matter;
  - improve the cooperation and communication between the Bulgarian State Services and OLAF and the Member States;
  - analyse all SAPARD applications to determine if there are links to already established criminal groups;
- set up a SAPARD Task Force in which all investigations in the matter should be carried out under a central control.