

Bulgarian Energy Policy

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In the past five years Bulgaria has found itself stranded between indecisive but progressing European common energy policies and Russia's resurgent assertiveness in energy in Central and Eastern Europe.

When the Russia-Ukraine gas dispute in 2009 left Europe largely without Russian gas for a second time in three years, it became only too clear that in the field of energy, the Iron Curtain was alive and well. Although old EU member-states had enough reserves to help their new partners in the East, they could not, as there were no pipeline connections between them. Bulgaria and Slovakia found themselves with fully cut supplies in the middle of winter, leaving homes cold and factories closed.

This cold spell of 2009 led Central and Eastern European countries, incl. Bulgaria to reconsider their energy security options and policies. Their efforts have been backed by an EU push for liberalization of gas and electricity markets and by EU funds for building interconnections. But breaking from the past path of energy dependence has proven difficult—politically, economically, and socially.

In its national energy strategy until 2020, adopted in 2010 the Bulgarian government pledged support to both ambitious EU targets for energy efficiency, the introduction of renewables, the cutting of green house gases and the liberalization of the internal market for electricity and gas, as well as to Russian backed large electricity generation and gas transmission projects. Most notably, the strategy supported the competing visions for supplying Europe with new gas: EU backed NABUCCO and Russia backed South

Steam. It seemed to offer too much of everything to everyone. However, the actual energy policy of the Bulgarian government in the past two years has so far mostly fallen in line with EU directives and diversification plans. But mounting pressure from Russia and growing internal opposition increase doubts over the sustainability of current policy decisions.

The 'Grand Slam'

Recent changes in Bulgaria's energy policy are best understood if one follows the fate of the three large Bulgarian-Russian energy projects conceived in January 2008 and referred to by the then Bulgarian president as the "grand slam" of Bulgarian energy policy. The package included the construction of the South Stream gas pipeline section on Bulgarian territory; the building of 2,000 MW Belene nuclear power plant; and the Burgas-Alexandroupolis oil pipeline. The ratification of the package was welcomed by the Bulgarian administration, although it was clear that the projects were a distraction from EU integration targets and would strain the country's public finances. As the global financial and economic crisis set in at the end of 2008—and intensified in 2009 and 2010—and with the arrival to power of a new government after the general elections in the summer of 2009, the prospects of the "grand slam" projects worsened progressively:

The Burgas-Alexandroupolis oil pipeline was the first to go. It was targeted as environmentally damaging and financially unviable by the new Bulgarian administration and was finally terminated by the Bulgarian government in December 2011. The project posed an environmental threat to the vibrant tourist industry of the Southern Bulgarian Black Sea coast and did not deliver tangible strategic and/or economic benefits to Bulgaria.

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Bulgaria also slowed down the Belene construction and ignored South Stream. This prompted the Russian president (then prime-minister) Vladimir Putin to pay a visit to Sofia in November 2010 to put pressure on the Bulgarian side for the reinvigoration of Russian projects. The visit concluded with the creation of a joint company for the construction of South Stream but no visible progress on Belene. This reflected the strategic priority Russia attached to the gas pipeline but also the fact that although Bulgaria had been dragging its feet on Belene, construction and payments had continued. However, as the eurozone crisis progressed and the Bulgarian government's fiscal position worsened considerably, the nuclear power plant project's economic and financial viability became increasingly problematic. The Fukushima

tragedy of March 2011 dealt a final blow to the undertaking. It took the Bulgarian government until March 2012, and the conclusion of a new feasibility study, to take a final decision to shelve the nuclear power plant construction for a second time in two decades (Belene was previously frozen in 1991 after nine years of construction and with one reactor delivered).

Putin in Sofia

The dismantling of the "grand slam" has this far cost the last Bulgarian government the heads of a minister and two deputy-ministers of energy who were forced to resign following disputes around the projects. And the clouds over Bulgarian energy negotiations with Russia are getting darker as Sofia gears up to a rumored next visit of president Putin to the country in November 2012 to announce the start of construction of South Stream. The Bulgarian administration seems to understand that it has got the upper hand in negotiations over the construction of the pipeline.

This unusual position has caused a lot of anxiety among the Bulgarian authorities and the broader public. It is clear that Russia cannot bypass Bulgaria along the route of South Stream without compromising the strategic value of the project. It also needs construction started before the end of 2012 to avoid having to open up the pipeline to EU's liberalization rules coming into force in 2013. The EC anti-monopoly investigation against Gazprom on abuse of power in CEE markets launched in the summer of 2012 has additionally strengthened Bulgaria's bargaining position.

Hence, the Russian administration has ensured that this time around, both carrots and sticks are at hand and palpable. To sweeten the deal, Gazprom has promised an estimated 11% discount on imported gas between April and December 2012, should Bulgaria make an investment decision on South Stream by November 15, 2012. In addition, the gas monopoly holds the upper hand in the renegotiation of the Bulgarian gas import contracts, which expire at the end of 2012.

At the same time, Atomstroyexport, the builder of Belene, unexpectedly increase its compensation demands for the cancellation of the nuclear power plant construction in September 2012 to the obscene EUR 1bn, thus adding further pressure on the Bulgarian government.

The above events demonstrate the geopolitical complexity, in which Bulgaria has tried to rebalance its energy policy from a focus on large scale generation towards diversification and efficiency. But the debacle of the “grand slam” deals is also evidence to the lack of clarity in the national energy strategy, to deficiencies in decision-making procedures and to the disconnectedness between administration, diplomacy and politics. The Bulgarian hesitation has elucidated national and EU-wide issues—both in terms of the inability of Bulgaria to stand its ground vis-à-vis its powerful energy supplier but also regarding the vastly anticipated efforts of Europe to speak with one voice on energy matters and thus leverage the interests of smaller member states in the strive for energy diversification in Central and Eastern Europe.

South Stream—Is It All Worth It?

Developments so far and the amount of media and political attention it has been receiving have demonstrated that South Stream is the crown jewel of Russia’s energy strategy in Europe and in Bulgaria in particular. The pipeline is supposed to transport up to 63 bcm of Russian natural gas through the Black Sea to Bulgaria and further to Greece, Italy and Austria. It is seen as the Russian response to the EU’s diversification plans for bringing Caspian and North Iraqi gas to Europe through Nabucco or what is wider known as the Southern Corridor pipelines.

South Stream will clearly benefit Russia, providing it with leverage over Ukraine, which currently controls the transit of 80% of Russian deliveries to Europe, but also decreasing the chances of Nabucco and the Southern Corridor solutions, and committing countries along the way

to substantial investments in times of exceptional financial scarcity. Benefits from South Stream for Bulgaria on the other hand will only become available in the future and after the investment of considerable resources. According to the Bulgarian ministry of energy, Bulgaria’s participation in the project could cost in excess of EUR 850m.

The completion of the South Stream project could improve Bulgarian energy security through the diversification of the transit route, thus reducing the potential for future gas supply disruptions resulting from disputes between Russia and Ukraine and through securing additional budget revenues from transit. However, it might also cannibalise on the existing transit infrastructure and related gas transit payments for Bulgaria and it will divert public funds at a time when these are badly needed for other urgent public necessities. It also holds little promise to improving the affordability aspect of energy security in the country as it will further strengthen Gazprom’s grip and ensuing monopoly pricing power on the region. It has also become clear that Russia is trying actively to escape EU liberalization regulation and to play countries on one another along the route of the pipeline, which is likely to result in further decrease in Bulgarian leverage over the project. Finally, South Stream fails to contribute to source diversification for Bulgaria while the lack of transparency in negotiations and of independent feasibility study makes it impossible to clearly calculate the full costs and benefits of the project—together and for the separate countries in the region.

The high costs, complexity and uncertainty of the project make it unlikely that Bulgaria will easily commit and/or incur these investments in the coming years. There will be more muddling through and heavy negotiations to come. Bulgaria will try to deeper involve the European Commission in the matter and at the same time avoid direct confrontation with Russia. Predicting outcomes though is very difficult bearing in mind the abrupt introduction of the shale gas exploration and

production ban at the end of 2011 only months after the government had signed multi-million euro deals with investors. The Bulgarian and European media reported then that the success of the ban seemed to reflect not only the strength of the domestic environmental movement but also the decisive influence of organized and well-endowed lobbying. The Bulgarian government is thus only too well aware of the leverage Russian interests (can) have in the country.

Energy Security—What Next?

In the next two to three decades, the Bulgarian energy policy, just like all the other countries from Central and Eastern Europe, faces a triple-transition challenge. The first transition involves steering the energy sector away from energy intensive centrally planned large scale generation towards market-based energy efficient consumption. As the country does not possess any proven sizable own energy resources, neither locally mastered energy technologies, nor cheap access to credit, it is only clear that any new investment in generation capacity would bring about considerable increase in energy prices for the consumers. Bulgarians seem nostalgically transfixed on large scale energy generation projects such as the Belene nuclear power plant, believing these can guarantee cheap energy as in the past. They need not look further away than the nearest petrol station to understand their fallacy—the fact that the country hosts the biggest refinery in the region has not kept fuel prices at the pump from reaching European levels.

The second transition consists of the greening of the country's energy system in line with EU and international efforts—reducing CO2 emissions, introducing new renewable energy sources and smart grids, and increasing energy conservation. While this has proven expensive everywhere in the world and unpopular among impoverished consumers, it is currently the only possible way towards longer-term sustainability and affordability of energy supply.

The third transition consists of strengthening the country's energy security through diversification of its supply sources and better integration into the European energy market.

Handling these transitions has proven difficult for all CEE countries and in fact for any country in the world. Reform fatigue, historical relations, economic want, internal political quarrels and massive external pressures have further complicated this task in the case of Bulgaria. In order to properly handle these transitions, Bulgaria needs to first put its own house in order, improve the

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governance of its energy policy and open up to data and evidence-based policy making. The Bulgarian energy consumer, the taxpayers and Bulgarian partners in Europe and international counterparts need to have a clear statement of where the red lines of Bulgarian energy policy lie, i.e. the priorities of the Bulgarian energy strategy and policy should be clear and unequivocal.

So far Bulgaria has groped for its energy choices, which has often resulted in costly escapades and lack of clarity of direction. Besides the fate of the remaining “grand slam” projects, two other energy developments will provide important insight into the willingness and the ability of the Bulgarian government to uphold national energy security:

- Prioritizing green energy solutions. Like many other European countries Bulgaria, proposed lavish feed-in tariffs and other incentives for the development of solar, wind and biomass. And as these started to feed through into higher electricity prices, green energy was largely scapegoated as the primary culprit for rising prices. The government reacted vigorously to repeatedly slash feed-in tariffs and tighten the regulations on green energy access to the grid thus reversing the initial "green rush". While, the desire of the Bulgarian government to protect the consumers from rising prices is understandable, it's mishandling of the green energy boom could harm the industry and its emerging science and technology base in Bulgaria to the long-term detriment of energy security;
- Increasing gas supply alternatives. Bulgaria's highest energy dependence is in gas supply. Monopolistic, high gas prices in Bulgaria in the past five years have put tremendous upward pressure on heating and industrial prices. Besides, building EU supported connections to the gas systems of neighboring countries and participating actively in the realization of the European Southern Corridor, Bulgaria needs to explore and develop its own reserves based on more modern technologies for exploration and production ●



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