



## Prospects of Energy Cooperation between Russia and Bulgaria

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*Bulgaria and Russia want to renew their cooperation in joint energy projects of strategic importance, which would benefit Bulgaria economically and allow Russia to strengthen its economic and political influence across South-Eastern Europe. The European Commission and EU Member States can limit the potential negative impact by supporting investment in new gas links or the diversification of nuclear fuel supplies.*

Bulgaria and Russia have strong political and economic ties. The main political parties in Sofia support maintaining or strengthening good relations with Moscow. Russia is an important economic partner in the tourism and banking sectors, among others, but exerts especially strong influence in regard to energy. Russia supplies Bulgaria's entire gas demand, provides nuclear fuel to the country's only nuclear plant, and Russian LukOil owns the only Bulgarian refinery. These ties explain Bulgaria's interest in connecting with the TurkStream (TS) pipeline, currently under construction, and its desire to restart cooperation with Russia on a nuclear power plant project.

**Bulgaria as a Gas Hub.** Bulgaria wants to become a key country in the region for gas transit. This is why Sofia supported both the EU-backed Nabucco pipeline (intended to transport gas from Azerbaijan, but eventually abandoned) and the Russian South Stream (which was blocked by the EC because Bulgaria violated EU law while constructing the pipeline).<sup>1</sup> After the fiascos of these projects, Bulgaria suggested the development of gas links with its neighbours and the creation of a Balkan gas hub.<sup>2</sup> The latter received EU Project of Common Interest (PCI) status as a project that could have a significant impact on energy markets, boost competition and increase market integration). It also earned the EU's financial support. In order to ensure supplies for the hub, Bulgaria is seeking further cooperation with Russia, and wants to become a key partner for gas supplies via the second TS line. This pipeline is *de facto* South Stream renewed, intended to connect Russia and Turkey via the Black Sea. Russian gas will be delivered to the region via the land extension of the second TS line. Gazprom has not made an official decision about whether the pipeline will enter Bulgaria (Greece is also being considered), but the government in Sofia is pressing for a decision in Bulgaria's favour, has already announced that TS will enter Bulgarian territory, and invited tenders for import infrastructure on the border with Turkey.

The second TS line, with an annual capacity of 15.75 bcm, will allow gas to be transported to Bulgaria and the surrounding region without the need to transit Ukraine, Moldova and Romania. Bulgaria receives all of its 3 bcm per annum of gas from Russia. Bosnia and Herzegovina and Macedonia (jointly 0.3 bcm) are also fully dependent on Russian supplies, while Serbia imports 2 bcm from Russia and Hungary receives 8.2 bcm

<sup>1</sup> D. Kačan, "The 'South Stream' Train Stops in the Balkans," *PISM Bulletin*, No. 82 (677), 11 June 2014, [www.pism.pl](http://www.pism.pl).

<sup>2</sup> D. Kačan, "Life after South Stream: Accelerated Modernisation of Bulgaria's Gas Sector," *PISM Bulletin*, No. 46 (1283), 11 May 2015, [www.pism.pl](http://www.pism.pl).

(representing 80% of each country's annual consumption). In addition, Hungary is interested in importing gas via TS. Bulgaria hopes to benefit from transit fees and lowering gas prices by decreasing the number of transit countries. Due to Gazprom's monopoly, Bulgaria and Balkan countries pay among the highest prices of any of the company's clients. The EC is concerned that Bulgaria's greater dependency on Gazprom could dampen Sofia's appetite to construct alternative gas connections and create a hub where different gas suppliers compete.

**Renewing Bulgaria's Nuclear Power Plant Project.** Bulgaria wants to maintain its position as a regional exporter of electricity, which it sells to Macedonia, Serbia and Greece, among others. Approximately 40% of its electricity is generated in coal-fired power plants, which may be closed in the coming years because of EU climate policy. This has prompted Bulgaria's politicians to return to the Belene power plant construction project, halted in 2012 due to financing problems. Ensuring domestic power supplies is also an important political issue for Boyko Borisov, Bulgaria's prime minister. His previous cabinet had to resign after mass protests against rising electricity prices. Supply shortages hit last winter, which was one of the reasons why parliament supported Borisov's plan to resume investment in the nuclear power plant.

Bulgaria is open to Russian cooperation in the Belene investment. While other players such as the China National Nuclear Corporation are also interested, Russia has some advantages. It has already been engaged in the project (for example, by delivering the reactor), cooperated with Bulgaria in the nuclear sector (during the modernisation of the Kozloduy nuclear power plant) and can compete on price. After Bulgaria halted the Belene project, Rosatom started an arbitration case over it that resulted in Bulgaria paying over €600 million. The settlement of this dispute clears the way for Russian involvement in the revitalised project.

Both TS and Belene were recently discussed by Bulgarian and Russian politicians. These projects could be seen by both sides as a "package deal" under the terms of which Russia might sign a favourable gas contract if Bulgaria agrees to Russian cooperation in the Belene project. Such agreements would also clear the way for cooperation in other ventures, such as Russian LukOil's potential €1 billion investment in its refinery in Burgas.

**More Russia, Less Diversification.** TS construction will help Russia to achieve its political goals, so economic calculations play a less important role. According to Sberbank estimates, the project will not break even for almost 50 years. A Bulgarian TS line would help Russia to bypass Ukraine as a transit country (Nord Stream 2 has a similar purpose, but will not facilitate re-directing the flow of Russian gas to the Balkans). Once TS is completed and new supply deals are signed, Russia will strengthen its position not only in Bulgaria, but also in Hungary and the Western Balkans, where states aspire to join the EU. Strengthening this dependency could impact these countries' plans to develop new energy links in the region (for example, the BRUA pipeline, connecting Bulgaria, Romania, Hungary and Austria) and prompt them to seek alternative supply routes. Gazprom might achieve this by lowering gas prices in the new contracts, maintaining its dominant position in the region.

Rosatom has an interest in the completion of the Belene project. Like Hungarian Paks, the company aims to build new plants on EU territory. While the development of new nuclear power plants outside Russia is one of the company's goals, it has until now only been able to extend the life of Russian reactors which have already been functioning for many years in Europe. The successful completion of the reactors in the EU would help Rosatom to expand further. The completion of Belene would strengthen Bulgaria's dependence on Russia, especially if Moscow were to grant Sofia a long-term loan for the investment, making it dependent on Russian money too. In addition, Rosatom could also gain exclusive rights to supply nuclear fuel to the power plant for many years.<sup>3</sup>

The potential export of energy from Belene, dependent on Rosatom's fuel and technical services, would mean greater Russian dominance in the Western Balkans, and the transition away from coal in this region would only strengthen this trend, as there would be room for natural gas from TS and power from Belene in the energy mix.

**Conclusions and Recommendations.** Russia remains an attractive partner for Bulgaria in the energy sector, for cooperation would enable Bulgaria to achieve its strategic goals in this area. Furthermore, Bulgaria could also treat energy investment as a part of political rapprochement to strengthen overall cooperation with Russia. It could limit the possibilities of supply diversification, in both Bulgaria and the wider region, continuing the economical, and therefore political dependence on Russia.

The EC can limit the negative consequences of such a situation by persuading Bulgaria to diversify supplies of nuclear fuel, and monitoring economic deals and progress in energy connection investments. The latter should be supported by the EC and by EU Member States. In this respect, new gas links giving access to new supply sources could prove especially important, for example in relation to BRUA, the Bulgaria-Greece gas link and Eastring, which will allow the supply of natural gas from the Baltic Pipe or the LNG terminal in Świnoujście, Poland.

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<sup>3</sup> V. Jóźwiak, "European Commission Gives Go-Ahead to Hungary's Nuclear Power Plant Expansion," *PISM Bulletin*, No. 36 (1478), 10 April 2017, [www.pism.pl](http://www.pism.pl).