

## 7. COUNTRY CASE STUDY: BULGARIA<sup>51</sup>

Being located in South-Eastern Europe, Bulgaria's transition period was similar to that of neighbouring Romania (see below). Both joined the EU in 2007. Despite this, the two countries' energy security situation differs substantially. One reason is rooted in history: despite its close proximity, Bulgaria never developed a position of true independence in terms of energy supply. Although not the most dependent country in the region,<sup>52</sup> Bulgaria is certainly among the most dependent in the EU, and its energy security risks are evident in the fact that its sole energy source in any considerable quantity is lignite. Further aggravating its position as a major energy importer, Bulgaria's economy is energy-intensive. This is motivated by structural reasons—the industrial sector looms large. The energy sector itself, moreover, consumes considerable amounts of energy and is a leading sector in the country's economic output (Center for the Study of Democracy, 2010, p. 9), albeit one in need of substantial investment as the infrastructure ages and undermines Bulgaria's security situation.

The transmission network used to procure gas supplies for Bulgarian customers is 1700 km long, with a technical capacity of 7.4 bcm per year, more than twice its current level of utilization (see below) (Bulgartransgaz, 2014). Bulgaria is an important transit country, transporting (Russian) gas from Romania to Turkey, Greece, and Macedonia via a 945 km long transit network (Enerdata, 2015). Gas transit is an important part of the Bulgarian energy sector, as is the transport of oil and electricity. The total capacity of the Bulgarian transmission system is 18.7 bcm per year (Enerdata, 2015).

<sup>51</sup> This case study is based on the information and data used in a previously published text written by the author (Jirušek, et al., 2015, pp. 413–440).

<sup>52</sup> The value of the dependence index depends on whether nuclear energy is counted as indigenous or not. As Bulgaria imports 100% of its nuclear fuel from Russia, the overall energy import dependency is around 70%.

FIGURE 13: Natural gas infrastructure in Bulgaria



Source: (ENTSOG, 2016)

The current gas contract was signed in November 2012, and it stipulates that Bulgaria will be supplied with 2.9 bcm per year until 2022 (Gazprom Export, 2012). The contract is internally structured on a 6+4 basis, meaning that it will run under current conditions for only six years if Bulgaria is able to increase its domestic gas production. Of greater importance is that Bulgaria was able, as Gazprom tried to improve its reputation after the 2009 crisis, to acquire a 10-year 20% discount (Marson J. P., 2013). The transit contract was signed in 2006, calling for the delivery of 17.8 bcm per year through Bulgaria until 2030 (Enerdata, 2015). The country's domestic gas production is about 0.3 bcm per year, with domestic sources located at Dometsi and the Black Sea shelf under development by Canada's Direct Petroleum and the UK's Melrose Resources respectively (Ministry of Foreign Affairs

of Denmark, 2013; TransAtlantic Petroleum, n.d.; Natural Gas Europe, 2012a; Bulgartransgaz, 2014)<sup>53</sup>.

Despite a significant recent rise in domestic production from less than 100 mcm/year in 2010 to nearly 0.5 bcm in 2011 (Enerdata, 2015) and early optimism regarding new finds, predictions are that even with full exploitation, domestic resources will not cover more than one-third of total domestic consumption (Ministry of Foreign Affairs of Denmark, 2013). In addition, older gas plays are gradually being depleted, with new finds only partly offsetting the decline. The impact of other potential fields remains unclear.

Although the share of gas in Bulgaria's energy supply—around 13%—and its overall annual consumption of around 3 bcm are not very high (Gazprom Export, n.d.c), the issue is still a pressing one for the Bulgarian economy. From an energy-security standpoint, it must be noted that Bulgaria is one of the most import-dependent members of the EU, which not only import 90% of their gas but do so from a single source: Russia (International Renewable Energy Agency (IRENA), 2011; Energy Delta Institute, 2015; European Commission – Energy). Prognostications indicate total domestic consumption may rise to 4.5 bcm per year by (Ministry of Foreign Affairs of Denmark, 2013).

Bulgaria is thought to have potentially large shale gas plays. According to the 2013 US Energy Information Administration Report, it potentially possesses up to 481 bcm of shale gas which, if developed, would theoretically cover the country's needs for the next 100 years and significantly alleviate its import dependence (U.S. Energy Information Administration, 2013). These resources, though, remain untapped. The government issued a moratorium on shale gas extraction and even shale exploration in 2012, confirming its continued support in recent months (Reuters, 2012; Novinite, 2015b; Shale Gas Europe, 2014).

Bulgaria's unilateral dependence was highlighted by the 2009 gas crisis, which hit in the coldest months of the year with only a limited amount of alternative heating fuel available. Moreover, the crisis struck

---

<sup>53</sup> Activities to start drilling in the Black sea shelf have been lately spurred and recently marked some successes in finding new oil (and prospectively also gas) fields (Natural Gas World, 2015b; Novinite, 2016a).

the industrial sector and power generation as priority was given to the residential sector.<sup>54</sup> Combined with the ongoing financial crisis, the gas crisis impacted the Bulgarian economy highly negatively, deepening the economic contraction (Kovacevic, 2009). Despite the bitter experience of the 2009 crisis and its 90% dependence on Russian gas, little has changed since that would enhance the country's energy security. Bulgaria's dependence on Russian supplies entering via Ukraine—the only available supply route for the country—has not changed, and as a recent study by the Institute of Energy Economics at the University of Cologne points out, Bulgaria would be the only EU member unable to substitute for Russian gas were the 2009 scenario to repeat (Martinez, Paletar, & Hecking, 2015). Thus, despite a slight decline in Bulgarian gas consumption and increased domestic production (Energy management Institute, 2013), the situation remains grave. Bulgaria's inability to diversify its gas portfolio is very likely reflected in the price it pays for gas deliveries, since its negotiating position is weak. Gazprom charges Bulgaria over USD 400/tcm (Radio Free Europe, Radio Liberty, 2015)—the average price for European customers is more than 100 USD lower<sup>55</sup> (Mazneva, 2014).

The national company—Bulgargaz—was split into two entities in keeping with mandatory EU law with which the country has been forced to comply since its 2007 membership. Since that time, Bulgargaz has been responsible for importing and selling gas, while a separate company, Bulgartransgaz, operates the domestic transmission and transit system and is in charge of storage.<sup>56</sup> Bulgargaz controls around

---

<sup>54</sup> The most influenced part of the industrial sector was the chemical industry, the second biggest consumer of gas after power generation (Kovacevic, 2009).

<sup>55</sup> Gazprom was accused by the European Commission for misusing its position in Bulgaria and other 7 CE states (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia). According to the accusation, Gazprom imposed territorial restrictions including export bans and destination clauses. Such behaviour clearly breaches the rules of the 3rd liberalization package (European Commission, 2015b).

<sup>56</sup> Bulgaria has only one storage facility at Chiren located in the North-Eastern part of the country with total capacity of 550 million cubic metres (Novinite, 2015g). With regard to possible new gas supplies and Bulgarian potential to increase its importance in terms of regional gas supplies, possibilities for increasing storage

84% of the domestic wholesale market; the company buys gas for the wholesale market that supplies industry, some (non-Overgas, see below) distribution companies, and remote heating companies.

Gazprom's other customer on the Bulgarian market is Overgas<sup>57</sup>, a company in which in which Gazprom has an approximately 50% ownership share<sup>58</sup>. Overgas holds around a 70% majority share in distribution, supplying households via local distributors in which it has a stake<sup>59</sup> (Enerdata, 2015). This makes Overgas the main supplier of Bulgarian households.<sup>60</sup> It is generally quite active in the country's gas sector and, until 2010, served as the intermediary between Gazprom and Bulgargaz along with Wintershall.<sup>61</sup> Up to that point, Overgas had bought discounted gas from Gazprom and resold it to Bulgargaz, which sold gas to local distributors often owned by Overgas. In 2010, Overgas began selling gas directly to customers without resale to Bulgargaz, another customer of Gazprom.

Indigenous gas production,<sup>62</sup> which accounts for about 10% of total domestic consumption, is controlled by the former Petroceltic Bulgaria (former Petreco Bulgaria), which merged in 2012 with Melrose Resources. As the country provides the only alternative to Russian gas, it is highly valued by the recent right-wing administration of Prime Minister Boyko Borisov (Georgiev, 2015; Nutu, 2015).

---

capacity have been reviewed. These include increase in capacity of the current underground storage in Chiren and also new sites. Increase of Bulgarian storage capacity was recognized as a project of common interests by the European Commission (Bulgartransgaz, 2014; European Commission, 2015a).

<sup>57</sup> While Bulgargaz buys gas for the wholesale market and is not active in distribution, Overgas dominates the distribution and currently buys gas for its own purposes.

<sup>58</sup> More specifically, Gazprom owns 0,49% and Gazprom Export 49,51% (Overgas).

<sup>59</sup> The distribution sector is fragmented between more than 30 companies (Enerdata, 2015).

<sup>60</sup> Other major distribution companies are Citygaz Bulgaria owned by Italian Società Gas Rimini, and Rilagaz owned by the Italian group AcegasApsAmga (Rila Gas EAD).

<sup>61</sup> Technically speaking, Wintershall had a 50% share in joint-venture with Gazprom in company WIEE (Wintershall Erdgas Handelshaus Zug AG) that was in charge of gas supplies (Daborowski, 2012).

<sup>62</sup> Realized at Galata, Kaliakra and Kavarna gas deposits.

The overarching issue of energy poverty is one of the most serious that Bulgarian governments have had to contend with throughout the country's post-communist era.<sup>63</sup> The low level of supply diversification and interconnectivity, which forces Bulgaria to rely on a single supply source and transport route for all intents and purposes, is a key issue on the energy agenda. Any curtailment of supply severely impacts the Bulgarian economy and—very directly—Bulgarian households. Several projects have been introduced to enhance the country's energy security. Chief among them are projects focused on interconnectors with neighbouring countries and potential new pipelines. Interconnectors have been built to Macedonia, Greece, Turkey, and Romania, but although enhanced mutual interconnectivity would substantially better Bulgaria's energy security, such projects are currently mostly stalled (see above).

Likely the easiest way to enhance the country's energy security would be to secure supplies from Romania. If Romania remains relatively independent of Russian gas and has enough indigenous gas production to allow leftover capacity for export (see the chapter on Romania), this would be the number-one option for supply source diversification. The maximum capacity of the 25 km-long interconnector, which runs between Giurgiu (Romania) and Ruse (Bulgaria) and is the key piece of infrastructure in this context, has a capacity of 1.5 bcm per year from Bulgaria to Romania and 0.5 bcm per year in the opposite direction.<sup>64</sup> After a series of postponements, the interconnector was set to be opened in the third or fourth quarter of 2016 but was later postponed until 2019 due to a lack of pipeline pressure on the Romanian side<sup>65</sup> (Bernovici, 2016; Gotev, 2016b; Cheresheva & Chiriac, 2016).

---

<sup>63</sup> Over 1/3 of Bulgarian households are unable to keep their homes adequately warm and 60% of households use wood for cooking and heating (Vassilev, Traikov, Mancheva, & Holliday, 2014, p. 32).

<sup>64</sup> The motivation is technical: lower pressure in the Romanian gas grid. To increase the capacity of the route, another compressor station would have to be built in Romania (Jekov, 2014). After completion of the compressor station, capacity on both sides will equalize at 1.5 bcm per year (Cheresheva & Chiriac, 2016).

<sup>65</sup> Here, the reason lies rather with Romania's reluctance to proceed with natural gas exports (see above).

A recently signed agreement between the Bulgarians and their Ukrainian and Romanian counterparts stipulates virtual reverse flows between these three countries; to this point, the direction of flow has been North-South. If physical flow from the South is made possible (e.g. in the event of the Interconnector Greece-Bulgaria or interconnector to Turkey), it would theoretically enable the delivery of gas of various origins (including LNG) from Greece all the way to Ukraine (S&P Global: Platts, 2016).

A planned interconnector to Turkey would allow Bulgaria to receive gas supplies from Azerbaijan and related LNG terminals. It would basically be a pipeline that allows gas to flow in the direction opposite to its current normal direction. Another interconnector to Serbia would predominantly serve to enhance that country's energy security, but under certain circumstances might also benefit Bulgaria by diversifying the routes for supplying the country with Russian gas. Development on this project, however, is moving at a glacial pace because of unwillingness on the part of local authorities to cooperate.<sup>66</sup> The interconnector is in the early stages, and its future is yet unclear (Bulgartransgaz, 2015).

The same basically applies to the Greece-Bulgaria interconnector leading to Stara Zagora.<sup>67</sup> This interconnector, also known as the IGB, would potentially enable Bulgaria to get supplies from Azerbaijan's Shah-Deniz gas fields (Gotev, 2015 c; Bulgartransgaz, 2014, p. 16).

Bulgaria would have been able to strengthen its position as a transit country as part of the so-called Southern Gas Corridor embodied in the Nabucco Pipeline Project, intended to carry up to 31 bcm per year (Hafner, 2015). Begun in 2002, it received substantial forward impetus from the gas crises of 2006 and 2009, and was meant to be an important step toward the diversification of the EU's gas import port-

<sup>66</sup> Latest news indicate that the interconnector might be in operation from 2019 (Natural Gas World, 2015a).

<sup>67</sup> The current connection had been already used during the 2009 gas crisis for reverse flows (Gotev, 2015c) but it is fully booked from Gazprom's exports to Greece (Interviewee 11, 2014; Interviewee 12, 2014; Interviewee 13, 2015). This interconnector is also not a solution though, since Greece is an importer of Russian gas as well and does not have enough gas to change the current supply situation in Bulgaria (Jekov, 2014).

FIGURE 14: Planned routes of South Stream and Nabucco pipelines



Source: (BBC News)

folio, ultimately bringing in gas from non-Russian sources<sup>68</sup> not only to Southeastern Europe but further into the West, as well, terminating in Baumgarten, Austria. The project received the official recognition of the European Union and was backed by the countries affected,<sup>69</sup> as well as by the EU and the United States. A spirit of cooperation and unity was forged by the gas crisis of 2009 and the intergovernmental agreement between transit countries in 2009, and between the consortium and the transit companies in 2011 (Hafner, 2015). In the end, though, in 2013, the project as originally envisioned was aborted. Its failure was mostly attributable to a lack of financial viability and uncertain demand for the gas to be transported, along with pressure exerted by Gazprom's competing South Stream Project and advancements of competing TAP project (EurActiv.com, 2013a).

For its part, the South Stream Project poses another interesting case of possible diversification of transit routes. It was not, however, intended as a means of source diversification but rather as a route. Motivation for the project came not from consumers in this case, but

<sup>68</sup> The sources were expected to come from Iraq, Azerbaijan, Turkmenistan and Egypt (Daily News – Bloomberg, 2010).

<sup>69</sup> On the EU level, these were Bulgaria, Romania, Hungary and Austria.

rather from the supplier: Gazprom saw an opportunity to circumvent Ukraine to reach financially sound customers in Central Europe more easily. Bulgaria was a part of the project from the outset, since it was one of the countries whose territory the pipeline would traverse (see map below). Bulgaria's initial reluctance to take part prompted Gazprom to consider replacing it with Romania, but this was mostly perceived as a way to pressure the country, and in the end, it signed a bilateral deal. Other countries cooperating on the project were Serbia, Hungary, Greece, Slovenia, Croatia, and Austria. These deals were subsequently cited by the European Commission as breaches of EU law, in particular of the third party access principle (EurActiv.com, 2013b). The ensuing disputes ultimately became irrelevant with the cancellation of the entire project by Gazprom in late 2014 (Kodousková & Jirušek, 2014).<sup>70</sup> Given that the economic viability of the project was in question from the beginning, some understandably see the South Stream Project as having simply been a tool to exert pressure on Nabucco.

## 7.1 Reflections on the indicators

### **Active support by Russian state representatives for the country's state-owned energy enterprises and their activities abroad**

Bulgarian energy sector insiders indicate that representatives of Gazprom and the Kremlin act interchangeably in dealing with Bulgaria, since the deals involved are usually strongly supported by Russian officials (Interviewee 9, 2015; Interviewee 10, 2015; Interviewee 11, 2014; Interviewee 12, 2014). This is in line with the powerful influence Rus-

sian companies have on the Bulgarian economy and is also clear from a high-level meeting on energy-related issues in 2008 at which nuclear, gas, and petroleum projects were discussed (Smolchenko, 2008; Novinite, 2012a), and from a meeting that took place in 2010 at which the main topic of discussion was the South Stream Project (Archive of the Official Site of the 2008–2012 Prime Minister of the Russian Federation Vladimir Putin, 2010).

The South Stream Project is, in fact, one of the most appropriate examples. It was supported by Russian representatives of the highest level from the outset, as were negotiations between Gazprom and Bulgaria on the project's planned route. When disputes later broke out over the Bulgarian government's stance on the project, high state representatives of Russia got involved. When in 2009 the government of Boyko Borisov expressed reluctance to continue construction without EU approval, Russian Prime Minister Vladimir Putin and President Dmitry Medvedev both took part in negotiations aimed at pressuring Bulgaria (EurActiv, 2011).

Another manifestation of involvement by Russia's highest-level representatives was Putin's angry reaction to Bulgarian opposition to South Stream in late 2014, when he expressed his disappointment to Turkish president Erdogan by saying he was "fed up with the Bulgarians", and accused Bulgaria of burying the South Stream project (Novinite, 2014a).

In May 2017, high-level talks on the possible construction of a gas hub near the Bulgarian city of Varna were conducted again, with Russian President Vladimir Putin meeting Bulgarian prime Minister Boyko Borisov to discuss the issue and the fate of the previously abandoned construction of a nuclear power plant on the Bulgarian island of Belene (Mihaylov, 2017). Although the real impact of such talks is questionable, they do serve as an indicator of high-level involvement.

### **As a foreign supplier, Russia rewards certain behaviours and links energy prices and deals to the client state's foreign policy orientation**

There are usually significant issues surrounding inadequate funding for energy-related projects by the Bulgarians. Projects in the country that are related to Russia typically begin when leftist governments are

<sup>70</sup> Russia is now likely to push forward the idea of a different project building upon the basis of the South Stream not delivering gas directly to EU member states but merely to the EU borders – such as so called Turkish Stream (see above) (Novinite, 2015 h; Mustafayeva, 2015). Bulgaria, for its part, is still trying to keep its chances of being important country for getting Russian gas supplies to Europe. One of the proposals included also creation of a gas hub in a place where the South Stream pipeline should originally reach Bulgarian soil (Novinite, 2015 i; Leviev-Sawyer, 2014). However, despite ongoing high-level talks and apparent interest on the Russian side, as well, not much has happened to this point (Mihaylov, 2017).

in power (the Socialist Party BSP<sup>71</sup>) and end when a right-wing government takes over (the GERB party of current PM Boyko Borisov<sup>72</sup>). Examples include the aforementioned Stream Pipeline, as well as the cancelled Belene nuclear power plant. With the South Stream Project, it should be noted that the most recent drop in gas prices<sup>73</sup> for Bulgaria came right after a bilateral deal on the pipeline had been signed (Interviewee 9, 2015).

During the course of negotiations, allegations of corruption emerged that should have led Bulgarian officials to support the South Stream Project. One such allegation, reported by the New York Times, involved efforts by Aleksandr Babakov, a member of the Russian Duma, to persuade the then-Deputy Energy Minister in the interim government to support the South Stream project (Yardley & Becker, 2014). Later, in 2014, a series of behind-the-scenes negotiations led a pro-Russian coalition to propose a bill<sup>74</sup> that would have ultimately exempted the South Stream Project from internal market rules by renaming the pipeline the “gas-sea” interconnector. Leaked internal documents were alleged to demonstrate the bill was tailored to Gazprom’s needs (Yardley & Becker, 2014; EurActiv.com, 2014b; Traufetter, 2014).

A link between Bulgaria’s foreign policy stance and gas prices charged on the Sofia market was evident in the final deal on the South Stream Project, which was inked in summer 2012. Gazprom promised an 11 % gas discount if the agreement was signed and the project timetable accelerated by the Bulgarians (Novinite, 2012b). The ‘take-or-pay’ condition was also apparently softened, but Gazprom refused to link that agreement to the South Stream deal. Such a clause is thus missing from the final deal (Tovalov, 2012; ZN.ua, 2012). This mirroring of Bulgarian foreign policy in the country’s energy relations with Russia was clearest during periods when right-wing govern-

ments were in power<sup>75</sup>; it was then that energy-related disputes usually occurred.

In April 2015, the European Commission started an investigation into alleged abuse by Gazprom of its dominant market position in Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and Slovakia. At dispute were allegations of the unlawful use of destination clauses, export bans, and unlawful conditionality in dealings with these countries. In Bulgaria’s case, the accusation was focused on alleged conditionality involving gas supplies and the country’s participation in the South Stream Project (Matalucci, 2015)<sup>76</sup>.

### **Abuse of infrastructure (e.g. pipelines) and differential pricing to exert pressure on the client state**

Current conditions were not misused as leverage to exert pressure; rather it was the planned South Stream Project that was seen as a factor that potentially heightened Bulgaria’s vulnerability on energy security. During planning for the project, Gazprom exerted pressure on Bulgaria on more than one occasion. The finest example may be seen in the pipeline’s original route across the country. At one point in the negotiations, the Bulgarian government expressed ambivalence about the project.<sup>77</sup> When the government of Boyko Borisov took office in July 2009, it was made clear that support was not unconditional and that the government would “need time” to decide the project’s fate (EurActiv, 2011). In response, Gazprom and Russian officials began to negotiate a new route that would bypass Bulgaria in favour of Romania. The latter, despite its historically-rooted anti-Russian stance, was inclined to take part in the project (Novinite, 2009; Novinite, 2014b). But Romania’s

---

<sup>75</sup> This interlink became clear also in the case of the plans to build new nuclear power plant at the Belene site when the government negotiated with the European commission to find a non-Russian investor for the project (EurActiv, 2010).

<sup>76</sup> In spring of 2017, the Russian company signaled it is inclined to agree to a settlement (*Denková, Gotev, Kokoszczyński, & Szalai, 2017*).

<sup>77</sup> The support has basically relied on which government was in power in Bulgaria. The rightist governments of Boyko Borisov have been basically anti-Russian whilst the leftist were more prone to cooperate with Russia (Novinite, 2012a; Novinite, 2014b).

---

<sup>71</sup> The Socialist Party has traditionally closer ties to Russia based on the ideology and personal history of numerous members of the party.

<sup>72</sup> Although Borisov himself is sometimes perceived as pragmatic and not outright anti-Russian, his centre-right party GERB is generally pro-European.

<sup>73</sup> More specifically in formula under which the price is calculated.

<sup>74</sup> The decisive player in the parliament at that time was the far-right party Ataka that had close ties to Russia (EurActiv.com, 2014a).

position was pragmatic: the country's official policy is to keep the energy relationship with Russia free of any politics (see the pertinent chapter). In any case, Bulgaria's unilateral dependence upon Russian supplies clearly weakens the country's positions in price negotiations.<sup>78</sup>

The private Bulgarian distribution company Overgas is currently suing Gazprom over the halting of supplies in late December 2015. It is noteworthy that the mutual disputes between Gazprom and Overgas have been commented on by the Russian Foreign Ministry (Novinite, 2016b).

### **Efforts to take control of the energy resources, transit routes and distribution networks of the client state**

In formal terms, this is barred by Bulgaria's membership in the European Union and the fact that it operates under Internal energy market rules. But Overgas, one of Gazprom's customers in Bulgaria—and one in which Gazprom has a 50 % stake—holds a supply contract with Gazprom at the same time it is the largest gas distributor in the country.

### **Disruption (by various means) of alternative supply routes/sources of supply**

When Greece, under pressure from its creditors, considered selling DEPA, its national Public Gas Corporation, in 2013 and Gazprom expressed interest in buying it, concerns arose that Gazprom would ultimately become a dominant player in Southeastern Europe. The company would also as a result have acquired control over the Greece-Bulgaria interconnector. But Gazprom withdrew its bid, and the sale did not take place (Natural Gas Europe, 2015c).

The quick rise of the anti-fracking movement prompted accusations it was organized and perhaps even funded by Gazprom, for whom the emergence of an alternative source of gas supply in Bulgaria would be undesirable (Yardley & Becker, 2014; Hope, 2014). Clear evidence

---

<sup>78</sup> On the other hand, changing conditions within the gas sector in last couple of years improved the position of Bulgaria enough to push Gazprom's officials within the negotiations to provide discounts – a situation never seen before in this regard (Marson & Parkinson, 2013).

proving a link between the anti-fracking movement and Russia's stake in gas, though, has not been forthcoming.<sup>79</sup>

### **Efforts to gain a dominant market position in the client country**

Overgas, 50 % owned by Gazprom, is the major distributor, supplying two-thirds of households.

According to the European Commission and the accusation filed in 2015, in the past, Gazprom was abusing its dominant position on Central and Eastern European gas supply markets, including Bulgaria.

### **Efforts to eliminate competitive suppliers**

This indicator is irrelevant. The country currently has no option to get its gas from any other country than Russia or its own domestic sources. Russia has taken no official position on Bulgaria getting gas from non-Russian sources. Economic logic would suggest that Gazprom would regard such a possibility—along with the development of domestic (shale) gas resources—as undesirable, since it would decrease revenues.

### **Preference for long-term bilateral agreements and “take-or-pay” contracts**

The current long-term transmission and supply contracts were signed in 2006 and 2012 respectively, and include take-or-pay conditions. Because of Bulgaria's present lack of diversification, Gazprom has naturally tried to maximally leverage its position to secure its place in coming years, when it is anticipated the country's portfolio diversification may improve. Bulgaria's inability to take gas from different sources is at the root of the high prices it pays—the supplier is able to capitalize itself at the country's expense while breaching no Internal energy market rules.

---

<sup>79</sup> The anti-fracking law that passed through the Bulgarian parliament in early 2012 not only stopped the extraction but also the exploration was effectively stopped. The bill thus prevented Chevron, who was granted with exploration permission in 2011, from further development of their projects. Later, in 2014, the company withdrew from Bulgaria completely (Natural Gas Europe, 2014d). A similar situation was evident in Romania (see that chapter).

## 8. COUNTRY CASE STUDY: CROATIA

### **Diminishing the importance and influence of multilateral regimes such as the EU; Acting against liberalization**

The proposed South Stream Pipeline Project, or more specifically, the bilateral agreements Gazprom closed with countries along the pipeline's planned route,<sup>80</sup> were in contradiction with the EU's Internal energy market rules, because the pipeline was intended exclusively for supplies of Russian gas. In particular, the 'ownership unbundling' and 'third party access' principles were violated (EurActiv.com, 2013b). Gazprom naturally tries to resist any measure that would aggravate its position on the traditional markets in the CEE Region. Although events that took place with regard to this project, including the legislation involved (see above), were often questionable, its rationale could still be attributed to economic logic.

The abuse of the dominant market position mentioned in the previous subsection was also a clear manifestation of avoiding of the EU's Internal Energy Market rules.

### **Attempts to control the entire supply chain (regardless of commercial rationale)**

Formally barred by IEM rules.

### **Economically irrational steps taken to maintain a particular position in the client state's market**

A clear economic rationale can be found for the bulk of Gazprom's actions in Bulgaria.

Croatia is a littoral state which was part of the former Yugoslavia until June 1991, when it declared its independence along with Slovenia, another state of the former federal republic (Sudetic, 1991). The country became the 28<sup>th</sup> member of the European Union.

The history of natural gas production in Croatia started in 1955 with the utilization of domestic natural gas in Zagreb (Plinacro, n.d.). As with Slovenia, the first foreign deliveries arrived from Russia in 1978 via the spur line from Austria (TAG pipeline), at the entry point of Rogatec. In 2011, another interconnection was built connecting Croatia with Hungary at the Donji-Miholjac – Dravaszerdahely entry point, with an annual capacity of 6.5 bcm (European Commission, 2014a, p. 36).

In 1992, the newly independent country signed an intergovernmental agreement with Russia stipulating deliveries of 1.2 bcm per year until 2010 (Gazprom, 2013a; Gazprom, 2013c). When the long-term deal ended in and negotiations to prolong it were unsuccessful, a new gas deal was signed with Italy's ENI<sup>81</sup>. The terms stipulated deliveries of 0.75 bcm per year for the period from 2010–2013 (Kolundžić, 2012, p. 190).

When the ENI deal ended in December 2013, a new deal was sealed to resume supplies from Russia.<sup>82</sup> In 2014, during his visit to the Balkans, Gazprom CEO Alexei Miller sought to increase the amount of gas supplied to Croatia (Gazprom, 2014b). Details of the contract were still confidential at the time this text was written.

<sup>81</sup> The deal was sealed on the basis of an open tender in which Gazprom participated as well, a rather unusual solution among post-communist countries (Ośrodek studiów wschodnich, 2012).

<sup>82</sup> The resumption of supplies was negotiated personally by Alexei Miller. The talks also included several options for building gas-fired power plants to anchor greater gas demand (Gazprom, 2013a).

<sup>80</sup> Among these countries there were Bulgaria, Hungary, Greece, Slovenia, Croatia and Austria, and Serbia, which is a member of the Energy Community (EurActiv.com, 2013b).