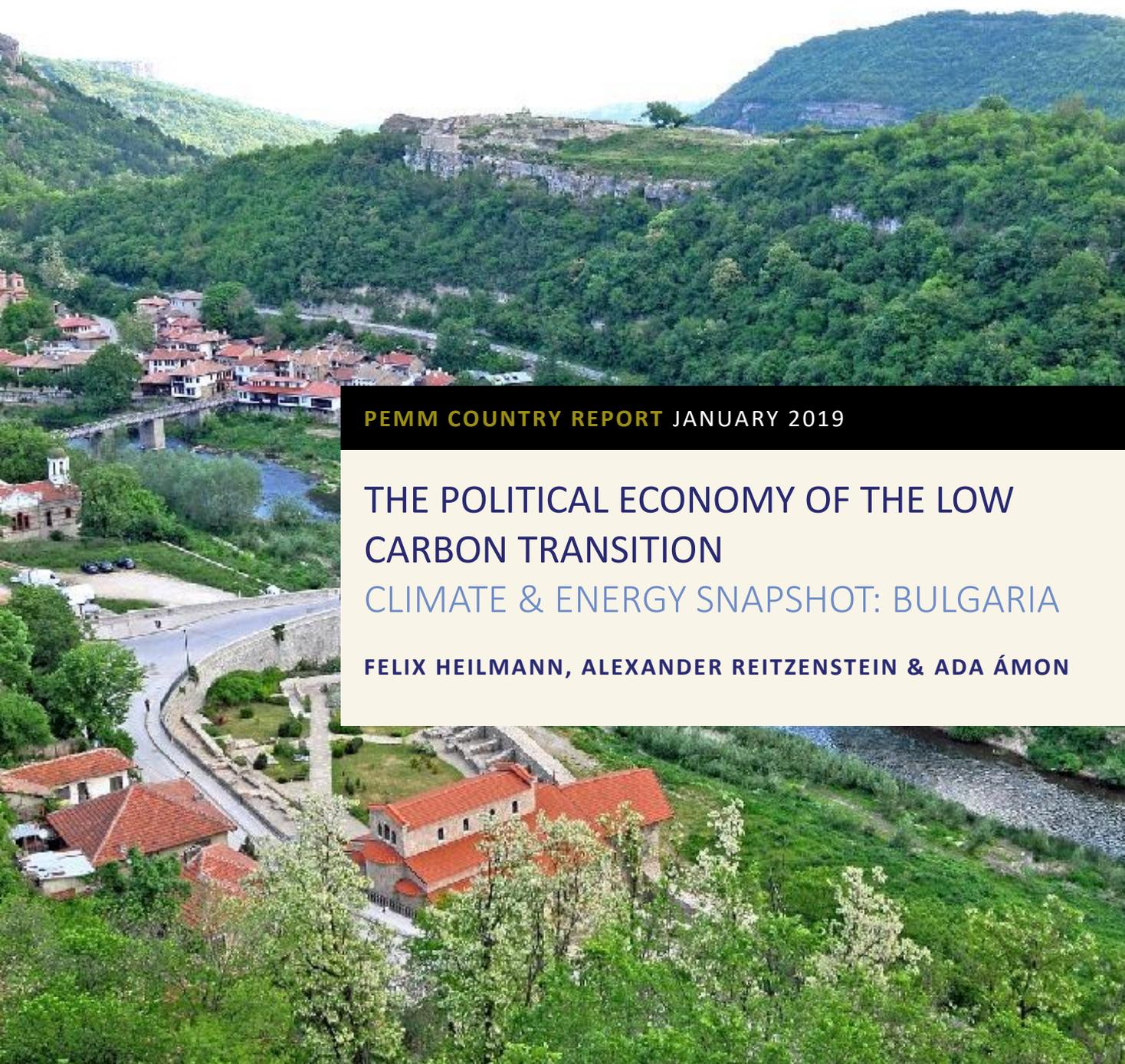




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**PEMM COUNTRY REPORT** JANUARY 2019

**THE POLITICAL ECONOMY OF THE LOW  
CARBON TRANSITION**  
CLIMATE & ENERGY SNAPSHOT: BULGARIA

**FELIX HEILMANN, ALEXANDER REITZENSTEIN & ADA ÁMON**



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## About E3G

E3G is an independent climate change think tank operating to accelerate the global transition to a low carbon economy. E3G builds cross sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. In 2016 and 2017 E3G was ranked the fifth most influential environmental think tank globally.

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## EXECUTIVE SUMMARY

Our assessment of Bulgaria shows clearly that many aspects of the country's political economy stand in opposition to a low-carbon transition. In all three headline categories of our analysis – national conditions, political system, and external projection – we conclude that most factors actively oppose the transition. Nevertheless, we have identified several access points for an accelerated low-carbon transition in Bulgaria:

**National Conditions:** Overall, the national conditions oppose an accelerated low-carbon transition. In particular the salient debates on energy prices, incumbent energy producers and energy security stand in sharp contrast to a move away from fossil fuels. Energy is a highly political issue in Bulgaria, and coal accounts for almost half of the electricity mix. Nuclear power provides another third of electricity, and the construction of new nuclear power plants is under discussion. In addition, inefficient energy infrastructure, high concentration of ownership in the energy sector, close ties of incumbent businesses and politics, and energy poverty are perceived as key issues for the country. Despite high economic pressure on coal Bulgaria has not yet defined a phase-out date or a Just Transition strategy. After a generous support scheme for renewables had fostered growth, recent cutbacks and new regulatory roadblocks have quasi-ended the deployment of renewable technologies. Other sectors, particularly transport, are not yet ready for more ambitious emission reduction targets that should be expected in the future. Existing targets for renewables and emission reductions in the non-ETS sectors will, however, be met. While import dependence in the energy sector is below EU average, driven by domestic coal and the recent expansion of renewables, it is a major issue for imports of gas, oil and nuclear fuel, mainly from Russia. Lower dependence is hindered by missing energy infrastructure, and Russia's role as guarantor of energy security has significant implications for foreign policy. There is huge potential for additional wind and solar capacity across the country.

Potential drivers of the low-carbon transition such as technology, innovation, finance and the perception and role of public goods are not yet playing a relevant role in Bulgaria's transition. Nonetheless, Bulgaria is a regional leader in outsourced digital services which is a well-paid high-growth sector in cities. Low investments in R&D, brain drain, demographic decline and a lack of skilled workforce in many areas are, however, key challenges for further technological development. The boom in renewables has shown that Bulgaria could benefit from active engagement in low-carbon supply chains. This would, however, require targeted public investment. While overall macroeconomic factors are relatively positive and stable, and poverty reduction is progressing at a modest pace, investments in a low-carbon transition are largely dependent on the EU budget. Significant investment gaps in renewables, energy efficiency and low-carbon transport persist. While climate change is not perceived as a key challenge for the country by the public, more tangible environmental issues are of public concern. In particular, air pollution and the protection of Bulgarian national parks are discussed widely. In addition, while Bulgaria



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has a relatively low risk of natural disasters, it is one of the EU countries most vulnerable to climate impacts, and economic costs are rising.

**Political System:** Overall, key actors and institutions of the political system oppose an accelerated low-carbon transition. Government and businesses tend to support incumbent high-carbon industries. Government policies are centred around the office of the Prime Minister. However, the involvement of a nationalist party in the current government has changed the public discourse, placing a stronger focus on “illiberal” issues such as migration. Overall, trust in domestic political institutions is relatively low, and corruption is identified as a systemic challenge, including in the energy sector. Close ties between politicians and incumbent businesses, in combination with a lack of administrative capabilities in government, cause difficulties for implementing long-term policies and measures.

The service sector is at the core of the current economy, and its importance is growing. Heavy industry played a crucial role in socialist times but is in continuous decline. While the importance of state-owned companies is generally limited, after a wave of privatization, it is quite significant in the energy sector, blocking further market liberalization.

The quality of public debate and press freedom in Bulgaria are under pressure, and civil society has relatively limited access to political decision-making, in which climate politics, in contrast to energy politics, receives very limited attention. Participation in civil society organisations is low; however, public opinion of environmental groups is relatively positive as they are perceived as one of the few stakeholders speaking out against structural ties between politics and incumbent businesses.

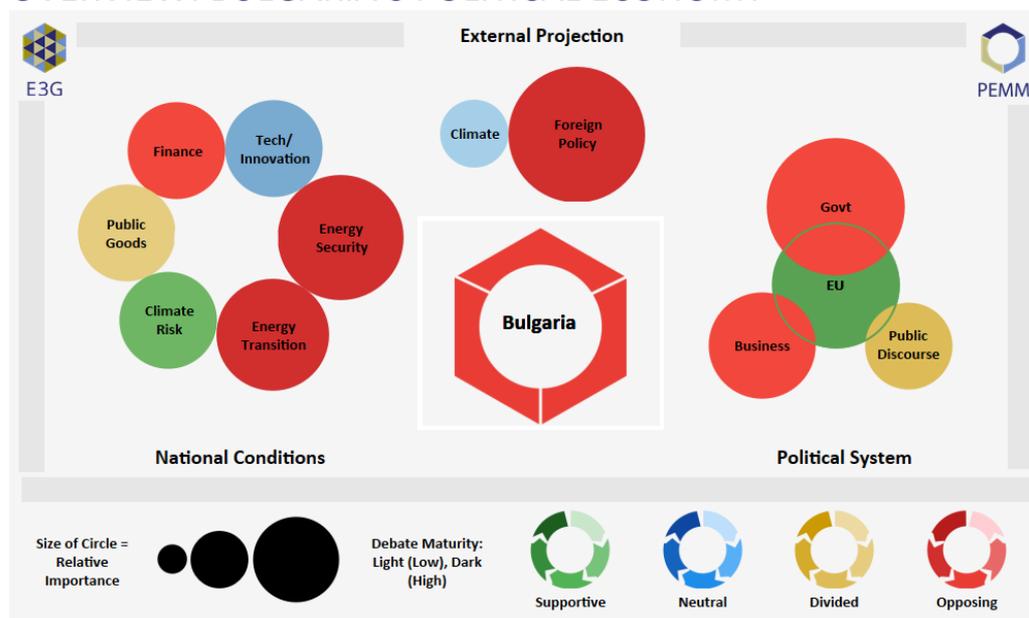
EU accession in 2007 provided an impetus for political and economic reforms, and the EU remains the key driver of environmental and climate legislation in Bulgaria. However, the country plays a reactive role at the EU level, and overall lacks the resources and political influence to advance its political interests in Brussels. Membership of the Schengen area and the Eurozone are foreign policy priorities but have been blocked by other member states.

**External projection and choice:** Western countries are important partners for Bulgaria, mainly due to their impact on the country’s economic development. At the same time, energy supply and historical links connect Bulgaria to Russia. The European integration of the Western Balkan countries is Bulgaria’s primary foreign policy priority, and most Bulgarian governments have continuously advocated for improved economic cooperation in South East Europe. One of the most important components of such cooperation is the development of transport and, increasingly, nuclear and fossil energy infrastructure, creating risks of high-carbon lock-in. Bulgaria is not an active climate diplomacy player but has spoken out against more ambitious climate targets both in UNFCCC negotiations and within the EU.



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## OVERVIEW: BULGARIA'S POLITICAL ECONOMY



## INTRODUCTION: POLITICAL ECONOMY MAPPING OF Bulgaria

E3G's Political Economy Mapping Methodology (PEMM) assesses threats and opportunities to countries presented by the low-carbon transition. PEMM aims to identify underlying tensions across national conditions, political system and external projection to determine what constructs a country's core national interest and to identify key interventions which could help to increase domestic climate ambition and enable progress on the low-carbon transition. PEMM is based on desk-based research, expert interviews and in-country testing.

This briefing presents an assessment of the political economy of Bulgaria, with a focus on the low-carbon transition. It is part of a **series of briefings on Central and South-Eastern European countries published by E3G**.<sup>1</sup> Within the European Union (EU), Central and Eastern European countries (CEE) are often seen as attempting to slow down the low-carbon transition, both domestically and by opposing stronger EU climate action. Against this background, E3G has applied its PEMM to Bulgaria and Romania as well as Hungary, Poland, Slovakia and the Czech Republic.

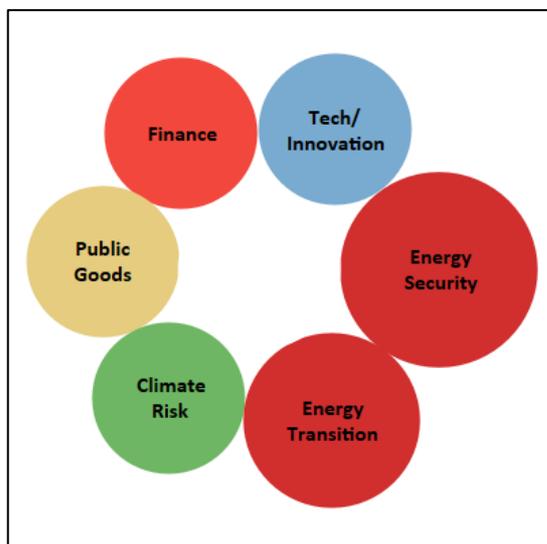
Often perceived as one unified bloc working against the low-carbon transition, E3G digs deeper and studies their specificities, their influence, and their social and economic interests. The aim of this research is to identify opportunities to accelerate the low-carbon transition domestically and at the European level. When taking a closer look, considerable differences between the CEE states become apparent. Identifying these discrepancies is crucial for designing country-specific interventions and cooperation opportunities that support a low-carbon transition.

<sup>1</sup> E3G (2019). **Central and Eastern Europe in Focus**



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## BULGARIA'S NATIONAL CONDITIONS



The analysis of national conditions is guided by three questions:

How important is the area in the real economy of the country?

Is the area accelerating or inhibiting a low carbon transition?

How mature is the debate within this area with regards to a low carbon transition?



### Climate Risk

#### Summary assessment:

Despite having a relatively low risk of natural disasters, Bulgaria is one of the EU countries most vulnerable to climate impacts. A National Adaptation Strategy is currently being prepared.

#### Assessment categories:

Significance to the national interest: **Medium**

Alignment with low-carbon transition: **Supportive**

Maturity of the debate: **Medium**

Bulgaria has a relatively **low risk of natural disasters**, but **recurring extreme weather impacts have significant impacts**. Floods are the most frequent events, with 47% of natural disaster events between 1990 and 2014, causing 96% of the economic costs related to natural disasters. Other regular events are extreme temperature (21%), storms (11%) and wildfires (11%).<sup>2</sup> The last major floods in 2014 caused at least 15 fatalities and approximately US\$400m damage.<sup>3</sup>

<sup>2</sup> PreventionWeb (2014). [Bulgaria Disaster & Risk Profile](#)

<sup>3</sup> World Bank (n.d.). [Bulgaria Risk Profile](#)



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However, Bulgaria is one of the EU countries most **vulnerable to climate impacts** such as temperature increase, soil drought, and extreme rainfall, exacerbated by relatively **high poverty rates and poor adaptation measures**.<sup>4,5</sup> Average annual air temperatures have increased by 1.3°C over the past two decades, and the highest temperatures in the country's history were recorded in 2017.<sup>6</sup> In the future, maximum rainfall levels are expected to increase while average rainfall levels will decrease. The sectors most threatened by climate impacts are agriculture, tourism and water.

The Climate Change Mitigation Act (2014) calls for the preparation of a **National Adaptation Strategy**, which is **currently being prepared** and expected to be finalized soon.<sup>7</sup> Bulgaria's current **readiness for responding to climate impacts is low** – for example, ca. 80% of the forests destroyed by forest fires in the last five years have not yet been restored.<sup>8</sup>

## Energy Transition

### Summary assessment:

Energy policy is a highly politicized topic. Energy poverty and inefficiency are key challenges. The coal industry's political influence is high, and deployment of renewables is stalling after previously strong growth rates.

### Assessment categories:

Significance to the national interest: **High**

Alignment with low-carbon transition: **Opposing**

Maturity of the debate: **High**

**Energy** is a **highly political issue**, and **public opinion** of the energy sector and its governance is **negative**. In 2013, mass protests which forced the government to resign were triggered in part by concerns over high energy prices. Bulgaria ranks last on “trusting the provider” in the Electricity Market Performance Indicator for the EU.<sup>9</sup>

The **energy market** is **not fully transparent** and **prone to inefficiencies and mismanagement**. The introduction of the Bulgarian Power Exchange (IBEX) in 2016 has improved the transparency of the electricity sector but concerns about its

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<sup>4</sup> Republic of Bulgaria (2013). **Sixth National Communication on Climate Change**

<sup>5</sup> European Commission (2009). **Global warming could cost Europe up to €65 billion a year**

<sup>6</sup> Ministry of Environment and Water (n.d.). **Climate Change Adaptation Policy**

<sup>7</sup> Republic of Bulgaria (2018). **Proposal for a National Climate Change Adaptation Strategy and Action Plan**

<sup>8</sup> Republic of Bulgaria (2018). **Seventh National Communication on Climate Change**

<sup>9</sup> World Bank (2013). **Republic of Bulgaria: Power Sector Rapid Assessment**



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effectiveness to integrate operations of major utilities persist.<sup>10</sup> The gas market is significantly less transparent and not liberalized. Bulgaria is not yet meeting EU requirements on energy market liberalisation, and the energy sector runs large financial deficits.<sup>11</sup>

Despite an ongoing process of deregulation and market liberalization, **energy supply is concentrated** and dominated by three companies which operate in separate and precisely defined regional markets, effectively creating **regional and sectoral monopolies**.<sup>12</sup> The state-owned Bulgarian Energy Holding (BEH) holds 60% of the total electricity production, the gas and electricity grid, and the public gas supplier. The European Commission has already ruled that BEH abuses its dominance in the electricity market, and a similar case over its position on the gas market is pending.<sup>13</sup>

**Energy poverty is a key issue and shapes the energy policy debate.** Almost half of the population is considered energy poor, making Bulgaria the country with the highest rate of energy poverty in Europe.<sup>14</sup> The salience of energy poverty strongly influences **energy policy which is aimed at keeping energy prices low**. While prices are nominally lowest in the EU, they are high in terms of purchasing power parity. Relatively low coverage with social assistance benefits and energy inefficiency exacerbate the problem.<sup>15</sup> Notably, the energy consumption of Bulgaria's building stock is below the EU average as inhabitants try to reduce energy costs, resulting in insufficient heating or cooling and poor living conditions.<sup>16</sup>

The **coal sector** is an **important part of the economy** but faces significant economic and governance challenges. Bulgaria generates 45% of its total electricity from coal. The sector, with its 14,000 direct jobs, is crucial for providing employment, and the coal company MMI is the largest employer in Bulgaria.<sup>17</sup> However, while salaries tend to be above regional average, workers' rights as well as social and health-related protection in coal are poor and payments sometimes delayed. Despite this, both trade unions and the government fight to extend the lifetime of coal jobs. In November 2018, more than 1,000 coal miners and workers protested in Sofia calling on the government to protect their jobs, in protests which were supported by Bulgaria's Minister of Energy and the Bulgarian President.<sup>18</sup>

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<sup>10</sup> IBEX (2018). **Bulgarian power market overview and future developments**

<sup>11</sup> Emerging Europe (2018). **Energising Bulgarian Industry**

<sup>12</sup> European Commission (2017). **Energy Union Factsheet Bulgaria**

<sup>13</sup> Emerging Europe (2018). **Bulgaria must do more to liberalise its energy markets**

<sup>14</sup> INSIGHT\_E (2015). **Energy poverty and vulnerable consumers in the energy sector across the EU**

<sup>15</sup> Center for the Study of Democracy (2014). **Energy Sector Governance and Energy (In)Security in Bulgaria**

<sup>16</sup> Individual Building Renovation Roadmaps Project (2018). **Factsheet: Bulgaria**

<sup>17</sup> European Commission (2018). **EU coal regions: opportunities and challenges ahead**

<sup>18</sup> Bnr (2018). **Bulgaria protects lustily its coal mining and thermal power plants**



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At the same time, coal is under increasing economic and regulatory pressure due to inefficiencies, upgrading costs to align with stricter European regulation such as the Industrial Emissions Directive, and rising carbon prices in the EU ETS. Nonetheless, **coal companies enjoy high governmental support and benefit from close ties to government and high subsidies. Corporate voting** (vote buying) is **still prevalent** in the coal sector, including for European elections.<sup>19</sup> Bulgaria's Maritsa East 2 coal power plant was the first coal-fired power plant to be given an exemption from new EU pollution limits by the national government in a decision that was heavily criticized by environmental groups but welcomed by local trade unions.<sup>20 21</sup>

The **ownership structure of the coal sector is highly concentrated**, allowing for significant influence on political decision-making. Six out of nine Bulgarian coal plants are owned by the same businessman, who has also bought up various coal mines, shaping a political imperative to keep jobs in coal mining which results in high subsidies for the sector.<sup>22</sup> **Unprofitable mines** are often **kept operating** to further **benefit from subsidies** and **avoid clashes with unions**. Eventual closures often come as a surprise to local authorities. This was the case in Bobov Dol, where the closure of the country's largest underground mine was announced on a short notice in 2018.<sup>23</sup> The Bulgarian coal sector has been subject to various **EU lawsuits for receiving illegal state aid**.

**Coal infrastructure and the electricity grid are old and require significant investments in modernization.** A "cold reserve" mechanism, under which coal plants are paid for providing spare capacity, failed in 2017 when the scheme was activated, and three of the six plants involved were unable to start operation – however, the operating companies nevertheless received the full public compensation.<sup>24</sup> The overall energy system is not prepared for an accelerated energy transition as the large capacity share of "must-run" plants makes the system inflexible, and the grid is not capable of sustaining high volumes of volatile generation from renewables because it is underfunded and blackout rates are relatively high. Supported by EU funding, the gas infrastructure has been upgraded and is in a good state. The electricity system's peak load, which is reached in the winter, is 7GW.<sup>25</sup>

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<sup>19</sup> Greenpeace Bulgaria (2018). [Financial Mines](#)

<sup>20</sup> Reuters (2018). [Bulgarian miners march to protect coal production](#)

<sup>21</sup> ClientEarth (2018). [Bulgarian government conceals coal plant danger data from public, flouting court order](#)

<sup>22</sup> Greenpeace Bulgaria (2018). [Financial Mines](#)

<sup>23</sup> Just Transition (2018). [Bulgarian authorities forced to think about Just Transition](#)

<sup>24</sup> Publics.bg (2017). [3 out of 7 Cold Reserve Power Plants Engaged for Winter 2017 Had Failures in 2016](#)

<sup>25</sup> Center for the Study of Democracy (2017). [A Roadmap for the Development of the Bulgarian Electricity Sector within the EU until 2050: Focus on Fundamentals](#)



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There is **no roadmap for a coal phaseout and no Just Transition strategy**, although the rapid decline of the coal sector is a likely scenario. The European Commission projects that even without active decarbonisation measures coal capacities will be phased out almost completely by 2050.<sup>26</sup> Nonetheless, (regional) Just Transition measures for the ageing workforce are not yet in place. On the contrary, the government is politically supporting extended lifetimes for the coal industry, and has joined Poland in appealing against a decision by the European Commission to impose stricter pollution limits on coal plants.<sup>27</sup> The Labor Ministry has officially confirmed that it is not working on any plans or strategies for alternative employment for current coal workers, and a transition debate is virtually non-existent in coal regions.<sup>28</sup> Civil society plays a key role in seeking to put this topic on the agenda.<sup>29</sup> The impacts of an unmanaged coal phaseout would be severe, with the Yugoiztochen region, where GDP per capita is almost 20% below the national average, likely losing over 10,000 jobs.<sup>30</sup>

**Nuclear power supplies roughly one third of the country's electricity**, and capacities could increase if the **controversial expansion of the Belene Power Plant** moves forward. Before its EU accession, Bulgaria was obliged to decommission the oldest units of the Kozloduy Nuclear Power Plant, which at the time produced 40% of the country's electricity. The remaining nuclear capacities in Kozloduy, the only nuclear plant in the country, are scheduled to remain in operation until 2051. Additionally, the government is planning to restart the construction of a controversial nuclear plant in Belene but has ruled out any public subsidies for the plant's construction. The Chinese National Nuclear Corporation, the Russian Rosatom, and a subsidiary of EDF have expressed interest in investing in the project.<sup>31</sup> Interest from China especially has been consistently high, including as part of the 16+1 initiative of the Chinese government aimed at strengthening relations to CEE and Western Balkan states.<sup>32</sup> Nevertheless, realization of the project is highly questionable, including due to the availability of cheaper options.

**Energy inefficiency keeps emissions high** and policy responses have been challenged. Bulgaria has the highest energy intensity in the EU by a large margin, including through transmission losses and a lack of adequate infrastructure.<sup>33</sup>

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<sup>26</sup> European Commission (2018). **EU coal regions: opportunities and challenges ahead**

<sup>27</sup> Reuters (2018). **Bulgaria joins Poland in appeal against EU pollution crackdown**

<sup>28</sup> Za Zemiata (n.d.). **Economic and Energy Alternatives for coal industrial regions in Bulgaria**

<sup>29</sup> Just Transition (2018). **Bulgarian authorities, forced to think about Just Transition**

<sup>30</sup> European Commission (2018). **EU coal regions: opportunities and challenges ahead**

<sup>31</sup> Bloomberg (2018). **Bulgaria Resumes East Europe's Biggest Atomic Project in Decades**

<sup>32</sup> Emerging Europe (2018). **China steps up interest in Bulgarian nuclear power plant**

<sup>33</sup> European Commission (2017). **Energy Union Factsheet Bulgaria**



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Nevertheless, energy saving targets will likely be exceeded, mainly as the result of the decline of energy-intensive industries such as metallurgy and high business-as-usual scenarios.<sup>34</sup> Further efficiency increases will have to overcome various structural roadblocks such as lack of data, lack of mandatory audits, old district heating systems, lack of awareness and information, and high levels of energy poverty. Even though the savings potential is significant – only 16% of all households have installed insulation, and only 4% in rural areas<sup>35</sup> – politicians see the lowering of energy prices as a more rewarding method for gaining popularity.

**Inefficient heating methods are a major source of emissions.** 37% of households use inefficient electric heating, driving up emissions due to the high share of coal in the electricity mix. 31% use biofuels (e.g. firewood) for heating and 16% district heating. 75% of municipalities are not connected to the gas network. In rural households, firewood accounts for 63% of heating and coal for 32%.<sup>36</sup> The Bulgarian government has set up a state-funded €1bn energy renovation funding program providing 100% grant funding for renovation measures.<sup>37</sup> Governance in the renovation funding program is a key concern and its effectiveness is subject of heated debates in the country.

**Renewable energy targets have been reached** due to strong RES expansion until 2013, and there is significant potential for further expansion. However, the **regulatory environment for growth of renewables has significantly weakened** and various limitations hinder growth since 2012/13. Bulgaria has reached its 2020 RES target of 16% of gross final consumption in 2014.<sup>38</sup> In addition, it has already met its EU 2030 non-ETS emissions target partly due to generous business-as-usual assumptions.<sup>39</sup> The main instrument for renewables promotion was a feed-in tariff which, until 2012, was generous and non-capped. It resulted in 712 MW of additional solar capacity and a massive growth rate of new wind power plants.<sup>40</sup> However, the tariff was poorly managed, and subject to frequent changes. It contributed to a steep increase in electricity prices that partly fuelled large-scale anti-government protests in 2013. Today, there is effectively no new investment in additional wind or solar capacities, after over €3bn had been invested in renewables until 2013. There is no strategy for growth although renewables had already created more than 20,000 jobs by 2012.

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<sup>34</sup> European Commission (2017). [Energy Union Factsheet Bulgaria](#)

<sup>35</sup> Center for the Study of Democracy (2014). [Energy Sector Governance and Energy \(In\)Security in Bulgaria](#)

<sup>36</sup> Euroheat & Power (2017). [District Energy in Bulgaria](#)

<sup>37</sup> REELIH (2018). [Residential Energy Efficiency in Bulgaria: Brief Overview](#)

<sup>38</sup> Center for the Study of Democracy (2017). [RES-E policy and planning Bulgaria](#)

<sup>39</sup> Climate Home News (2016). [Six EU countries have already met their 2030 climate targets](#)

<sup>40</sup> UNDP (n.d.) [Renewable Energy Snapshot: Bulgaria](#)

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Many of the well-paid jobs have been lost since 2012, and the only jobs left focus on maintaining the existing capacities.

The **transport sector** is a **major driver of emissions**. Emissions from the transport sector increased by 53% between 1990 and 2015. This is driven by a steady increase in motorisation, from 158 cars per 1,000 people in 1991 to 418 cars per 1,000 people in 2014, and a move from rail to road.<sup>41</sup> Emissions from newly registered cars are the third highest in the EU, partly due to low vehicle taxes which are not linked to emissions but on the market value, meaning that owners of older vehicles pay lower taxes.<sup>42</sup> In 2017, Bulgaria imported more than 100,000 second-hand cars, many of which are polluting diesels that are banned in Western Europe.<sup>43</sup> This contributes to Bulgaria's air pollution problem. Electric vehicles (EVs) are practically non-existent with a market share of 0.2%.<sup>44</sup>

## Energy Security

### Summary assessment:

Import dependence has decreased, but Bulgaria remains reliant on Russian energy imports. Diversification of import sources is a stated goal but is unlikely to be achieved in the foreseeable future.

### Assessment categories:

Significance to the national interest: **High**

Alignment with low-carbon transition: **Opposing**

Maturity of the debate: **High**

**Bulgaria's import dependence has decreased significantly.** The energy sector's import dependence is 36%, down from 50% in 2007, mainly due to the increased domestic energy production through renewables. This is below the European average of 53%.<sup>45</sup> Nonetheless, **gas, oil, and nuclear resources are largely imported, mainly from Russia.**

Bulgaria's import dependence is high in the gas sector which accounts for 16% of total final energy consumption. 90% of natural gas is imported from Russia under long-term

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<sup>41</sup> European Commission (2017). [Energy Union Factsheet Bulgaria](#)

<sup>42</sup> Ecologic Institute & eclareon (2014). [Assessment of climate change policies in the context of the European Semester](#)

<sup>43</sup> Deutsche Welle (2018). [Western European diesel cars pollute Bulgarian cities](#)

<sup>44</sup> European Alternative Fuels Observatory (2018). [Bulgaria](#)

<sup>45</sup> Emerging Europe (2018). [Bulgaria must do more to liberalise its energy markets](#)



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contracts with Gazprom via the TransBalkan pipeline.<sup>46</sup> Bulgaria's oil sector is entirely dependent on imports, 80% of which come from Russia. Bulgaria is home to the Balkan's largest refinery operated by the Russian company Lukoil, which plays an important role in diplomatic relations. Crude petroleum is Bulgaria's top import, refined petroleum its top export.<sup>47</sup> Furthermore, Bulgaria imports all its nuclear fuel from Russia, and Russia is also interested in investing in the Belene plant which, if realized, would increase Bulgaria's import dependency.<sup>48</sup>

**Russia's role as an energy security guarantor is geopolitically contested**, but unlikely to change. After the South Stream pipeline between Bulgaria and Russia was cancelled in 2014 due to European opposition, Russia has agreed to Bulgarian requests for a branch of Turkstream (Russia-Turkey) to make landfall in Bulgaria, subject to official European Commission approval. These projects are related to government plans for developing a "Balkan Gas Hub" in Varna. Bulgaria hopes to establish a regional market for the sale and distribution of gas in the country. The Hub would connect gas supplies from Russia and the Caspian Sea to Romania, Greece and Serbia. The concept has been endorsed by the European Commission, the EBRD and the German government but realization is unclear.<sup>49</sup>

**Decreasing energy dependence from Russia is hindered by missing infrastructure.** Projects like the Gas Hub could thus increase Russian energy dominance. For example, Bulgaria is interested in purchasing gas from Israel, but does not have access to a suitable port with LNG import infrastructure, and ideas of an Israel-Bulgaria pipeline are far from being realized.<sup>50</sup> Bulgaria is a **member of the Central and South Eastern Europe Energy Connectivity (CESEC) High Level Group**. Three of seven CESEC gas infrastructure projects are related to Bulgaria (interconnectors to Greece and Serbia, and the phased reinforcement of the Bulgarian grid).<sup>51</sup>

Looking at alternatives, **physical conditions for further development of renewables are good**. Cost-effective wind potential is around 18GW, and solar PV potential is slightly over 6GW, with 80% of the territory being suitable for utilisation of solar energy.<sup>52</sup> With a combination of renewable development, efficiency increases, and production optimization, Bulgaria could make significant progress in reducing its import dependence. Currently, Bulgaria is the **fifth largest exporter of electricity in**

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<sup>46</sup> Center for the Study of Democracy (2014). [Energy Sector Governance and Energy \(In\)Security in Bulgaria](#)

<sup>47</sup> Center for the Study of Democracy (2014). [Energy Sector Governance and Energy \(In\)Security in Bulgaria](#)

<sup>48</sup> Emerging Europe (2018). [Bulgaria must do more to liberalise its energy markets](#)

<sup>49</sup> Deutsche Welle (2018). [Sofia's pipe dreams in the making](#)

<sup>50</sup> Deutsche Welle (2018). [Bulgaria tries to loosen Russian grip with new gas pipeline deals](#)

<sup>51</sup> European Commission (2017). [Energy Union Factsheet Bulgaria](#)

<sup>52</sup> IRENA (2017). [Cost-Competitive Renewable Power Generation: Potential across South East Europe](#). See also Emerging Europe (2018). [Energising Bulgarian Industry](#)

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**the EU.** In 2018, the country exported 14,830m kWh of electricity.<sup>53</sup> The most important export destinations are Greece and Turkey. Improved infrastructure would allow exports to further increase.

## Technology and Innovation

### Summary assessment:

Bulgaria has become a regional leader in outsourced digital services which is a well-paid high-growth sector. However, brain drain and low R&D investment pose major challenges to researchers and entrepreneurs.

### Assessment categories:

Significance to the national interest: **Low**

Alignment with low-carbon transition: **Neutral**

Maturity of the debate: **Low**

Bulgaria is a **regional leader on digital technology** and has been coined the “tech hub of the Balkans”. Once a centre for production of IT hardware for Soviet bloc countries, Bulgaria is now again enjoying a strong growth in the digital sector, with revenues in the software sector growing by 121% over the last five years.<sup>54</sup> The majority of work done by digital technology companies is outsourcing for foreign companies, and 78% of Bulgarian digital SMEs operate on foreign markets.<sup>55</sup>

Overall, the tech industry employs 25,000 people and produces 2.4% of total economic output. Bulgaria has the third highest number of certified IT professionals in Europe.<sup>56</sup> Average salaries in the IT sector are almost four times the overall average salary.<sup>57</sup> 80% of those working in the sector are younger than 35, and Bulgaria has the highest percentage of women working in the ICT sector in the EU.<sup>58</sup> In the tech sector, 45% of jobs are held by women, the second highest rate in the EU.<sup>59</sup> Jobs are, however, concentrated in the main cities, contributing to inequalities between urban and rural areas.

**The lack of skilled workforce is a major issue** and is ranked among the biggest challenges for new companies in Bulgaria. This is largely the result of the country’s

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<sup>53</sup> IndexMundi (2018). **Electricity exports**

<sup>54</sup> Bulgarian Association of Software Companies (2017). **BASSCOM Barometer 2017**

<sup>55</sup> Emerging Europe (2018). **Efficient Innovation: Entrepreneurship in Bulgaria**

<sup>56</sup> BalkanInsight (2018). **Innovation Nation: Ten Tech Startups in... Bulgaria?**

<sup>57</sup> Bulgarian Association of Software Companies (2017). **BASSCOM Barometer 2017**

<sup>58</sup> The Parliament Magazine (2018). **Bulgaria: Dynamic, innovative and entrepreneurial**

<sup>59</sup> BalkanInsight (2018). **Innovation Nation: Ten Tech Startups in... Bulgaria?**



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demographic challenge and brain drain predominantly towards Western countries. 30% of PhD-holding Bulgarians are pursuing careers abroad. This is a major hurdle for innovation, and European authorities withheld a €150m funding payment for R&I in July 2018 after Bulgaria failed to identify a sufficient number of qualified scientists to evaluate the proposals.<sup>60</sup> As a response, there are attempts to stimulate a “brain gain” by attracting skilled young workers from abroad, which is partly successful, as 31% of digital SMEs employ foreign nationals.

**R&D investment is very low but increasing, largely driven by the private sector.** The government aims to increase R&D investment to 1.5% of GDP by 2020. A recent rise in business R&D investment increased overall spending to 0.96% of GDP, but stagnation in public R&D intensity, which is the lowest in the EU, stalls progress.<sup>61</sup> Research cooperation between the public and private sector is rare. A lack of collaboration frameworks hinders knowledge cooperation.

**Bulgaria has demonstrated potential for a domestic solar PV industry and could play a role in various low-carbon supply chains,** including in energy and the automotive sector. Experience with and skills in solar PV could help Bulgaria re-establish its position on the renewable market, for example by selling panels in packages with maintenance to Western European neighbours. This will, however, only be successful with a better regulatory framework for the deployment of low-carbon technologies.

## Finance and Investment

### Summary assessment:

With low public debt, corporate taxes and labour costs, Bulgaria is attractive for FDI. Public investment and the overall economy are however quite dependent on EU funding and neighbouring markets.

### Assessment categories:

Significance to the national interest: **Low**

Alignment with low-carbon transition: **Opposing**

Maturity of the debate: **Low**

**Fiscal policy is consistently tight and prudent, which is accepted by a majority of the public.** The local currency Leva is pegged to the euro and backed up by significant foreign exchange reserves. Public debt declined from 71% of GDP in 2000 to 13% in

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<sup>60</sup> Nature (2018). [Bulgaria in the cold as European Union freezes its innovation funding](#)

<sup>61</sup> European Commission (2017). [Bulgaria: Horizon 2020 Country Performance](#)



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2008. It has now increased to 30% of GDP, driven by the banking crisis. This is still the EU's third lowest government debt rate.<sup>62</sup> The fiscal position is likely to weaken slightly in 2018 and 2019, reflecting plans for the expansion of public investment and rising wages and social assistance payments. However, the lack of improvements in spending efficiency in health, public order, and infrastructure could undermine fiscal consolidation and limit the potential of public spending to enhance growth.

**The banking sector is relatively stable.** The collapse of the fourth largest bank in 2014, caused by fraud and insider abuse, had relatively little effect on the sector. The top five banks (out of 27 banks in total) hold 56% of the assets in the banking system which is relatively low compared to many other EU countries.<sup>63</sup> The country's credit ranking is low compared to most other EU countries, but the outlook has recently improved. It stands at BBB- (S&P)/BBB (Fitch) but the outlook has recently been changed to 'positive'.

At the same time, **poverty reduction is expected to continue at a modest pace.** Sustained improvements in employment and wages, as well as recent increases in the minimum pension, support real incomes and further reductions in poverty. Poverty is projected to fall from 7.5% in 2017 (US\$5.5 per day in 2011 PPP; World Bank) to 7.1% in 2018 and 6.4% by 2020.<sup>64</sup>

**EU funding plays an important role in the country's economy.** Bulgaria will receive ca. €9.9bn from the EU budget in the 2014-2020 Multiannual Financial Framework (MFF) period which is spent on four priority areas: inclusive growth, research and innovation, connectivity and sustainability, and good governance.<sup>65</sup> €568 million are invested into clean energy in the current budget period, and an additional €1,174 million in low-carbon transport.<sup>66</sup> In total, EU funds account for about half of all public investments.<sup>67</sup>

Foreign direct investment (FDI) has decreased significantly compared to EU accession years. **Bulgaria is an attractive country for FDI**, depending on the Euro's performance and the economic situation in other EU countries. One of the lowest corporate tax rates in the area (at 10%) and low labour costs make the country attractive to investors. In 2007, when Bulgaria joined the EU, FDI inflows were at an all-time high of \$12.4bn but dropped to \$1.1bn in 2017.<sup>68</sup>

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<sup>62</sup> Euler Hermes (2018). **Bulgaria Country Report**

<sup>63</sup> Association of Banks in Bulgaria (2018). **The banking system in Bulgaria in 2017**

<sup>64</sup> World Bank (2018). **Macro Poverty Outlook: Bulgaria**

<sup>65</sup> European Commission (2014). **Summary of the Partnership Agreement for Bulgaria, 2014-2020**

<sup>66</sup> European Commission (2017). **Energy Union Factsheet Bulgaria**

<sup>67</sup> European Commission (2019). **Share of Cohesion Policy per member state to public investment**

<sup>68</sup> Santander Trade Portal (2018). **Bulgaria: Foreign Investment**

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**Western Europe is the most important source of FDI**, CEE countries the most important destination. €876m of FDI came from the Netherlands in 2017, though most of this is because Lukoil is registered in the Netherlands, followed by Switzerland (€127m) and Germany (€94m). Outflows to the Czech Republic amounted to €300m, followed by Austria (€143m).

The main **barriers to sustainable energy finance** are a lack of public support and a very uncertain regulatory framework as well as high capital costs for projects. In addition, specific policy barriers such as specific taxes and grid access issues persist.<sup>69</sup> Overall, stakeholders of the low-carbon economy are still relatively weak and sustainable or green finance is not a priority in the domestic debate.

## Public Goods

### Summary assessment:

Social security, health and corruption are major challenges for the country. The ongoing demographic decline poses a major challenge to Bulgaria.

### Assessment categories:

Significance to the national interest: **Low**

Alignment with low-carbon transition: **Divided**

Maturity of the debate: **Medium**

**Health, social security and corruption are seen as the biggest challenge** by the public. However, only 19% of GDP is spent on social protection, compared to an EU average of 28%. 11% of government expenditure is on public health.<sup>70</sup> Nevertheless, Bulgaria's living standards have made considerable progress since joining the EU, with living standards rising from 34% of the EU average in 2007 to 53% in 2016 (in terms of PPP).<sup>71</sup> Bulgaria ranks lowest across the EU countries on the Corruption Perceptions Index.<sup>72</sup>

**Ongoing demographic decline and brain drain pose a major challenge to the country.** The median age has increased from 30 (in 1960) to 42 (in 2012), the EU's third-highest value.<sup>73</sup> Since 1990, Bulgaria has lost more than 1.6 million of its 8.7

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<sup>69</sup> European Bank for Reconstruction and Development (n.d.). **Bulgarian SEFFs Case Study**

<sup>70</sup> Eurostat (2017). **Social protection statistics**

<sup>71</sup> Financial Times (2018). **Bulgaria's economic growth masks need to refresh governance**

<sup>72</sup> Transparency International (2018). **Corruption Perceptions Index**

<sup>73</sup> Republic of Bulgaria (2013). **Sixth National Communication on Climate Change**



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million inhabitants due to low birth rates, high mortality rates, and significant emigration. This demographic decline is accompanied by rapid urbanization, resulting in a depopulation of rural areas. While the overall population decreased, the capital Sofia grew by 200,000 inhabitants to over 1.3 million people.<sup>74</sup> There is a strong rural vs. urban divide with regards to wealth distribution, with people in cities being significantly better off than people in rural areas.

The **unemployment rate is low and decreasing**, currently at 6%.<sup>75</sup> It peaked in 2013 at 13%. Regional unemployment variations are large, resulting in challenges for growth sectors of the economy. Youth unemployment is a particular concern, and Bulgaria has one of the highest shares of young people not being employed or in education/training in the EU, at 23% compared to an EU average of 13%.<sup>76</sup> Notably, Bulgaria is a leader on gender equality in the workplace. It is one in only five countries worldwide where at least 30% of senior management positions are held by women and ranks 45th in the Gender Inequality Index (neighbouring Romania ranks 72nd).<sup>77</sup>

**Concern for tangible environmental problems is present**, for example in cases of natural disasters or the protection of specific nature. This is strengthened by the widespread view that Bulgaria's **nature is connected to the country's national identity** or "Bulgaria's Beauty". Deforestation is the primary public environmental concern, with 73% of Bulgarians expressing their concern, and construction plans in the Pirin National Park have sparked nationwide protests. Over 60% of Bulgarians are concerned about air and water pollution.<sup>78</sup>

**Air pollution levels are dangerously high**, and Bulgaria has the highest rate of premature deaths due to air pollution in the EU (217 deaths per 100,000 people; 13,000 premature deaths per year). Three out of four Bulgarian citizens are exposed to pollution concentrations exceeding EU safeguards.<sup>79 80</sup> In a first-time move, the European Court of Justice (ECJ) reprimanded Bulgaria for breaching EU air pollution rules in April 2017.<sup>81</sup> The main sources of air pollution are old vehicles and the use of solid fuels, such as coal and wood, for heating.

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<sup>74</sup> Neue Zürcher Zeitung (2018). **Die Wanderbewegung von Ost nach West ist Europas verdrängte Revolution**

<sup>75</sup> Trading Economics (2018). **Bulgaria Unemployment Rate**

<sup>76</sup> European Parliament (2017). **The economic, social and territorial situation in Bulgaria**

<sup>77</sup> NewEurope (2016). **Russia tops in female business leaders**

<sup>78</sup> Trend Research Center (2018). **Attitudes of Bulgarians to Environmental Issues**

<sup>79</sup> EurActiv (2018). **Bulgarians denied a say on air pollution**

<sup>80</sup> HEAL (2018). **Air Pollution and Health in Bulgaria**

<sup>81</sup> Reuters (2017). **EU court reprimands Bulgaria over air pollution**

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High air pollution levels have caused an **increase in clean air awareness** in recent years, particularly in the capital Sofia, which is the EU's most polluted capital.<sup>82</sup> The rise in awareness has been driven by the rapid spread of low-cost monitoring stations which have been installed by citizens across the country, making Bulgaria the country with the highest monitoring density worldwide.<sup>83</sup> Air pollution was a priority for the Bulgarian EU Presidency, and air quality has increased since the 2017 ECJ ruling, but major steps, such as addressing air pollution from coal, have not been taken.

However, **concern for less tangible and more wide-ranging environmental problems is significantly lower**. Only 4% of the population claim to be concerned about environmental problems in general, and climate change is essentially a non-issue. When discussed, climate action is seen as the responsibility of government and business, with only 11% of Bulgarians stating that there is a personal responsibility to tackle climate change.<sup>84</sup>

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<sup>82</sup> Climate-KIC (2017). **Clean air and emission abatement solutions wanted for Bulgaria**

<sup>83</sup> Live pollution data can be accessed online on **AirBG**.

<sup>84</sup> European Commission (2017). **Special Eurobarometer 459: Climate change**

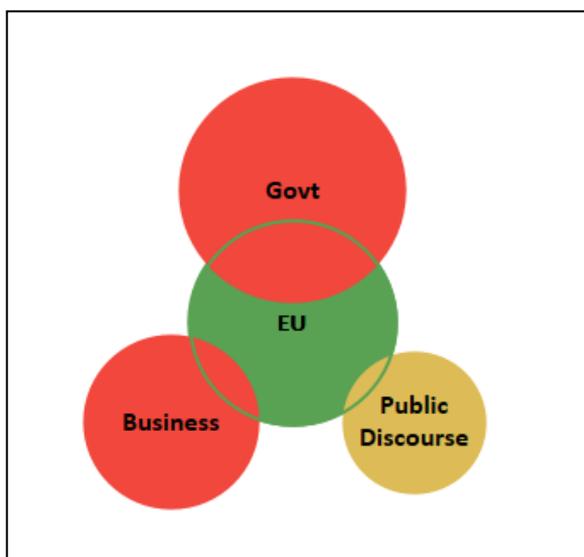
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## BULGARIA'S POLITICAL SYSTEM



**The analysis of the political system is guided by two questions:**

Which actors in the political system are powerful?

Are they supportive or hindering a low carbon transition?

### Basic parameters

Bulgaria is a parliamentary democratic republic. Its unicameral National Assembly (*Narodno Subranie*) consists of 240 deputies who are elected for 4-year terms through a mixed electoral system: 209 members are elected through a proportional representation vote, and 31 majority members are elected individually under the majority representation system in every district. Parliament selects and dismisses government ministers, including the Prime Minister who leads the executive.

Bulgaria's President is directly elected for a 5-year term with the right to one re-election. S/he serves as the Head of State and commander in chief of the armed forces. S/he is unable to initiate legislation but can return bills for further debate. The parliament can overturn a presidential veto with a simple majority vote.<sup>85</sup>

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<sup>85</sup> For more details, see Bulgarian Small and Medium Enterprises Promotion Agency (2018). **Political system**



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## Government and Civil Service

### Summary assessment:

Effectiveness of spending and low administrative capacities are structural roadblocks to progress. The involvement of the UP party is perceived as having strengthened nationalism in government policies.

### Assessment categories:

Level of power and influence: **High**

Alignment with low-carbon transition: **Opposing**

**The government is centred around the Prime Minister, and decision-making is hierarchical.** Cabinet reshuffles are relatively frequent, making long-term decision-making more difficult. All important decisions must be approved by the PM Office, regularly exerting influence on ministerial matters. The last cabinet reshuffle was in September 2018 in response to discussions about road safety following a bus accident. The current prime minister, Boyko Borisov from the centre-right GERB party, is serving his third term.

Borisov stepped down, in November 2016 following the defeat of the candidate he supported in presidential elections, triggering snap elections. GERB nevertheless won 33% of the votes cast in the election in March 2017, forming an alliance with the nationalist United Patriots (UP).<sup>86</sup> Economic growth and a successful EU Presidency were named among the government's key priorities.<sup>87</sup> **The UP's government participation has changed the political landscape**, and in 2017, the UP Deputy Prime Minister Valeri Simeonov was convicted of anti-Roma hate speech. Environment Minister Neno Dimov, who was appointed by the UP, is an outspoken climate denier, but is nonetheless perceived as taking his role seriously.<sup>88</sup> Recently, UP has toned down its language on migration issues, following decreasing public attention for the topic after a border fence was built. **The current President, Rumen Radev, is more actively involved in political decision-making**, and seen as a check and balance to the government. He has actively exercised his veto power and ability to influence public opinion.<sup>89</sup>

**Trust in the electoral process is decreasing.** There is a widespread feeling that voting does not have any impact on the country's power structure. Turnout in elections has

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<sup>86</sup> Freedom House (2018). [Bulgaria Country Profile](#)

<sup>87</sup> Reuters (2017). [Bulgaria's Borisov names new coalition government](#)

<sup>88</sup> Sofia Globe (2017). [Bulgaria's new environment minister in video describing global warming as 'manipulation'](#)

<sup>89</sup> Freedom House (2018). [Bulgaria Country Profile](#)



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strongly decreased, from 84% in 1992 to 54% in 2017. Turnout in European elections is even lower, at 36% (2014) despite overall support of the EU.<sup>90</sup>

**Corruption is a fundamental political challenge.**<sup>91</sup> It is widespread and identified as a key barrier for politics and doing business in Bulgaria.<sup>92</sup> Bulgaria's Schengen accession was blocked by Germany and France in 2010 due to concerns about corruption. The biggest domestic push of the current governing coalition was for the adoption of a new anticorruption law and the establishment of a new anticorruption agency in response to EU recommendations. The initiative was strongly opposed by the opposition and President Radev, who argued that the law was insufficient. It was vetoed by the President after it passed in parliament.<sup>93</sup>

**Close ties between politics and incumbent businesses, in combination with a lack of administrative capabilities in government, result in difficulties in the implementation of long-term policies** and measures. There is a significant brain drain from government to the private sector due to relatively uncompetitive wages. Bulgaria also regularly postpones the implementation of measures required by international commitments, due to a combination of lack of capacity and lobbying efforts. Nonetheless, Bulgaria's EU Presidency was very well administered, and the government was perceived as an active and engaged host for the negotiations. The government is supporting the incumbent energy system. Arrangements around fossil fuels have received continued and structural support from the government. There is only limited support for further liberalization of the energy market or any ambitious energy transition.

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<sup>90</sup> Institute for Democracy and Electoral Assistance (2018). [Bulgaria](#)

<sup>91</sup> BBC News (2018). [Bulgaria profile](#)

<sup>92</sup> Transparency International (2018). [Corruption Perceptions Index 2017](#)

<sup>93</sup> Freedom House (2018). [Bulgaria Country Profile](#)



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## Business

### Summary assessment:

Heavy industry, which played a key role during socialist times, is declining, while the service sector is growing. EU funds are a crucial driver of economic development and growth. The lack of skilled workers is a serious concern.

### Assessment categories:

Level of power and influence: **Medium**

Alignment with low-carbon transition: **Opposing**

**Bulgaria's economic growth has picked up since 2014**, currently at 3.6%, and expected to remain stable.<sup>94</sup> It is largely driven by domestic demand, even though domestic purchasing power is low, at 23% of the EU average. Rising incomes have fuelled consumption increases (incomes increased by 10% between 2016 and 2017).<sup>95</sup>

**EU funds are crucially important for Bulgarian economic development.** Contributions through EU funds account for more than half of annual growth, and there are concerns that Bulgaria will be unable to sustain its current growth rate if EU funds are cut after 2020.<sup>96</sup> Between 2014-2020, Bulgaria received €9.9bn in EU funds, which is over 20% of GDP.

**The service sector is the core of the economy, and its importance is growing.** The formerly important heavy industrial sector is in transformation and decline. Traditionally an agricultural country, Bulgaria became heavily industrialized during the socialist period. The industrial sector continues to depend on heavy manufacturing sectors but is transitioning to medium-size, rapidly growing businesses. Employment in industry is decreasing (from 36% of total employment in 2007 to 29%), while employment in services is increasing (from 57% to 64%).<sup>97</sup> The service sector contributes 67% of GDP, the industrial sector 28%. The mining industry generates 5% of Bulgaria's GDP and provides over 24,000 jobs.<sup>98</sup> Jobs in the service sector in Bulgaria have a better reputation than in most Western European countries.

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<sup>94</sup> World Bank (2018). **Data: GDP growth**

<sup>95</sup> Santander Trade Portal (2018). **Bulgarian Economic Outline**. See also Germany Trade & Invest (2017). **SWOT-Analyse - Bulgarien**

<sup>96</sup> Financial Times (2018). **Bulgaria's economic growth masks need to refresh governance**

<sup>97</sup> World Bank (2018). **World Bank Open Data**

<sup>98</sup> Noinvite.com (2015). **Mining Industry Accounts for 5% of Bulgaria's GDP – Energy Minister**



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**Many Bulgarians have strong backgrounds in engineering, medicine, economics, and the sciences**, but there is a shortage of highly-skilled manual laborers and management professionals. Salary rates are nevertheless the lowest across the EU, with the minimum wage standing at €261 per month. Bulgaria performs poorly on talent management, ranking 118<sup>th</sup> out of 148 for attracting and 119<sup>th</sup> for retaining talent in the World Economic Forum's Global Competitiveness Report.<sup>99</sup> At the same time, youth unemployment is a major problem, as 23% of young people are neither employed nor in education or training, compared to an EU average of 13%.<sup>100</sup>

**The trade deficit is considerable at 6% of GDP.**<sup>101</sup> The overall current account balance is, however, likely to remain in surplus, but narrowly, as trends in net exports are under pressure by macroeconomic factors (e.g. global growth projections and commodity prices). On the other hand, Bulgaria is running a services surplus of 7.4% that is generated by road transport and tourism.<sup>102</sup> International tourism, especially to the Black Sea coast, is important and on a growth path, with the number of international arrivals during the summer season rising by almost a quarter between 2012 and 2016.<sup>103</sup>

**Importance of state-owned companies is limited to a few sectors**, after a major privatization program in the 1990s and early 2000s. Today, the 782 state-owned enterprises account for 13% of GDP, with the most important being the state monopoly in railway infrastructure and infrastructure ownership, as well as large-scale ownership in the energy sector.<sup>104</sup> The central role of state-owned companies in the energy system is a roadblock for further market liberalization. **SMEs play an important role**, accounting for three quarters of employment and two thirds of total value added. However, the business climate for SMEs is weak, especially with respect to innovation and entrepreneurial activity.<sup>105</sup>

The World Bank has named raising productivity and addressing demographic change (see *Public Goods*) as the key challenges facing the Bulgarian economy. Bulgaria's income per capita is the lowest in the EU, and productivity growth is thus critical to accelerate convergence.<sup>106</sup> This goes hand in hand with challenges arising from industrial legacies, the early structural reform period in the 1990s, the financial crisis of 2008, and the political instability of 2013-14.

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<sup>99</sup> World Economic Forum (2017). [The Global Competitiveness Report 2017-2018](#)

<sup>100</sup> European Parliament (2017). [The economic, social and territorial situation in Bulgaria](#)

<sup>101</sup> Coface (2018). [Economic Studies: Bulgaria](#)

<sup>102</sup> Coface (2018). [Economic Studies: Bulgaria](#)

<sup>103</sup> European Commission (2018). [Bulgaria 2017 SBA Fact Sheet](#)

<sup>104</sup> Institute for Market Economics (2016). [Exploring the Financial State of Bulgarian SOEs](#)

<sup>105</sup> European Commission (2018). [Bulgaria 2017 SBA Fact Sheet](#)

<sup>106</sup> World Bank (2018). [The World Bank in Bulgaria](#)

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## Public discourse

### Summary assessment:

Quality of public debate and press freedom are under pressure. Civil society has relatively limited access to political decision-making. Climate politics receive little attention.

### Assessment categories:

Level of power and influence: **Medium**

Alignment with low-carbon transition: **Divided**

**Press freedom is under pressure and coverage is polarized**, especially due to the ownership structure of the media. Bulgaria ranks lowest relative to the rest of the EU in the Press Freedom Index, ranking 113th in 2016, down from rank 35 in 2007.<sup>107</sup> This is mainly due to the strong concentration in the media sector, close ties of media companies with business and politics, and a lack of transparency of funding sources. Most notably, Delyan Peevski, who is also an MP for the centrist DPS party, owns six newspapers, controlling nearly 80% of print media distribution.<sup>108</sup> Dissemination of disinformation and “fake news” is increasing, particularly through online media and social networks.

**Migration has been an important topic in the political debate, but attention has recently shifted toward other issues.** In the last elections, migration was a central topic, with approximately 117 news articles being published per day.<sup>109</sup> Today, however, migration into the country is practically non-existent and emigration is a big issue - only 691 out of 5,190 places in refugee centres are used.<sup>110</sup> Social and economic issues are now back in the spotlight of public debate. Nevertheless, hate speech is becoming an increasingly frequent phenomenon. This is leading to an increase in the number and visibility of acts of hatred and discriminatory acts against vulnerable groups, in line with trends in many other countries worldwide.<sup>111</sup> The government has also decided to not join the UN’s Migration Compact in 2018.<sup>112</sup>

**Climate, in contrast to energy politics, receives little attention in the media.** Energy prices are among the headline topics in the media, but climate issues are rarely

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<sup>107</sup> Reporters Without Borders (2018). **World Press Freedom Index**

<sup>108</sup> EurActiv (2018). **Bulgaria is last on media freedom in EU and in the Balkans**

<sup>109</sup> Freedom House (2018). **Bulgaria Country Profile**

<sup>110</sup> Friedrich-Ebert-Stiftung (2018). **Polit-Barometer: The political parties in Bulgaria**

<sup>111</sup> USAID (2017). **2016 CSO Sustainability Index**

<sup>112</sup> Reuters (2018). **Bulgaria becomes latest EU state to shun U.N. migration pact**



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covered, in line with the public's low awareness on climate change. If climate-related issues are covered, the media focuses on natural disasters and air pollution issues.

**Participation in civil society organisations is low**, with only 20% of the population being a member of any type of organisation, including sports clubs, trade unions, and political parties. The public image of civil society organisations is concerning, as only a third of the population trusts NGOs. However, this value is still higher than public trust in political parties or the government.<sup>113</sup> Conditions for civil society are still acceptable, even though there are signs of deterioration. Currently, large parts of civil society are not perceived as being influential enough to become a target of large-scale opposition from ruling parties or the media. However, some media is already targeting civil society organisations, and insufficient access to funding remains a serious issue. Environmental NGOs are largely funded by foreign bodies due to a lack of domestic financial support for institutionalized civil society.<sup>114</sup> **Public opinion on environmental groups is relatively good** based on their perception as one of the few stakeholders speaking out against structural ties of politics and business. This gives them additional weight through linkages to overarching political topics such as corruption.

## European Union

### Summary assessment:

Bulgarians see the EU positively, but the country has little influence in Brussels and is still trying to become a fully accepted and integrated part of the EU. The country's first EU Presidency in 2018 has generally been viewed as a success.

### Assessment categories:

Level of power and influence: **High**

Alignment with low-carbon transition: **Supportive**

**Bulgaria joined the EU in 2007.** In the 1990s and 2000s, the accession process provided an impetus for political and economic reforms. However, in 2004, when most other post-Communist countries joined the EU, Bulgaria (alongside Romania) failed to meet the requirements and was confronted with special monitoring until its accession in 2007. It is, together with Romania, still subject to the Commission's "Cooperation and Verification Mechanism" that is tracking progress on implementing EU requirements in the country.

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<sup>113</sup> USAID (2017). **2016 CSO Sustainability Index**

<sup>114</sup> Cultures of History Forum (2017). **Illiberal Consensus without an Authoritarian Core: The Case of Bulgaria**



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**Public opinion of the EU is positive.** Many citizens trust the EU more than domestic politicians, and Bulgaria ranks second among EU countries for trust in Brussels.<sup>115</sup> The government actively works towards good relations with Brussels and Berlin, as it is understood that Bulgaria's modernization partly depends upon being an accepted partner in the EU. Even the UP has toned down their rhetoric since joining government so as not to alienate European partners.

During the first half of 2018, **Bulgaria held the EU Presidency for the first time.** Its four high-level priorities were (1) Economic and Social Cohesion, (2) Stability and Security of Europe, (3) Western Balkans, and (4) Digital Economy and Skills.<sup>116</sup> The focus on digital economy reflected Bulgaria's booming tech industry and the fact that the current EU Commissioner for Digital Economy and Society is Bulgarian. Overall, the Bulgarian EU Presidency has been judged positively. The most substantive success for Bulgaria was that the Western Balkans issue, which was long absent from high-level forums, was back on the agenda, highlighted by the EU-Western Balkans summit in May 2018. This success was made possible both by Bulgaria's good bilateral relations with Balkan countries as well as fears of increasing Russian, Chinese and Turkish influence in the region. During the early phase of the Presidency, Bulgaria also positioned itself against the Visegrád states by attempting to bring the issue of refugee allocation quotas on the agenda.<sup>117</sup> In clean energy negotiations during its Presidency, Bulgaria was perceived to be an honest broker. The 32% renewable target was adopted in June 2018 shortly before the end of the Presidency, with the Bulgarian government tabling targets above the ones agreed on in earlier meetings, as government changes in Spain and Italy changed the political circumstances.<sup>118</sup>

In general, however, **Bulgaria plays a reactive role at the EU level.** It lacks the resources and political influence to advance its political interests in Brussels, and rarely obstructs measures. EU environmental legislation is mostly implemented, though there are asks for derogation and serious problems regarding compliance. Its lack of political leverage in the EU is particularly striking in foreign policy: Despite its geographic exposure, being next to the Western Balkans and Turkey, and being close to Russia and Ukraine, Bulgaria has rarely been on the forefront of major decisions or policies affecting these countries. Overall, Bulgaria is still fighting to become a fully accepted and integrated member of the EU. It remains the least responsive member state to inquiries about common positions from other members.<sup>119</sup>

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<sup>115</sup> CNBC (2018). **Amid Brexit and rising populism – there's a European country that's still desperate to join the euro**

<sup>116</sup> Bulgarian Presidency of the Council of the European Union (2018). **Programme**

<sup>117</sup> Friedrich-Ebert-Stiftung (2018). **Polit-Barometer: The political parties in Bulgaria**

<sup>118</sup> EurActiv (2018). **EU strikes deal on 32% renewable energy target and palm oil ban after all-night session**

<sup>119</sup> European Council on Foreign Relations (2018). **Bulgaria: The unforeseen effects of the Presidency**



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**Bulgaria meets the formal requirements for joining Schengen and is soon eligible to become a Euro zone member but is not yet part of either.** Though the Commission has confirmed that Bulgaria fulfils the technical requirements for Schengen accession, member states (especially France and Germany) have blocked it, mainly due to concerns about misuse of spending and the management of border control.<sup>120</sup> Bulgaria also fulfils most criteria for joining the Euro, and Commission President Juncker has announced his support for a Bulgarian Euro application, but member states, which see Euro zone membership as a political step as much as an economic step, are more sceptical.<sup>121</sup>

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<sup>120</sup> Deutsche Welle (2018). **Bulgaria and Romania push to join EU's Schengen Area**

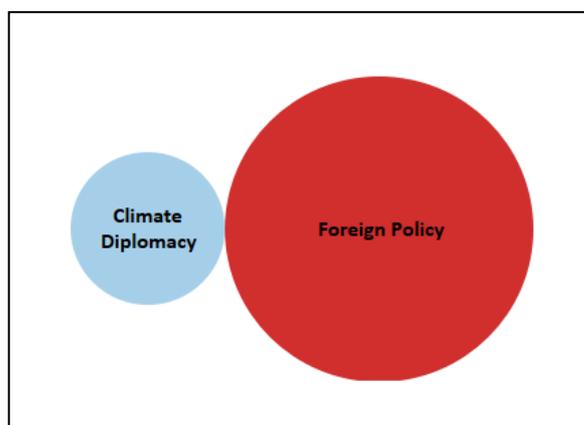
<sup>121</sup> CNBC (2018). **Amid Brexit and rising populism – there's a European country that's still desperate to join the euro**

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## BULGARIA'S EXTERNAL PROJECTION AND CHOICE



**The analysis of the external projection and choice is guided by three questions:**

How engaged is a country in foreign policy and climate diplomacy?

Is this engagement supporting or hindering a low carbon transition?

How mature is the debate on the low carbon transition?

### Foreign Policy

#### Summary assessment:

Western countries are important partners mainly due to their impact on Bulgaria's economic development, while strong energy supply and historical links connect the country to Russia. The European integration of Western Balkan countries is the primary foreign policy priority.

#### Assessment categories:

Level of engagement: **High**

Alignment with low-carbon transition: **Opposing**

Maturity of the debate: **High**

**Bulgaria is a member of the Western alliance**, having joined NATO in 2004 and the EU in 2007. Accession to Schengen and the Euro zone are foreign policy priorities. Nevertheless, the country is reliant on both Russia and the West, and in many ways split between the two. NATO guarantees Bulgarian security and the EU advances its economic development, but Russia is important for its energy security and supporting existing energy infrastructure, in addition to strong historical ties between the two countries.<sup>122</sup> Many Bulgarians still have favourable views of Russia due to the country's victory over the Ottoman empire in the late 19<sup>th</sup> century which enabled Bulgarian independence.<sup>123</sup> Russian influence on Bulgaria is significant, with the Centre for Strategic and International Studies stating that Bulgaria is in an "advanced

<sup>122</sup> Foreign Policy Research Institute (2017). **Bulgaria's Presidential Election: Uncertainty Looms**

<sup>123</sup> Foreign Policy (2015). **Sofia's Choice**



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stage of state capture” by Russia.<sup>124</sup> Bulgaria refused to expel Russian diplomats following the poisoning of Sergei Skripal in the UK.<sup>125</sup> 30% of Bulgarians supported pro-European forces in Ukraine in 2014, while 27% supported an increasing orientation towards Russia. However, the government ultimately supported the EU’s stance on Crimea.

**The European integration of the Western Balkan countries is Bulgaria’s primary foreign policy priority**, and the country is a strong advocate for improved economic cooperation in South East Europe. One of the most important components of this is the development of transport and, increasingly, nuclear and fossil energy infrastructure. The most important success for Bulgaria during its EU Presidency was that it placed its national priority of an accession perspective for Western Balkan states on the European agenda.<sup>126</sup>

## Climate Diplomacy

### Summary assessment:

Bulgaria is not actively engaged in climate diplomacy. It opposes more ambitious climate targets at the EU level.

### Assessment categories:

Level of engagement: **Low**

Alignment with low-carbon transition: **Neutral**

Maturity of the debate: **Low**

**Bulgaria is not an active climate diplomacy player** and not engaged in global climate politics unless EU meetings require such conversations. It is an Annex I party to the UNFCCC but accepts financial and technological support as an “economy in transition”. It is not an important participant in climate finance schemes, and pledged US\$100,000, the minimum amount, for the Green Climate Fund during COP21 in 2015.<sup>127</sup> At COP24 in 2018, it opposed more ambitious climate targets.<sup>128</sup>

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<sup>124</sup> Center for Strategic & International Studies (2016). **The Kremlin Playbook**

<sup>125</sup> Sofia Globe (2018). **Salisbury attack: Bulgaria will not expel Russian diplomats, PM says after Cabinet security council meeting**

<sup>126</sup> BalkanInsight (2017). **Macedonia, Bulgaria Sign Landmark Friendship Treaty**

<sup>127</sup> Green Climate Fund (2015). **GCF Dispatch: December 2015**

<sup>128</sup> Noinvite.com (2018). **Bulgarian President Radev: If we Want Green Energy, Europe Should not Interfere with Russian Gas Supplies to Bulgaria**



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**Bulgaria does, however, actively oppose more ambitious EU emission reduction targets**, largely in line with those of other Central Eastern European countries.<sup>129</sup> Its lobbying for short-term domestic interests in EU climate negotiations stands in contrast to Bulgaria’s approach during its EU Presidency, where it was perceived as an honest broker and facilitated more ambitious renewable targets. **Bulgaria has potential to be an important regional player on energy policy**, for example through deeper cooperation on energy infrastructure through the EU’s “Eastern Partnership”.

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<sup>129</sup> Bertelsmann Stiftung (2015). **Sustainable Governance Indicators: 2015 Bulgaria Report**

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## ANNEX – DATA SHEET: BULGARIA

<b>General data</b>	
Population (2017)	7.1 million
GDP per capita (2017, current prices)	€6,900
Corruption Index (0 = highly corrupt, 100 = very clean)	43 in 2017, 41 in 2016
Democracy Index (ranking of 167 countries)	46 in 2018 (“flawed”)
Value added per sector (% of GDP, 2016)	4.7% Agriculture 28.3% Industry 16.6% Manufacturing <sup>130</sup> 67% Services
<b>Allocation and use of EU Funds (2014-2020)</b>	
Total allocation of European Structural Investment Funds	€9.9 billion
Planned investments in energy efficiency and renewables	€0.56 billion
EU Cohesion Policy Investments as share of public investment (2015-2017)	48.5%
<b>Energy statistics</b>	
Gross inland energy consumption (2015)	9.96 Mtoe
Electricity generation (2015)	49.23 TWh
Electricity mix (2015)	12.5% Hydro 2.9% Wind 2.8% Solar PV 45.7% Coal 3.8% Gas 31.2% Nuclear 1.1% Other
Energy intensity	0.34 TPES/GDP
Energy poverty (inability to keep home adequately warm)	30% of population
Employment in coal sector (2018)	11,800 in mines and 2,700 in power plants
Cost-competitive renewable energy potential	18 GW wind, 6 GW solar PV, 1.6 GW hydro, 1 GW biomass
<b>Sources:</b> World Bank (2018, 2018), Transparency International (2018), EIU (2019), European Commission (2014, 2017, 2018, 2019), IEA (2018), INSIGHT_E (2015), IRENA (2017)	

<sup>130</sup> Manufacturing value added is a subset of industry.