BRIEFING PAPER MARCH 2017

ENERGY-SYSTEM TRANSFORMATION IN CENTRAL AND EASTERN EUROPE

COUNTRY BRIEFING: BULGARIA

Bulgaria's stance on EU climate and energy policy

Bulgaria is generally passive in terms of EU climate and energy policy although it does form part of the pro-coal coalition led by Poland. Bulgarian governments have been critical of the EU in the past, but the political leadership is interested in maintaining good ties with Brussels.[1]

The snap parliamentary elections in Bulgaria on 26th March 2017 confirmed the Government of the former leader, Boiko Borisov, and his European Development of Bulgaria (GERB) party. This suggests that Bulgarians still see their future lying with the EU. Since the country is still strongly influenced by Russia on multiple levels, including with regard to its behaviour towards the EU, the pro-Russian Socialist BSP, had seemed a possible winner of the elections. However, two gas supply disruptions in recent years have resulted in a greater wish to 'Europeanise', not only in terms of energy policy.[2] Despite the connection to Russia, Euroscepticism is generally not as strong in the government or the public as in other CEE countries. [3] The upcoming Bulgarian presidency of the Council of the EU in 2018 can be expected to strengthen the country's EU-level positioning.

Bulgaria plays a reactive role at the EU-level. It rarely obstructs measures, although it does emphasise that it should be granted exemptions from environmental obligations and energy-sector regulations as it is the EU's poorest member state. Generally, Bulgaria sides with other CEE member states in their opposition of the most ambitious EU emissions targets.[4] Nonetheless, EU initiatives regarding climate or energy policy have been at least nominally incorporated in the domestic policy agenda.[5]

Key political economy insights on Bulgaria

The snap elections on 26th March 2017 confirmed the Government of the former leader, Boiko Borisov, and his European Development of Bulgaria (GERB) party. The pro-

[1] **Carnegie Europe** (2015)

[2] **Maltby** (2015)

[3] **EU-28 Watch** (2014)

[4] **Bertelsmann Stiftung** (2015)

[5] **Aspen Institute** (2012)

General data

Population (2015)	7.2 million
GDP per capita (2015, current prices)	€6,300
Corruption Index (0= highly corrupt, 100= very clean)	41 in 2016, 41 in 2015
Democracy Index (ranking of 167 countries)	47 in 2016, 46 in 2015

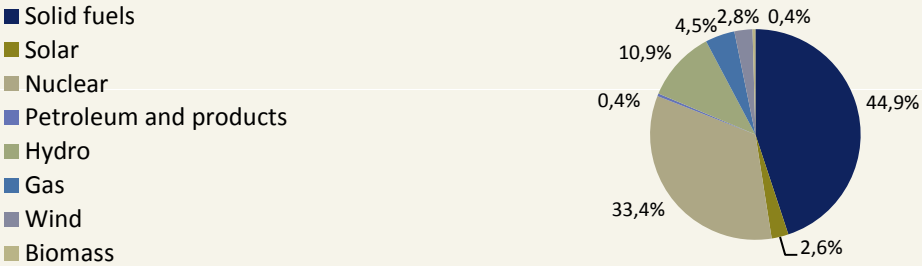
Value added per sector (% of GDP)

Allocation and use of EU Funds (2014-2020)

Total allocation of European Structural Investment Funds	€9.9 billion
Allocation to low-carbon economy objective	€1.18 billion
EU Cohesion Policy as share of public investment (2007-2014)	39%

Energy statistics

Gross inland energy consumption (2015, ktoe)	18,511
Electricity generation (2015, TWh)	47.49



Energy intensity (2015, kgoe/1000€)	448.5
Energy poverty (inability to keep home adequately warm)	46%
Employment in coal sector (2015)	11,765 direct in lignite mining, 46,851 in related activities
Renewable energy capacity of individuals, collectives, public entities and small enterprises (2015)	677 MW wind, 23 MW biomass, 1,013 MW solar
Renewable energy potential	3,400M W wind, 103,600 MW solar PV, 3,700 MW biomass, 755 MW small hydro

Sources: **Eurostat** (2016), **TI Corruption Perception Index** (2016), **EIU Democracy Index** (2016), European Commission **(2013**, **2014, 2016)**, **Bankwatch** (2016), **BPIE** (2015), **Euracoal** (2017), **CE Delft** (2016), **UNDP** (2014), **UNIDO & ICSHP** (2013), **EAD** (2015)

Russian Socialist Party BSP which had promised to revive projects for a Russian gas pipeline and a 2 GW nuclear power plant if elected[6] had to concede defeat.

Press freedom in Bulgaria is under attack as many journalists face threats from politicians and powerful business interests. Furthermore, news outlets are dependent on major advertisers and owners with political agendas.[7] This climate inhibits a pragmatic public debate on climate policy and the future of the energy sector in the country.

Overall, the government prioritises large-scale energy projects such as nuclear and coal power plants, oil and gas pipelines as well as the exploration of gas reserves in the Black Sea. Alternatives such as renewable energy or energy efficiency measures which could bring about substantial savings are widely neglected. The implementation of existing EU legislation in Bulgaria is rather poor. Moreover, a lack of reliable data and statistics on the wider economy and the energy sector in particular are making it difficult to build a case for the implementation of more ambitious and progressive climate and energy policies.

When it comes to renewables, the Bulgarian experience is similar to that of the Czech Republic. An early national Feed-in-Tariff was introduced in 2009, but did not take into account technological improvements and the price drop in renewable energy installations. This led to a solar and wind power boom, allowing the country to meet its EU 2020 renewables targets in 2013.[8] At the same time, the costs grew out of control, contributing to a €1.65bn deficit for the national electricity company NEK and sparking societal tensions over high and rising electricity prices. As a result, the feed-in tariff for new projects was abolished in 2013, only to be reinstated in March 2015 in a much more limited version. Today, only certain types of biomass power plants as well as installations below 30kW are eligible for the support scheme.[9] Furthermore, a retroactive tax of 5% on electricity generators was introduced which includes renewable energy producers.[10]

In 2014, almost half of the Bulgarian population was considered energy poor with 46% of all households unable to heat their homes adequately in winter and 40% to 50% unable to cool them in summer[11]. Nearly 40%[12] of all households have electric heating, which produces an excessive amount of emissions given the high reliance on coal in the

[6] **Bloomberg** (2016)

[7] **Freedom House** (2016)

[8] **Enerdata** (2015)

[9] **IEA** (2015)

[10] **IEA** (2015)

[11] **INSIGHT_E** (2015)

[12] **Euroheat & Power** (2015)

country's electricity mix. For comparison, the EU average is just under 9%.[13] Moreover, Bulgaria has the highest energy intensity of all EU member states.[14] Even though both industry and residential housing show significant potential for energy savings,[15] and the government has clearly put effort into realising these savings, Bulgarian energy efficiency programs stay far below their potential.

Bulgaria has introduced a range of energy efficiency measures, such as eco-design requirements, energy labelling, loans for efficient appliances and energy audits of companies. A range of publicly funded programmes for energy efficiency exist.[16] For instance, the Bulgarian Energy Efficiency Fund, established in 2004, has financed over 100 energy efficiency projects in the period up to 2011. In 2011, the fund was reoriented to cover also renewable energy installations and rebranded as the Energy Efficiency and Renewable Energy Source Fund.[17] However, the fund has accessibility issues because of high interest rates, and it faces competition from various other programmes which cannibalise each other, such as the National Renovation Programme which offers renovation for free, albeit at low quality. Moreover, there are severe problems in monitoring and quality control, e.g. regarding the materials used or the quality of the work undertaken. The main criterion in public procurement for energy efficiency improvements is the price, rather than energy savings or avoided emissions.

Municipalities are more open to the idea of promoting energy efficiency and a low-carbon transition in general. Municipalities have the competences to realise energy savings and are mandated by the Energy Efficiency Act to prepare municipal energy efficiency plans.[18] The Bulgarian Energy Efficiency Fund allocates 49% of its loan portfolio to municipalities, which is the largest amount compared to other groups.[19] However, corruption in the use of public funds holds back the transformational potential of these resources as it siphons off large sums of money and prevents the implementation of green procurement rules. Municipalities also show little initiative in extending energy efficiency loans to local citizens. Historically, there has also been a significant brain drain from municipal governments to the private sector, leading to overall weak capacity of municipal administrations.

Bulgaria relies heavily on coal, which constitutes around 36% of primary energy supply[20] and 44% of the power mix, with plans to further expand existing lignite mines. Bulgaria's coal sector is almost exclusively lignite-based. Corruption and close connections between mine operators and political decision-makers in mining regions are preventing the discussion of a coal phase-out. Furthermore, the coal sector is crucial for providing employment, with the company MMI constituting the biggest employer

[13] **ECOFYS** (2016)

[14] **Grantham Research Institute** (2015)

[15] **World Bank** (2016)

[16] Ibid.

[17] **http://ccap.org/assets/CCAP-Booklet_Bulgaria.pdf**

[18] **Grantham Research Institute** (2015)

[19] **http://www.res-legal.eu/search-by-country/bulgaria/single/s/res-hc/t/promotion/aid/loan-bulgarian-energy-efficiency-fund-bgeef/lastp/111/**)

[20] **Euracoal** (2017)

in Bulgaria.[21] However, salaries are often not paid on time and workers struggle to pay their bills. Little thought is given to how these regions can prepare for a post-coal economy. At the same time, maintaining Bulgaria's coal sector will be extremely difficult. The sector is plagued by inefficient production and debt. While the phase-out of hard coal mining subsidies will not impact Bulgaria greatly, incoming air pollution controls under the Industrial Emissions Directive (IED) will require expensive retrofits to virtually all Bulgarian power plants, putting additional pressure on the sector.

Bulgaria's geographical and ideological proximity to Russia constitutes a major obstacle for progressive energy policy in the country. More than 70% of domestic energy demand is met by Russian imports; most notably oil, but also nuclear fuel and to some extent coal.[22] However, nowadays, the country is much less dependent on gas imports than other CEE countries. Gas only covers 2.9% of the energy supply, largely due to the high share of electricity-based household heating.[23]

The transportation of goods and passengers has been moving steadily from rail to roads in the last two decades. The Bulgarian government significantly reduced subsidies for railway transport and closed various routes[24], giving the impression that state railways are very low on the priority list. In urban areas, cars are continuously prioritised for example through low taxes on vehicle ownership or transport fuels; thus, the transport sector is responsible for a sizeable amount of Bulgaria's overall emissions.[25] Public transport, cycling and walking have increased almost exclusively under public pressure.

The impacts of climate change are increasingly being felt, however, which is beginning to have an impact on the public debate. In recent years, the country has increasingly been experiencing weather extremes such as more droughts, floods or severe weather events such as hale storms.[26] These extreme weather events pose risks to livelihoods, and have been responsible for damages to agriculture and infrastructure.

[21] **Euracoal** (2017)

[22] **Bulgarian Government** (2011); **Financial Times** (2016)

[23] **Grantham Research Institute** (2015)

[24] **Grantham Research Institute** (2015)

[25] **European Environment Agency** (2014)

[26] **Grantham Research Institute** (2015)

Political Recommendations

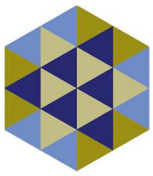
> **Promote energy efficiency and decentralisation:** Given the high levels of energy poverty as well as the high cost of utility bills in Bulgaria, there is great potential in developing a narrative that emphasises energy savings and that pays close attention to policy design to protect energy poor households. Due to the poor level of insulation of buildings, considerable savings could be made through better implementation of energy efficiency/retrofitting measures whilst simultaneously reducing the number of households experiencing extreme cold or heat. Along these lines, the case needs to be made for a decentralisation of the energy system, as energy generation at the household or municipal level can provide electricity more cheaply than the current system. Furthermore, this would enhance Bulgaria's energy independence and thereby reduce the need for energy imports – especially from Russia whose influence is felt in many spheres in Bulgaria.

> **Improve transparency and accountability of government:** The high prevalence of corruption in public procurement and the use of public funds hamstrings any attempt to promote low-carbon projects. This is particularly problematic in energy efficiency, where there is clearly a public interest case due to the large energy savings potential in the economy. Efforts to promote government accountability and transparency, e.g. in cooperation with German anti-corruption experts, could help existing programmes go much further.

> **Promote a just transition:** Due to the heavy reliance on lignite and the amount of jobs it provides, a just transition narrative has the potential to give the public debate on coal a new impetus. The coal sector also seems increasingly corrupt and unsustainable, and workers are facing issues with regular pay. A narrative which takes this into account and points towards economic alternatives for coal regions could help unlock a more constructive debate, especially at the local level. Media and research activities on the future of coal regions, as well as stakeholder outreach by environmental groups would be a good first step towards this.

> **Monitor and enforce implementation of the EU Industrial Emissions Directive:** The IED will require practically all Bulgarian power stations to retrofit expensive air pollution control equipment, or shut down under a transitional plan. Besides bringing cleaner air, this will put enormous pressure on the country's coal sector and could directly lead to the closure of several coal power plants. While disruptive, this will further open space to debate alternatives to coal, including renewable energy and energy efficiency. Helping civil society monitor and enforce IED implementation, including by bringing court cases against non-compliant coal power plants, should thus be a priority.

> **Promote good journalism and research:** Promoting fact-based as well as reliable journalism is key to ensuring a well-informed public debate on climate and energy



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issues. While difficult in the current political climate, raising awareness of key climate and energy facts will help provide a factual basis for the low-carbon transition, both in terms of policy and public opinion. It is important to avoid any appearance of outside interference in this regard.

> **Ensure that electricity heating is not replaced by gas:** By promoting a transition away from coal in energy generation, it can be assumed that the government or energy sector may seek to move towards a larger share of natural gas in heating instead, especially as imports of gas from Russia can easily be increased. However, it is important that electricity remains the main source of household heating and renewable are expanded to be able to cover heating demand and bring down the country's emissions. There is an opportunity to make the case for a renewables-based heating system instead of increasing reliance on Russian gas.

About CEE Bankwatch

CEE Bankwatch was founded in 1995. It is one of the largest networks of civil society organisations in Central and Eastern Europe. Bankwatch is currently active in 12 countries in the CEE and beyond. Bankwatch analyses and observes international development finance and the activities of international financial institutions. The organisation advises decision makers on sustainable development, environmental policy, transparency and social justice. Bankwatch is one of the leading organisations working on climate policy in CEE, and has excellent networks among decision makers, as well as industry, academia and civil society stakeholders.

More information is available at **http://bankwatch.org/**

About E3G

E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development. 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.

More information is available at **www.e3g.org**

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