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THE KREMLIN PLAYBOOK

UNDERSTANDING RUSSIAN INFLUENCE
IN CENTRAL AND EASTERN EUROPE

PROJECT DIRECTORS

HEATHER A. CONLEY

RUSLAN STEFANOV

AUTHORS

HEATHER A. CONLEY

JAMES MINA

RUSLAN STEFANOV

MARTIN VLADIMIROV

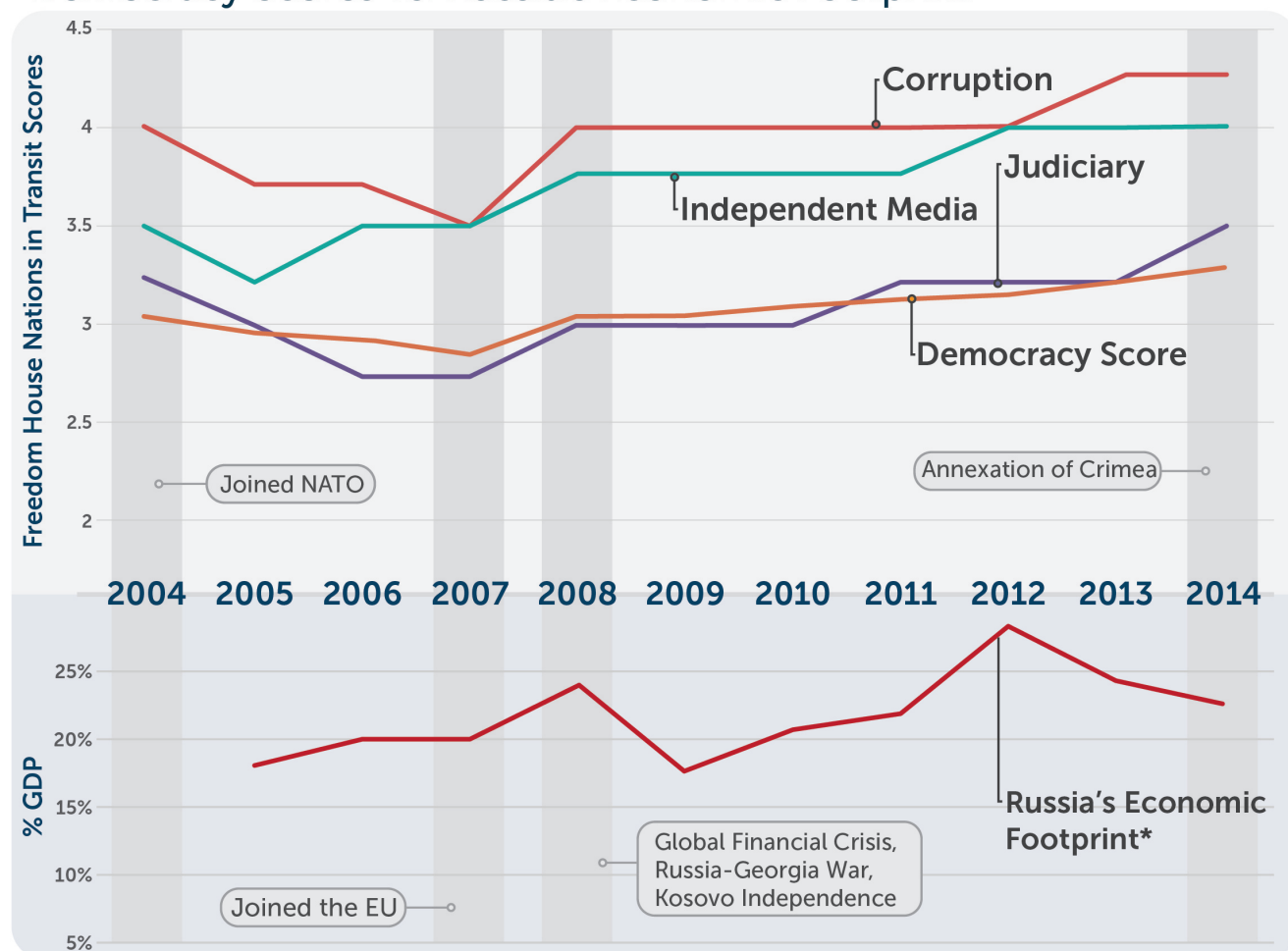
A REPORT OF THE
CSIS EUROPE PROGRAM AND THE CSD ECONOMICS PROGRAM

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BULGARIA: WHAT STATE CAPTURE LOOKS LIKE

Figure A.2. Bulgaria

Democracy Scores vs. Russia's Economic Footprint



Source: Freedom House, CSD Calculations

Economic Data

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
FDI stock from Russia as share of GDP (%)	0.8	0.9	1.6	2.2	2.8	3.2	3.6	4.3	4.3	4.4
Operating Revenue of Russian Controlled Companies as a share of Total Operating Revenue for the Economy (%)	5.4	9.1	7.8	8.2	6.4	7.0	7.9	8.5	7.4	6.6
Oil and Gas imports from Russia as a share of GDP (%)	9.4	11.1	10.8	11.7	6.9	8.6	9.4	12.0	10.7	12.2
Exports to Russia as a share of GDP (%)	1.3	1.5	2.4	2.7	2.5	2.8	2.7	2.7	2.6	1.2
*Russia's Economic Footprint	16.9	22.7	22.7	24.8	18.5	21.6	23.5	27.5	24.9	24.4

Source: CSD Calculations based on data from EUROSTAT, National Central Banks, and Corporate Registers and Databases.

Few European countries are as closely interconnected historically, culturally, and economically to Russia as Bulgaria. A Slavic, Orthodox nation that largely owes its independence to the support of the Russian czars during the twilight of the Ottoman era, Bulgaria's relationship with Russia dates back centuries and its bond only grew stronger during the Soviet era, going as far back as the Bulgarian leader Todor Zhivkov, who repeatedly sought to make Bulgaria the 16th Soviet republic. Despite membership in NATO (2004) and the European Union (2007), Bulgarians remain largely sympathetic toward Russia. As the case in Slovakia shows, for many Bulgarians, being both pro-European and pro-Russian is not mutually exclusive but a national necessity that has manifested itself in the country's policies.

Bulgaria's high exposure to Russian influence, however, seems to have had greater negative side effects, most significantly in Bulgaria's energy policy decisions. These linkages provide the Kremlin with considerable leverage over current and future decisionmaking in Sofia and are a reason for concern about Bulgaria's future policy orientation. Russia engages in political opportunism, shifting its attention to newly popular parties when old allies decline in importance.

There does not appear to be a single, primary driver of Russian political influence in Bulgaria but rather an interplay of reinforcing networks of influence that range from corrupt politicians and like-minded political parties to energy majors and Bulgarian oligarchs. Politically, the Kremlin's closest ally in Bulgaria is Ataka ("Attack"), a far-right, ultranationalist, xenophobic party. Rising to prominence in 2005 amid widespread frustration over national stagnation, Ataka calls for Bulgaria to repudiate its Euro-Atlantic trajectory and to embrace Moscow. In 2014 party leader Volen Siderov launched Ataka's European parliamentary election campaign in Moscow, accusing the United States of instigating "a third World War,"¹⁵ urging the Bulgarian government to say "no to EU homosexuality," and urging Bulgarians to remember that "it is Mother Russia that liberated us." U.S. diplomats have stated that Ataka works closely with the Russian Embassy in Sofia.¹⁶ Ataka was once the fourth largest party in the Bulgarian Parliament, but support for Ataka began to decline in 2014.

The most prominent pro-Russian group, however, is still the mainstream Bulgarian Socialist Party (BSP)—the successor to the Communist Party, which is also the second biggest party in Parliament and leads the opposition. It is important to distinguish that, unlike Ataka, BSP is not anti-European—in fact, it was the socialist government of Prime Minister Sergei Stanishev that brought Bulgaria into the European Union in 2007. The party has found it difficult to condemn Moscow over its actions in Ukraine (as recently as June 2016, BSP leader Kornelia Ninova called for sanctions against Russia to be lifted while attending a United Russia congress),¹⁷ but at the same time BSP signed an association agreement with an increasingly suppressed Russian opposition in April 2016.¹⁸

15. Griff Witte, "Putin Could Be a Winner in European Parliamentary Vote if Far Right Gains Ground," *Washington Post*, May 19, 2014, https://www.washingtonpost.com/world/putin-could-be-a-winner-in-european-parliamentary-vote-if-far-right-gains-ground/2014/05/18/4de276e9-9ee3-4366-9102-81e91e03f182_story.html.

16. Embassy Sofia, "Progress on U.S. Military Access, but Tough Issues Remain," WikiLeaks Cable: 05SOFIA1796_a, October 17, 2005, https://wikileaks.org/plusd/cables/05SOFIA1796_a.html;

17. Georgi Gotev, "Bulgarian Socialist Leader Meets Blacklisted Senior Russian Official," EurActiv, June 28, 2016, <https://www.euractiv.com/section/global-europe/news/bulgarian-socialist-leader-meets-blacklisted-senior-russian-official/>.

18. "Bulgarian Socialist Party Signs Co-operation Agreement with a Just Russia Party," *Sofia Globe*, April 23, 2016, <http://sofiaglobe.com/2016/04/23/bulgarian-socialist-party-signs-co-operation-agreement-with-a-just-russia-party/>.

The ethnic-Turkish party, Movement for Rights and Freedoms (MRF), and the relatively new center-left Alternative for Bulgaria (ABV) have both voiced support for Russian policies, particularly related to Russian-led energy deals. This has led to a strange political coalition of sorts that has led a Bulgarian parliamentarian to suggest that BSP, DPS, and ABV are working to form a pro-Russian coalition to challenge the government.¹⁹ BSP and ABV leaders also attended a United Russia congress in June 2016,²⁰ and ABV leader and former Bulgarian president, Georgi Parvanov, said that if his party wins presidential elections this fall “the new head of state will restore ties with Russia.”²¹

The only major Bulgarian political parties that have shown some resistance to an overt relationship with Russia is the center-right GERB (Citizens for European Development of Bulgaria), the largest party in the National Assembly and segments of the loose Reformist Bloc, one of GERB’s junior coalition partners. So far, the government has been committed to Bulgaria’s European integration.²² President Rosen Plevneliev is constitutionally independent and Foreign Minister Daniel Mitov is not party-affiliated. Both have issued strong rhetoric condemning Russia, with the former publicly stating that Russia is waging a “hybrid warfare campaign aimed at destabilizing the whole of Europe.”²³ Yet Prime Minister Boyko Borisov (GERB) has been careful to avoid alienating his pro-Russian coalition partners and large segments of the Bulgarian public.

The proximity of many powerful Bulgarian economic networks to Russia is underpinned by Russia’s significant economic presence in Bulgaria. Of all the case countries examined, Bulgaria is the one in which Russia has the most significant economic footprint (which peaked at around 27 percent of GDP in 2012, as shown in Figure A.2). This figure has since declined due to oil prices, EU sanctions against Russia, and Russian countersanctions. Russia dominates the Bulgarian energy sector as Russia’s state-owned company Gazprom is Bulgaria’s sole natural gas provider. In addition, the Russia state-owned nuclear company Rosatom and its subsidiaries have a dominant position in the country’s nuclear energy sector, responsible for reactor fuel supply and nuclear waste management, while the Russian private oil major Lukoil controls Bulgaria’s only oil refinery and over 50 percent of the wholesale fuels market.²⁴ Russian FDI has multiplied nearly fourfold over the course of our study period, soaring from 0.8 percent of GDP in 2005 to 4.4 percent in 2014, although unpublished estimates suggest that this value may in actuality be in excess of

19. Mariya Cheresheva, “Ministerial Departures Weaken Bulgaria Coalition,” *Balkan Insight*, May 12, 2016, <http://www.balkaninsight.com/en/article/bulgaria-ex-deputy-pm-declares-resigning-over-a-partisan-decision-05-11-2016>.

20. “Bulgaria’s Rivaling Socialist Parties to Attend United Russia Congress,” *Novinite*, June 25, 2016, <http://www.novinite.com/articles/175125/Bulgaria’s+Rivaling+Socialist+Parties+to+Attend+United+Russia+Congress>.

21. “Bulgaria Needs Presidential System, ABV Leader says,” *Novinite*, May 15, 2016, <http://www.novinite.com/articles/174485/Bulgaria+Needs+Presidential+System,+ABV+Leader+Says>.

22. “Bulgarian MPs Approve New Cabinet, Ministers Sworn In,” *Novinite*, November 7, 2014, <http://www.novinite.com/articles/164611/Bulgarian+MPs+Approve+New+Cabinet%2C+Ministers+Sworn+In>

23. Lawrie Holmes, “Russia Plans a ‘Hybrid Warfare’ Campaign Aimed at Destabilising Europe, Says Bulgarian President,” *Independent*, November 14, 2015, <http://www.independent.co.uk/news/world/europe/russia-plans-a-hybrid-warfare-campaign-aimed-at-destabalising-europe-says-bulgarian-president-a6734981.html>.

24. Ognian Shentov, Alexander Stoyanov, and Maria Yordanova, eds., *State Capture Unplugged: Countering Administrative and Political Corruption in Bulgaria* (Sofia: CSD, 2016), <http://www.csd.bg/artShow.php?id=17723>.

11.2 percent.²⁵ Russian FDI is also concentrated in other strategic sectors such as finance, telecommunications, real estate and the media. Bulgaria's pro-Russian political parties have sought to conclude lucrative deals with Russian entities while in government, specifically on mega-energy projects such as the South Stream pipeline and the now-defunct Belene nuclear reactor proposal.

It is the dominance of FDI by Russia in strategic sectors of Bulgaria's economy that is effectively used by the Kremlin to advance its interests in Bulgaria and ultimately the European Union. Currently, Lukoil Neftohim is the largest company in Bulgaria with 2014 revenues of roughly €3.3 billion. Together with its wholesale and retail fuel-distributing subsidiaries, Lukoil is also the largest taxpayer controlling indirectly roughly one-quarter of all budget revenues in the country. The Lukoil Group of companies also makes up around 9 percent of Bulgaria's GDP.²⁶ Meanwhile, Gazprom, which supplies close to 97 percent of Bulgaria's gas needs, also owns 50 percent in the country's largest retail gas distribution company, Overgaz, and has also expanded its presence on the fuels market via its subsidiary, Gazprom Neft.

Russia's influence in the energy sector in Bulgaria has been most entrenched in nuclear energy, which makes up around 20 percent of the total final primary energy consumption and around 34 percent of the total electricity generation in the country. All nuclear power is produced by the Soviet-built Kozloduy Nuclear Power Plant. It is fully dependent on the import of reactor fuel from Russia via the Russian company TVEL, a subsidiary of Russia's Rosatom, and ships all of the plant's spent fuel back to Russia for processing. The supply contract with TVEL dates back to 2002 and stipulates that the Russian company is assigned the task of taking care of the entire life cycle, from purchase to disposal, of the fuel used in the Kozloduy power plant.

To maintain Russia's economic dominance and to avoid scrutiny of its business transactions, the Kremlin uses a complex and opaque network of colluding officials within the governing apparatus and business community. The requirement for transactional opaqueness has created a vicious circle of increased Russian economic influence in Bulgaria and a decline in national governance standards. Russian economic influence in Bulgaria has often been seen as bordering on state capture, which allows Russian state and private interests to affect the course of governance. Such practices have been manifested in the management of state-owned companies, the large energy infrastructure projects, the distribution of public procurement contracts, the approval process of mergers and acquisitions, the circumvention of EU law through legal changes, and the exploitation of corporate governance loopholes to block policy initiatives against Russian corporate and strategic interests.

Prior to Bulgaria's accession to NATO and the European Union, the country posted steady improvements in its democratic governance standards. Both institutions prioritized the institutionalization of anticorruption measures before membership. But, following membership into both institutions, external pressure eased at the same moment that the onset of the global economic crisis began. After 2008, Bulgaria experienced a reversal in its democratic health that has

25. This percentage is based on an analysis of the FDI data from the Central Bank, considering the ultimate beneficial ownership of the companies investing in Bulgaria.

26. LukOilNeftohim, "The Company," <http://www.lukoil.bg/Main.do;jsessionid=25ABAFE7583DC79C312CD63B9CBE7EC3?actionName=facts>.

continued to worsen throughout the decade. The inability of the state to combat corruption or improve the country's economic situation (Bulgaria's per capita GDP is the lowest in the European Union and unemployment has remained above 10 percent since 2010) has fueled disillusionment with the governing elite, splintering Bulgarian political parties and creating political volatility and paralysis. The prevalence of political volatility, fragmentation, and popular unrest has created opportunities for external actors to fund nascent politicians, political movements, and new political entities that espouse nationalism, xenophobia, and Euroskepticism. No Bulgarian political party apart from GERB in 2009 has emerged with a stable majority over the past decade (Bulgaria has had six governments including two interim cabinets), which allows pro-Russian political parties like Ataka and the MRF to destabilize coalition governments when desired.

As Russia has gained considerable influence over Bulgaria's economy, it has used its dominant position in strategic sectors to strengthen existing relationships and cultivate new ones with corrupt businessmen and local oligarchs. These businessmen, in turn, are linked to prominent politicians over whom they exert considerable control. The politicians cut deals that benefit businesses and deepen their power within the country's corrupt networks and over state institutions. Increasingly, the middle step is removed and the pro-Russian local businessman enter politics themselves and attain positions of prominence within state institutions to directly promote pro-Russian business interests and politics. Accompanied by the Kremlin's sponsored political parties and rapidly formed organizations that support Russian policies on any given topic, pro-Russian actors succeed in influencing Bulgaria's national policy debate and government, which directly benefits Russia. Should there be an instance where the European Union or NATO request that Sofia take steps that are perceived to work against Russia's interests, the Bulgarian government would come under enormous pressure from pro-Russian parties, prominent businessmen, and organizations that mobilize a full range of tools to change the policy in Moscow's favor.

Bulgaria has demonstrated a mixture of policy resistance and capitulation. In the case of the South Stream pipeline, the Bulgarian Parliament attempted to circumvent EU energy law by introducing legal amendments that would have allowed the start of construction of the Gazprom-led pipeline on European territory.²⁷ Later, declassified documents showed that Gazprom officials had sent an official letter to the Bulgarian Energy Holding advising the company how to amend the energy law in Gazprom's interest.²⁸ But Bulgaria has continued to support the maintenance of EU sanctions. In the case of the United States requesting that Bulgaria not allow Russian military overflights over Bulgaria to implement its military buildup in Syria in September 2015, the Bulgarian government agreed not to allow the overflights but came under tremendous political pressure for its decision.

The depth, breadth, and cyclical nature of these networks suggests that Bulgaria is at an advanced stage of state capture and is both at high risk and highly vulnerable to Russian policy influence.

27. Ruslan Stefanov and Martin Vladimirov, "Bulgaria and the South Stream Pipeline Project: At the Crossroads of Energy Security and State Capture Risks," *Südosteuropa Mitteilungen* 54 (May–June 2014): 54–72, <http://www.csd.bg/artShow.php?id=17256>.

28. Tanya Ilieva, "The Reformist Bloc Showed How 'Gazprom' is Writing Bulgarian Laws" (РБ показа как компания на "Газпром" пише български закони), BTV, November 24, 2014, <http://btvnovinite.bg/article/bulgaria/ikonomika/rb-pokaza-kak-kompanija-na-gazprom-pishe-balgarski-zakoni.html>.