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Bulgaria: technical government settlements on natural gas deal

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In Bulgaria, the new government of Prime Minister Nikolai Denkov has ordered an investigation into the 2023 Bulgarian-Turkish agreement, which provides access for Bulgargaz to LNG terminals in Turkey and the Turkish transmission network. According to the government's position, the agreement between Bulgargaz and BOTAŞ, which was concluded for a period of 13 years, is unfavourable to the national natural gas network operator, and at the same time may contribute to uncontrolled supplies of natural gas from the Russian Federation to Central and Southern European countries. In this regard, the investigation should be seen as part of an effort to settle the policies of the technical government of Prime Minister Gulyab Donev.

Political background of the investigation. As a result of the full-scale aggression of the Russian Federation against Ukraine and the sharp deterioration of relations between the European Union and Russia, Bulgaria has found itself in a difficult situation as it is among the countries most heavily dependent on natural gas supplies from the Russian Federation. Although Bulgaria is a relatively small consumer of this commodity among the European Union countries (0.79% in 2022), its annual consumption of natural gas is about 2.7 bcm, and its share in the Bulgarian energy mix is insignificant (14%), by 2022 almost 100% of its supplies came from the Russian Federation. After abandoning the construction of the South Stream gas pipeline in 2014, connecting the Russian Federation with Central European countries, Bulgaria continued to actively participate in Russian plans to increase the availability of Russian natural gas in the region. An element of this policy was Bulgargaz's approximately \$1.5 billion investment in the construction of the Bulgarian section of the TurkStream/Balkan Stream pipeline.

Bulgaria, along with Poland, were also the first countries to which the Russian Federation withheld natural gas supplies in 2022, arguing the move on the grounds that they refused to pay for the commodity in Russian Rubles. Russian pressure led to mobilization to complete the Greece-Bulgaria Interconnector (IGB), the construction of which has been delayed by successive Boyko Borisov governments, at the expense of Russia's South Stream (unrealized) and TurkStream/Balkan Stream projects (["IES Commentaries", no. 864](#)).

At the same time, from April 2021 to April 2023, there was a deep political crisis in Bulgaria caused by the attempt to remove Boyko Borisov from power. Its most important consequence was the inability of a parliamentary majority to emerge capable of forming a government (["IES Commentaries", no. 865](#)). During this period, with the exception of a brief period of Kirill Petkov's government (December 2021 – July 2022), power was concentrated in the hands of President Rumen Radev, who administered the state through a technical government. It was the technical government of Prime Minister Gilyb Donev that led to the signing of the agreement between Bulgargaz and BOTAŞ.

The essence of the natural gas deal. Bulgaria's new government, headed by Prime Minister Nikolai Denkov, was constituted on June 6, 2023. Less than a month later, on August 3, 2023, Nikolai Denkov announced that he had ordered an investigation into the long-term contract between Bulgargaz and BOTAŞ, announced in January 2023. The agreement – as declared at the time – stipulated that Bulgargaz would gain access to Turkey's LNG terminals and the country's transmission network through the Strandzha-Malkoclar point (both companies have access to nominations at this point at 50% each). Thus, the companies have agreed on the use of the Trans-Balkan pipeline, which in the past was used to supply natural gas from the Russian Federation to Turkey. Such

deliveries were halted in 2020 after the TurkStream pipeline became operational. Under the agreement, deliveries will take place based on reversals on this pipeline. A number of questionable solutions can be seen in the agreement between Bulgargaz and BOTAŞ. It is puzzling that the long-term agreement, which contains key decisions for the country's energy security, was presented as a contract for the long-term purchase of natural gas when in the meantime no such physical deliveries are taking place. The provisions of this agreement weaken Bulgaria's position as a state controlling the transit of natural gas through its territory. Bulgaria experienced a similar mechanism of 'subordination by debt' in the context of the purchase of a reactor for an unrealized investment, which was the construction of the Belene nuclear power plant as well as the construction of the TurkStream/Balkan Stream gas pipeline. It is also questionable that the contracted volumes do not include natural gas supplies from the Greece-Bulgaria interconnector. All the more so since ICGB AD's management has begun work on expanding this pipeline to increase its capacity.

Doubts about the deal. Nikolai Denkov's government raises four problems with the deal. First – the cost of the contract. According to available information (the content of the contract is not fully known), Bulgargaz would be responsible for procuring LNG cargoes delivered to LNG terminals in Turkey (most likely the Botaş Saros FSRU Terminal), while BOTAŞ would deliver the same amount of natural gas to Bulgaria through the Strandzha-Malkoclar point. According to the government, the agreement is unfavourable to Bulgargaz as the company is obliged to pay daily service fees to BOTAŞ, regardless of whether natural gas deliveries from Turkey to Bulgaria are made. In this situation, the total cost of these fees over the entire 13-year term of the contract could exceed USD 2 billion. The government side argues that the price for the service fee has been set with little transparency. Second – the inequality in the relationship between the companies. According to the government, the agreement favours BOTAŞ, as the Turkish company under the agreement will gain full access to the Bulgarian natural gas market and will have the ability to supply natural gas to end customers in Bulgaria itself, which could limit or even replace Bulgargaz as a natural gas supplier in this regard. At the same time, BOTAŞ can use the capacity at the border and supply natural gas to neighbouring countries such as Romania, Serbia, and Greece through the Bulgarian pipeline system. Third – is the increase in concerns about the source of the natural gas. Under the agreement, BOTAŞ can sublet its capacity at the border to third parties, while at the same time having Bulgargaz divert LNG cargoes under a swap formula to anywhere in Europe. Under these circumstances, there is growing concern that such a situation could be used by the Russian Federation to supply natural gas to EU countries. Indeed, it is unclear where the natural gas supplied to Bulgaria by BOTAŞ is to come from. Fourth – the lack of full knowledge of the terms of the concluded agreement. There is controversy surrounding the signing of this agreement, as the Council of Ministers approved it without discussion, and the agreement itself was not registered due to the 'commercial secrecy' clause on the purchase and sale of natural gas.

Conclusions

- Despite the lack of formal sanctions on the supply of natural gas from the Russian Federation both through pipelines and in the form of LNG, EU countries are aiming to end the purchase of this commodity from the Russian Federation by 2027. The agreement between Bulgargaz and BOTAŞ companies, if it actually provides for the solutions discussed, could allow the uncontrolled supply of natural gas from Russia to Central and Southern European countries. Breaking the contract will be extremely difficult and costly for the Bulgarian side and will also require an agreement at the political level since the contract was signed between state-owned companies.
- Turkey is making efforts to build a regional natural gas hub (talks are underway with the Russian Federation in this regard), and one of the elements of this process is the expansion of domestic production (natural gas production) and import capacity (including the construction of LNG terminals). However, a significant challenge is to channel natural gas supplied from Russia, Iran, Azerbaijan, and in the form of LNG to customers in Central and Southern European countries. Through the agreement with Bulgaria, there is an opportunity to realize Turkey's long-term plans for access to infrastructure in

Central European countries as BOTAS can directly supply natural gas to countries in the region through Bulgaria. Thus, in addition to the availability of natural gas, there is also a need to ensure its distribution.

- The terms of the agreement between Bulgargaz and BOTAS appear to be unfavourable to Bulgaria. However, the agreement, on the one hand, strengthens energy security and, on the other hand, makes it possible, subject to the transformation of Bulgargaz into a regional distributor, to generate profits if the price of natural gas in the region is higher than the natural gas purchased from Turkey.
- The conclusion of the agreement and the ongoing investigation demonstrate the lack of a coherent and consistently implemented strategy by the Bulgarian authorities. As a result, it can be pointed out that the decision may have been politically corrupt, with the exact reasons and terms of the deal being investigated.