

DETERMINANTS OF SOVEREIGN INVESTMENT PROTECTIONISM: THE CASE OF BULGARIA'S NUCLEAR ENERGY SECTOR

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Abstract. Foreign direct investment (FDI) by entities controlled by foreign governments (especially state-owned enterprises) is a new global phenomenon that is most often linked to the rise of emerging markets such as China and Russia. Host governments have struggled to properly react to this type of investment activity especially in key strategic sectors and critical infrastructure that ultimately raise questions of national security. Academic research on sovereign investment as a factor contributing to the new global protectionist trend is very limited, and predominantly focused on sovereign investors from China. This study explores the specifics of Russian sovereign investment in the former Soviet Bloc countries, now members of the European Union, especially in strategic sectors such as energy. We use the case of Bulgaria's nuclear energy sector and the involvement of Russia's state-owned company Rosatom in the halted Belene nuclear power plant project to analyze the dynamics of policy and politics, political-economic ideologies and historical legacies in the formation of national stances towards Russia as a sovereign investor. Our research contributes to the emerging literature on FDI protectionism and sovereign investment by emphasizing the significance of political-ideological divides and the heritage of the past as determinants of sovereign investment protectionism.

Key words: foreign direct investment policy; state-controlled entities; national security; nuclear energy, post-communist countries.

1. Introduction

With the end of the Cold War, foreign direct investment (FDI) established itself as a principal engine of national and global economic growth. The industrialized countries took major steps to encourage FDI in previously highly restricted sectors such as

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telecommunications, banking and energy. In the former Soviet Bloc countries, liberalized investment regimes and economic openness in general became the key instruments of the post-communist transition toward democracy and a market economy. In recent years, however, the global FDI liberalization trend has slowed down and even reversed to a new FDI protectionism. In fact, as Karl Sauvant reveals, the share of national FDI policy changes worldwide that made the investment climate less welcoming rose from only 6% in 2001-2002 to 32% in 2009-2010 (Sauvant, 2012, p. 2). The literature on FDI has outlined various determinants of the rising protectionist trend (Jackson, 2010; GAO, 2008), the primary ones being national security concerns especially in sensitive strategic sectors and especially when sovereign investors are involved (Bath, 2012).

FDI by entities affiliated and/or controlled by foreign governments – such as sovereign wealth funds (SWF) or state-owned enterprises (SOEs) – is an emerging global phenomenon that is most often linked to the rise of emerging markets such as China and Russia. The global expansion of their national champions has led to heated political debates within many developed western countries. Their governments have struggled to properly react to this type of investment activity (Jost, 2012; Sauvant et al., 2012; Golding, 2014), especially in key strategic sectors and critical infrastructure that ultimately raise questions of national security.

National security and strategic sectors are a widely acknowledged restraint for FDI policy openness in both academic work and the international policy community (Marchick & Slaughter, 2008; Kang, 1997; Graham, 1991; Hanley et al., 2002, OECD, 2007b; UNCTAD, 2009). There is very limited academic research, however, on the new global sovereign investment trend (Sauvant et al., 2012; Feldman, 2012; Low, 2012; Globerman, 2015). This research is further predominantly focused on sovereign investment from China (Alon & Cherp, 2012; Bath, 2012; Meunier et al., 2012; Golding, 2014; Brennan, 2015) and much less on sovereign investments and emerging-market multinationals from Russia (Zubkovskaya & Michailova, 2014).

The general question that motivates this study is: What are the specific determinants of FDI protectionist policies against sovereign investments from Russia in the former Soviet Bloc countries – now members of the European Union (EU)? Are there shadows of the communist past, and if so, how is the communist heritage manifested in FDI policy and politics?

Given the relative newness of the phenomenon, our study has an exploratory character and employs the case study methodology. We trace the involvement of Russia's state-owned company Rosatom in Bulgaria's nuclear energy sector and the halted Belene Nuclear Power Plant (NPP) project to reveal the dynamics of public discourse, policy and politics in sensitive sectors for national security when Russian state-controlled entities are involved.

Creating an FDI policy environment that is based on national strategic priorities and the national interest in general has been a complex process worldwide (Gupta,

2006) because of the variety and number of stakeholders involved and their individual stances on the level of openness of the country to foreign investors and the FDI country of origin. The FDI policy framework that has emerged across different Central and Eastern European (CEE) countries and the final outcome of the FDI legislation are thus a specific result of complex political processes involving international regimes (EU accession and membership requirements) as well as sectoral interests, coalition partners, inter-bureaucratic politics and last but not least – ideological orientations and historical & geopolitical legacies.

Our research contributes to the emerging literature on FDI protectionism and sovereign investments in two ways. First, it sheds an important light on complex situations involving Russian sovereign investments where national interests of the host country are internally contested along political-ideological divides and not clearly articulated. Second and relatedly, our research emphasizes the significance of the geopolitical heritage of the past as a determinant of sovereign investment protectionism. The study provides rich evidence about the historical embeddedness and the internally contested character of the national interest along the lines of leftist-rightist ideological divides and Pro-West versus Pro-Russian orientations among political elites and the society at large.

In the next section we introduce key arguments from the literature on FDI protectionism and sovereign investment as a factor for FDI restrictions. We then proceed by outlining Bulgaria's foreign direct investment policies and national security strategies, as well as the legacy of its economic relations with Russia in the energy sector. Subsequently, we provide a detailed analysis of Bulgaria's search for strategic foreign investors in the nuclear energy sector, with a focus on the Belene NPP Project. We conclude with a discussion about the broader implications of the halted project for the literature on FDI protectionism and sovereign investment.

2. Literature Review and Theoretical Framework: Determinants of the Rising FDI Protectionism

The literature on FDI has identified at least four key and often intertwined determinants of the rising protectionist trend: (a) national security concerns, especially with regard to strategic sectors and critical infrastructure; (b) economic nationalism; (c) sovereign investment; and (d) public pressures. Thus Marchick & Slaughter (2008) suggest that most of the recent FDI protectionist measures on a global scale have been justified on the basis of protecting national security or safeguarding "strategic" industries. A relevant example would be Germany's 2009 FDI law changes that strengthened the review and screening mechanisms to further protect the national security and public order (Jost, 2012). In addition to national security considerations and sensitive strategic sectors, pressures to restrict FDI inflows come from economic nationalism and increased government attention to national developmental objectives with a focus only on those

FDI that are in line with the developmental goals of the country. The rise of state-controlled entities in the global market is another important determinant of the rising protectionist trend. Pressures from civil society and negative public opinion can also result in more restrictive FDI policies.

2.1. National Development Strategies and Economic Nationalism

The existing consensus that all FDI are equally beneficial to host countries is falling apart among both policy makers and academic scholars. Many governments increasingly consider some FDI as less beneficial than others, and focus their FDI attraction policies only on investments that make a maximum contribution to economic, social, and environmental development (Sauvant, 2012). The need to make FDI more beneficial for host countries is echoed by many scholars in the context of the global economic crisis. For example, Poulsen & Hufbauer (2011) recommend that policy makers not just further liberalize FDI regimes as a response to the FDI recession, as they have in the past, but also rethink their FDI policies with an enhanced focus on “sustainable FDI” promotion. This refers to attracting sustainable FDI to fit the country’s economic development objectives, including country- and sector-specific policies such as building foreign-local firm linkages, providing for environmental sustainability, correcting for non-transparent and corrupt state institutions, and negotiating fairer contracts between host governments and multinational companies (MNCs). National goals related to FDI also include support of domestic firms through potential spillovers into the host economy (Te Velde, 2001; Rugraff, 2008). Foreign corporate presence produces spillovers through the following channels: (1) act as a trigger for transfers of technology and know-how; (2) assist enterprise development and restructuring, not least in connection with privatization; (3) contribute to fuller international (trade) integration; (4) bolster business sector competition; and (5) support human capital formation in the host country (OECD, 2003).

The economic nationalist theory poses a powerful challenge to liberal advice on economic development and the achievement of economic development objectives. As Jakobsen & Jakobsen (2011) assert, economic nationalism is closely related to the *dependencia* model. This model views MNCs as contributing little to domestic economic development objectives, and has become an important component of the protectionist FDI discourse. The adherents of economic nationalism are often intrinsically opposed to FDI, believing that MNCs only invest and operate to enrich themselves and their home nation. The economic nationalism model is echoed in Nolke & Vliegenthart’s (2009) argument about the dependent market economy version of capitalism in CEE countries and the predominant, unhealthy importance of MNCs to CEE’s economies, as well as Rugraff’s (2008) negative evaluation of CEE FDI policy effectiveness in promoting indigenous firms.

Overall, the literature on FDI has found out that the government’s economic openness position likely hinges on its views about the benefits and costs of FDI, as well as the proper and actual role of the state in economic policy. Thus, on the one hand

Rugraff (2008) suggests that the CEE states play only a limited role in the economy similar to the Irish model, and they permit full freedom of operation for MNCs, which tends not to promote spillovers and development of domestic firms. On the other hand, scholars such as Schusselbauer (1999) have argued that the CEE state retains a critical role in the economy, in particular regarding privatization in the 1990s. State agencies maintained strong influence in industrial and structural policies, especially in sectors in distress. Sectors of strategic importance have been especially the target of political interventions to secure the state's grip on economic development.

The CEE governments were subjected to conflicting pressures during transition. First of all, they desired the transfer of technological and especially managerial know-how that local capital could not provide, due to the shortage and inefficiency of local capital at the outset of transition. On the other hand, they had to balance the commitment to liberalization and internationalization (EU accession and membership) with sensitivity to increasing nationalism, including national security concerns, and maintenance of social cohesion and welfare (Martin, 1998). Thus, when forming their FDI policies, CEE states had to respond to nationalist and national security concerns and public pressures for protection from FDI (Bandelj, 2002, 2008, 2009; Artisien-Maksimenko & Rojec, 2000; Kayalica & Lahiri, 2007, Zeng & Sherman, 2009).

More specifically, during the initial years of post-communist transition there were public fears across the region that FDI makes a country vulnerable to foreign influence, that it results in a partial loss of sovereignty, and that national treasures are sold at low-cost to the West. Such public fears were reflected in less open FDI policies (Bandelj, 2008).

The European Union membership actually helped political leaders counter the power of domestic protectionists and economic nationalism. Major changes within the EU's FDI policy regime took place during transition, further enhancing trade and investment liberalization. In 1993, the EU gained the power to regulate member state treatment of incoming FDI, including from third countries (DOS, 2012). The entry into force in December 2009 of the Lisbon Treaty changed EU jurisdiction over FDI issues in major respects. Article 207 of the Lisbon Treaty brought FDI under the umbrella of the EU common commercial policy, making it an exclusive EU competence. The EU gained the ability to negotiate bilateral investment treaties (BITs) or investment chapters of Free Trade Agreements, subject to a "transitional mechanism" during which member state BITs with third countries would remain in force (DOS, 2012). In effect, the EU produced a "lock in" effect with regard to liberalization, as it represented an institutionalized commitment to liberal policies (e.g., Globerman et al., 2004). As a result, governments across Europe do not have to face protectionist interests alone.

2.2. National Security and Strategic Sectors

The biggest way that host governments have used to restrict FDI in the economy is through claims of endangered national security. This has been the case in many OECD

countries, including the United States, where regulatory frameworks have been used to deter investments in the infrastructure and energy sectors by private and public foreign investors.

Governments always claim to regulate FDI in the public interest, at the national and international levels. The concept of national security, however, is typically not defined, making it at times difficult to distinguish legitimate national security concerns from protectionist or other considerations. Countries try to maintain a broad scope of national security review and adopt self-judging national security clauses in international investment agreements. As Jongbloed et al. argued: “Although compromising national security is the most common concern of host countries involving sovereign FDI, ‘national security’ is rarely defined in relevant legislation. Depending on the regulatory approach, national security either serves as a generally limiting concept (although broad in application), or merely provides an umbrella, under which other concerns, such as energy security, cluster” (Jongbloed et al., 2012, p. 12). The term national security is thus used very flexibly.

Under customary international law, endangered national security has been interpreted to mean an incident that poses a grave and imminent peril to a country, or a threat to such vital interests as political or economic survival, the continued functioning of its essential services, the maintenance of internal peace, the survival of a segment of its population, and the preservation of the environment of its territory. It also includes potential threats to the economy in the form of a loss of technology related to national security, a loss of jobs due to outsourcing, or a threat associated with state-backed investors who use their investments to advance political objectives.

As part of the general area of essential security concerns associated with foreign investment, numerous nations have focused on the concept of *critical infrastructure* as a separate area of concern within the rubric of essential security interests. Critical infrastructure typically includes systems and assets whose incapacity or destruction would have a debilitating impact on security – national economic security, national public health or safety, or any combination of those. The key sectors included in national critical infrastructure plans across a number of developed countries – Australia, Canada, the Netherlands, the United Kingdom, the United States and the European Union – are energy (including nuclear), communications, finance, health care, food, water, transport, safety (emergency services), government, chemicals, and defense industrial base (OECD, 2008).

The OECD acknowledges that sovereign governments have a right, and an obligation, to take measures to protect the public interest, including national security. It states that each country is best situated to assess its own security interests and to decide whether essential security interests are at stake relative to certain types of investments. At the same time the OECD suggests that excessive restrictions or hostility toward foreign investors could harm the host economies and lead to reciprocal action. Therefore, as the organization suggests, foreign investment should be restricted only when legitimate security and other essential interests are concerned (OECD, 2007a).

Most scholars do acknowledge the *legitimacy* of national security concerns for FDI policy restrictions. Graham (1991), for one, asserts that FDI should not be restricted unless due to legitimate national security concerns. Marchick & Slaughter (2008), on the other hand, suggest that national security should not become a pretext for blocking FDI transactions due to protectionist or other exterior concerns. They further point out that with the increase in worldwide players in FDI, such as SWFs and SOEs, it is inevitable that political pressures to protect against FDI will develop. They conclude that a well-crafted and well-implemented FDI regime that takes into consideration national security can indeed increase investment rather than decrease it.

2.3. Sovereign Investment and Foreign State-Controlled Entities

Sovereign wealth funds and outward-investing state-owned enterprises from emerging markets have become both important and controversial players in the global economy, especially when investing in strategic sensitive sectors in the U.S. and Europe such as oil and energy companies, ports, and others.

SWFs are special-purpose investment funds that are owned and controlled by governments taking stakes in foreign entities. To date, SWFs have taken mostly portfolio investments but they are increasingly taking majority stakes in companies, thus raising fears that governments would invest for strategic or political rather than purely economic considerations (Marchick & Slaughter, 2008). In recent years, the number of SWFs has proliferated. They are currently estimated to hold assets of approximately US\$5.2 trillion, and this is expected to grow significantly in the coming years (Golding, 2014, p. 537).

State-owned enterprises are another vehicle of sovereign FDI. They have been at the forefront of sovereign intervention in the economy for centuries but they have increased their international expansion recently as a result of the rise of emerging markets and emerging-market multinationals. The latter have been buying assets in many economies and also pursuing greenfield opportunities. SOEs are much more significant sovereign investment vehicles than SWFs by virtue of the amounts invested through them. Thus China's SOEs may account for over 80% of FDI outflows and the country's outward FDI stock.

SOEs also play an important role in the outward FDI of other emerging markets such as Russia (Jongbloed et al., 2012, p. 10). In that regard Zubkovskaya & Michailova highlight the importance of the state in the internationalization processes of Russian enterprises. They find out that "the relationships between the federal government and firms in strategic sectors influence the likelihood a company will internationalize. The government is highly skilled in directing and redirecting resources as instruments to support or constrain companies' internationalization" (2014, p. 64).

The rise in frequency and magnitude of sovereign FDI has prompted increased concerns by policy makers in host countries, especially developed ones. Many arguments have been raised that these entities would endanger the national security

of the receiving countries. The major concern is the belief that such investment has the potential to advance political and policy objectives of the home countries of such investment because governments are political entities with political, not commercial objectives. Jongbloed et al. (2012) have argued that investments by sovereign entities (SWFs and SOEs) reflect both political and economic considerations and inevitably raise questions of political motivations and national security. Another concern is the issue that through such investments foreign governments might obtain access to sensitive technologies or secure control over natural resources, key industrial complexes or critical infrastructure. Lack of transparency regarding the structure, governance and investment strategies of sovereign investment vehicles is another principal area of concern for host countries. Furthermore, as FDI by state-controlled entities increases, it is likely to lead to international investment disputes – this in turn raises additional concerns.

Proponents of sovereign investments argue, in contrast, that the opposition to deals with state-controlled entities is nothing more than disreputable, and possibly illegal investment protectionism. There is also little evidence that, for example, Chinese SOEs operating offshore have engaged in non-commercial behavior (Golding, 2014, p. 541). Nonetheless, as Golding's research of Australia's experience with FDI by state-controlled entities reveals, public perception of Chinese investment in Australia is one of general disapproval. In 2013, the Lowy Institute Poll reported that 57% of those surveyed had said that the Australian government was allowing too much investment from China (2014, p. 543).

National responses to sovereign investments have mostly concentrated on creating or ramping up already existing mandatory investment review mechanisms, with a strong national security focus. Some countries have established new FDI screening and national security review processes, or created additional tools for surveillance of all investments and scrutinizing acquisitions by government-owned companies or sovereign wealth funds while trying to avoid the need for umbrella security legislation.

2.4. Public Pressures and Leftist-Rightist Political Ideologies

Public opinion is an essential part of the political landscape, with critical influence on public policy making through several channels (Dahl, 1982; Page & Shapiro, 1983; Monroe, 1998). First, people's opinions are decisive when they cast votes in elections. Second, they influence parties and governments through opinion polls. And third, there are additional ways of public participation in the political process, such as through organizing and mobilizing for political action, demonstrations, and lobbying. By extension, the left-right political spectrum of the population is a critical factor for the ways that public opinion matters for economic policy (Jakobsen & Jakobsen, 2011).

For example, an international survey (with questions on FDI) has found out that citizens of CEE countries were more likely to want their governments to protect ownership from foreign influences and to give priority to domestic economic actors.

By 2000, all CEE countries had placed protections against foreign ownership of land (Bandelj, 2002, 2008), which were eventually to be removed by the EU membership, subject to a transition period of up to seven years.

Some authors have argued that left-right political ideologies and politics are decisive for the political preferences on domestic versus foreign investment. Thus research on trade has indicated that rightist ideology and right-leaning parties are more supportive of liberalization and economic openness than left-wing or labor-based political parties (Milner & Judkins, 2004; Bailey et al., 1997; Irwin & Kroszner, 1999; Keech & Pak, 1995). In that regard Brooks & Kurtz (2007) suggest that overall, rightist executives are more likely to liberalize trade; leftist executives would also tend to liberalize trade, but less so on average.

Jakobsen & Jakobsen (2011), evaluating economic nationalism and FDI, have proposed a somewhat different scheme of political preferences on FDI that casts doubt on the popular wisdom about the incompatibility of leftist ideology with FDI. They argue, contrary to the popular wisdom, that left-leaning societies in emerging markets should prefer liberal FDI policies, as according to the broad Stolper-Samuelson theory, labor in emerging markets tends to benefit from FDI. On the other hand, domestic businesses in emerging markets tend to seek economic nationalist policies that protect them against competition from FDI. As rightist parties represent business, right-leaning societies in emerging markets thus tend to restrict FDI. Jakobsen & Jakobsen's argument, however, may be more applicable to the "South" than to the "East." While all major parties across the CEE region – including socialist and nationalist – tend not to oppose FDI, rightist parties have tended to promote FDI to a greater extent.

3. The Case of Bulgaria's Foreign Direct Investment Protectionism in the Nuclear Energy Sector

3.1. Bulgaria's Foreign Direct Investment Policy and National Security

Bulgaria, like some other CEE countries (such as Romania, Latvia, Lithuania, as well as Slovakia) has started from a more skeptical position on FDI before progressing, over the course of transition and EU membership, toward more open FDI policies. In the run up to the EU membership, Bulgaria sustained a liberal FDI regime. The economic policies of all Bulgarian government cabinets – left-leaning or rightist (see Appendix 1) – were built on the understanding that foreign investment is more than needed and desired. Practically, they proclaimed the attraction of foreign investment as one of the key policy goals on their programs. A common understanding was that foreign investment helps improve the balance of payments, brings production and managerial know-how into the country, spurs the structural adjustment of enterprises, opens new market outlets, as well as makes up for the low savings rate in the economy (Petranov, 2003).

Bulgaria's FDI policy went through several critical junctures. At the onset of the transition, the Bulgarian policy makers only sought to provide legal protection to FDI

within the territory of the country. In 1997, with the coming to power of the Kostov government of the center-right United Democratic Forces (UDF), Bulgaria began to actively seek the promotion of FDI. In 2004, as a result of the process of EU accession, a new critical juncture in Bulgaria's FDI policy occurred. The country switched to the promotion of all types of investment (domestic and foreign alike) on an equal basis. In the mid-2000s, the government focused on developing promising sectors of the economy for the attraction of foreign investment, including energy, tourism, information technology, transportation, telecommunications, and agriculture. Overall, the Bulgarian legislation seeks to promote rather than restrict FDI, in line with EU laws and regulations. It permits standard business by foreigners on equal terms for EU and EFTA non-resident persons, and provides for the principles of non-discrimination and national treatment of foreign investors.

At the same time, however, Bulgarian political discourse clearly manifested some country-of-origin preferences for foreign investment. Attracting American as well as European FDI became one of the top priorities of all government cabinets. Investments from neighboring countries such as Turkey and Greece were not viewed so highly (Iankova, 2009; CSD, 1993) mostly because of the numerous cases of sweatshop work conditions that investors in the apparel industry from Greece and Turkey became famous for in the initial years of transition. Investments from China, in contrast, are viewed favorably (Xiaoming, 2014), while investments from Russia have been both welcomed and opposed, depending on their concrete type, level of transparency and the specific interests behind them. Table 1 presents the distribution of FDI by country of origin and demonstrates that the majority of FDI stock in Bulgaria has come from Western European countries. Russia occupies the seventh place after the Netherlands, Austria, Greece, the U.K., Germany and Cyprus. FDI inflows from transition countries such as Hungary and the Czech Republic have been an important development in the recent years (Sakali, 2013, pp. 77-78).

TABLE 1. FDI in Bulgaria by Country of Origin, 1996-2014 (Euro Million)

1. The Netherlands	7,023.30
2. Austria	5,944.70
3. Greece	3,580.80
4. United Kingdom	2,604.50
5. Germany	2,417.20
6. Cyprus	2,103.90
7. Russia	1,961.70
8. Switzerland	1,623.10
9. USA	1,605.40
10. Italy	1,488.70

Source: InvestBulgaria Agency, 2015.

Bulgaria adopted for the first time a *Concept for National Security* in 1998. The Concept was later incorporated into the *Law for the Defense of Classified Information* and the *Law on the National State Security Agency*. A new practice was also developed for the regular accountability of the government to the National Assembly in terms of the state of national security and the adopted policies and measures for the defense of the national interests. The Concept played an important role by outlining the values, principles and mechanisms of the national security policies to the Bulgarian public at large and the country's NATO allies. In 2005 and 2008 there were draft projects for strategies in the sphere of national security but they were not adopted by the National Assembly.

A *Strategy for National Security* was adopted by the National Assembly on March 3, 2011.¹ It builds upon "the values of democracy" among other national and international values and conditions. The strategy is based on a "broader understanding of national security," taking into consideration the security of the citizen, the society and the economy, in addition to defense, foreign policy, intelligence, public order and law enforcement. As the Strategy states: "The final product and essence of the term 'national security' is the security of the individual citizens and the security of their freedom and dignity."

In light of Bulgaria's accession to NATO and the EU, the country's national security strategy became part of the broader supranational security efforts of the allies at the EU and NATO levels. Bulgaria's national security is thus based on the "indivisibility of the national security from the security of NATO and the EU." The relations between Bulgaria and Russia, from the perspective of foreign investment and national security, are thus defined under the umbrella of the EU and NATO: "Bulgaria actively participates in the formation and realization of the relations of the EU and NATO with the Russian Federation."

The Strategy is further based on a "dialogue and broad partnership between the citizens, the society and the state," and on "openness, transparency and responsibility in the formation and implementation of the national security policies." The strategy also outlines specific sectoral policies for national security, such as financial and economic security, social security, energy security, natural environment, law and order, foreign policy, and defense.

Energy security is regarded as an important part of national security and a prerequisite for economic stability. The Strategy includes as a goal to "guarantee the energy security through diversification of the types of energy, sources and channels for the delivery of energy and other strategic raw materials." Domestically, "the high dependency on energy resources creates weaknesses in economic and political aspects." The projects for diversification of the sources and channels for the delivery of energy resources are considered to have an impact on the geopolitical environment in the

¹ Strategija za natsionalna sigurnost na Republika Bylgaria (Strategy for National Security of the Republic of Bulgaria), adopted with a National Assembly Decision on March 3, 2011, and published in State Gazette No. 19 on March 8, 2011.

Balkans and Europe and a direct impact on the national security of Bulgaria. Bulgaria's energy security is regarded as an integral part of the EU energy security. As the Strategy states: "Bulgaria is interested in the establishment of a common energy policy of the EU. It supports the EU strategic initiatives for the creation of the necessary infrastructure and the diversification of energy sources." The development of Bulgaria's nuclear energy in particular is viewed as having a strategic importance for the national security of the country. The building of new nuclear power sources is supported institutionally in Bulgaria, as a prospective resource for the production of non-emission electric power and because of the successful experience with nuclear energy during the socialist past and the existing professional capacity.

3.2. Bulgaria's Nuclear Energy Sector and Accession to the European Union

Bulgaria inherited a confused and dysfunctional energy sector from its socialist past, dominated by monopolies and lack of transparency (Zaimov, 2013). Since 1956, the Bulgarian government has favored the use of nuclear power for electricity. In 1966, it signed an agreement with the Soviet Union for the provision of commercial units which would become the basis of Bulgaria's nuclear program. In the 1970s, the Kozloduy nuclear power plant was built at the border with Romania near the Danube River, with six reactors commissioned between 1974 and 1991. The first pair of reactors were VVER-440 model V-230; the second VVER-440 pair incorporated many of the much-improved safety features of the V-213 model. The third pair were the larger VVER-1000 units, model V-320 (see Tables 2 & 3).

TABLE 2. Shutdown nuclear power reactors in Bulgaria

Reactor	Type	Model	Net MWe	First power	Shutdown
Kozloduy 1	VVER-440	V-230	405	7/1974	12/2002
Kozloduy 2	VVER-440	V-230	405	8/1975	12/2002
Kozloduy 3	VVER-440	Enhanced V-230	405	12/1980	12/2006
Kozloduy 4	VVER-440	Enhanced V-230	405	5/1982	12/2006

Source: *Nuclear Power in Bulgaria* (August 2012). <http://www.world-nuclear.org/info/inf87.html>

TABLE 3. Operating nuclear power reactors in Bulgaria

Reactor	Type	Model	Net MWe	First power
Kozloduy 5	VVER-1000	V-320	953	11/1987
Kozloduy 6	VVER-1000	V-320	953	8/1991
Total (2)			1906	

Source: *Nuclear Power in Bulgaria* (August 2012). <http://www.world-nuclear.org/info/inf87.html>

A second site was chosen near Belene, some 7.5 km from Bulgaria's Danube River border with Romania, and approved in 1981 by the government for the construction of a second NPP. The design of the plant envisaged the construction of four VVER-1000/V 320 nuclear reactors. Site works started in 1981 and construction of the first VVER-1000 V-320 unit – in 1987. When in 1989 the communist government fell, about 40% of the construction work of reactor 1 had been finished and 80% of the equipment had been supplied. The project was put on hold in 1991 and finally dropped in 1992 for environmental and economic reasons. Only conservation work continued to be undertaken with the goal to preserve the supplied equipment, the construction site and the buildings.

The energy sector and the nuclear program in particular experienced a heavy blow with the country's accession to the EU. In 1995, six Soviet nuclear power plants in the post-communist region were assessed to have an "abnormally high accident likelihood" by the Office of Energy Intelligence, an arm of the U.S. Department of Energy (DOE). These were Chernobyl (Ukraine), Metsamor (Armenia), Kozloduy (Bulgaria), Ignalina (Lithuania), Kola (Russia), and Bohunice (Slovakia). According to the DOE, these NPPs posed significant safety and environmental risks due to their inherent design deficiencies, deteriorating economies and political turmoil, and a weak regulatory oversight in the respective countries. Kozloduy's nuclear reactors 1 and 2 (VVER 440/230's) were called the "timebomb of Europe."

During Bulgaria's EU accession negotiations, the European Union exerted strong pressure on the country to shut down the unsafe nuclear reactors at its Kozloduy NPP. The European Commission's position was that these units could not be made safe at a reasonable price. It demanded the closure of units 1-2 by the end of 2002, and the closure of units 3-4 by the end of 2006. Bulgaria agreed to decommission Kozloduy's two oldest reactors in 2002 but wanted units 3 and 4 to stay in operation until 2008 and 2010, respectively. Bulgaria argued that it could not yet afford the shutdown costs (Mudeva, 2002). Early closure would end Bulgaria's role as the leading power exporter in the region and raise domestic power bills. Kozloduy's six reactors produced 3,760 megawatts, half of Bulgaria's energy² and were of vital importance to the country's domestic needs. Bulgaria also covered nearly half of the region's annual electricity deficit with power exports. And, being more than 70 percent dependent on external energy sources (mostly from Russia), Bulgaria would further increase this dependence with the closure of the Kozloduy four units.³

The Commission stayed firm about the closure of the Kozloduy units 3 and 4, however, as a condition for Bulgaria's entry into the EU. The Bulgarian government reluctantly agreed to close them in December 2006 before the end of their lifespan. The two newest units of the Kozloduy NPP, 5 and 6, which provide about a quarter of Bulgaria's electricity, had not been considered for shutdown.

² According to some reports, the number is 40 percent but still this is a very high number.

³ *OMRI Daily Digest*, 19 December 1995.

The cost of the shutdowns of units 1-4 has been estimated at Euro 3 billion, partly due to the lack of a surplus of electricity for export to neighboring countries such as Greece, Turkey, Serbia and Macedonia. The EU provided compensation for the closures in the amount of Euro 850 million (including an extra Euro 300 million for decommissioning, clean-up and waste which was granted in 2009).

Similar shutdowns of Soviet-era reactors had to take place in Slovakia and Lithuania, and the latter's last Ignalina reactor was set to close at the end of 2009. Both these countries, as well as Bulgaria, have sought to replace old nuclear with new nuclear reactors with the plan in Bulgaria to build two large pressurized water reactors at Belene. The compensation provided by the EU for the early decommissioning of the two Kozloduy reactors was not regarded as sufficient to resolve the issue of rising domestic electricity bills and maintaining Bulgaria's role as the leading electricity exporter in the region. The second nuclear power plant project at the Belene site on the Danube River was expected to fill the gap in energy supply left by the early closure of the older Kozloduy reactors, and was revived in the late 1990s.

3.3. Russia as a Sovereign Investor in Bulgaria

Shaffer (2009) has analyzed the role of Russia's energy sector in politics and policies, and has concluded that the sector has been "intricately intertwined" with Russia's political leadership, both formally and informally. Thus formally, senior Kremlin officials sit on the boards of the major state-controlled entities such as Gazprom and Rosneft. There is also a "revolving door" for officials between the formal political structure and the leadership of the state-controlled companies. "State-controlled entities are thus compelled at times to undertake tasks determined by the state" (Shaffer, 2009, p. 121). Kuznetsov (2011) argues in a similar fashion that while it is false to say that any significant part of Russian outward FDI services Russian foreign policy, political aspects of outward FDI decisions are taken into account in many cases.

The location destination of Russian sovereign investment, including in the nuclear energy sector, is explained by the most prominent FDI theories, including the Uppsala theory of the internationalization of the firm. Thus short psychological distance, low language and cultural barriers as well as strong economic and political ties inherited from the Soviet period, play an important role for the expansion of Russian SOEs towards the countries from the former Soviet Union and the Balkan Slavic countries. As Kuznetsov explains, many Russian MNEs do not have much experience in foreign investment activities and therefore usually prefer to buy companies or to establish new affiliates only under the familiar conditions of the former communist countries, especially those with a favorable attitude to Russia. Countries such as Bulgaria, Montenegro, Serbia, Latvia, Belarus, Armenia and Uzbekistan may not be so popular among foreign investors globally. However, such countries can attract significant Russian investment due to strong cultural and language ties, already developed industrial chains and inherited business contacts from the Soviet period, and other advantages of the so-called "neighborhood effect" (Kuznetsov, 2011).

In Bulgaria, for one, as Table 1 demonstrates, Russia holds the seventh position of FDI inflows by country of origin for the period 1996-2014, with almost 2 billion euro invested (InvestBulgaria, 2015). As many observers have noted, Russian influence in Bulgaria has been strong and considered somewhat special. Bulgaria owes its independence from the Ottoman Empire to Russia's victory in the Russo-Turkish War (1877-78). Following the war, the Bulgarian state was reinstated after a period of five centuries under Ottoman rule. Bulgaria has maintained a strong relationship with Russia throughout the 20th century, despite being on the opposite side against Russia in World War I and World War II. Thus Bulgaria refused to join the attack against the Soviet Union, even though it was allied with Nazi Germany. The communist period in Bulgaria's history did not produce strong anti-Russian feelings, protests and uprisings as was the case in the rest of Central and Eastern Europe. While Bulgaria's affinity with Russia can be easily traced deep into the countries' cultural and religious similarities, there are also important geopolitical reasons that grease the wheels of the relationship, as Marco Papic wrote. Bulgaria has often relied on Russia to play the role of its protector and champion in the region. Meanwhile, Bulgaria provides Russia with a reliable foothold in the Balkans and control of the Black Sea coastline (Papic, 2012).

After the collapse of the communist regime in 1989 Bulgaria continued to maintain close ties with Russia, partly because of the relative weakness of the Bulgarian democratic opposition in the initial years of transition. Those good relations, however, did not eliminate Bulgaria's extreme dependence on Russian gas and oil. In 2007 Russia provided 92% of the roughly 4 billion cubic meters of natural gas delivered by Bulgargaz, the state-run gas monopoly. Bulgaria's Neftochim Burgas, the biggest refinery in the Balkans, is controlled by Lukoil, and the country's Kozloduy nuclear power plant uses Russian fuel (TOL, 2009).

4. Main Findings: The Re-Launch and Halt of the Belene Nuclear Power Plant Project

4.1. Re-Launch of the Belene NPP Project

In 2002, when units 1 and 2 of the Kozloduy NPP were shut down, the Bulgarian government of then Prime Minister and former Bulgarian king Simeon Saxe-Coburg put the Belene project back on the agenda despite the controversies which surrounded it. These were mostly environmental issues and in particular seismic risks. A large earthquake had hit the region in 1977 and killed over 120 people only 14 km from the planned NPP site. Early in 2005, the government approved the construction of Belene as a two-unit 2000 MW plant (see Table 4). In May 2005, the National Electric Company (NEK) of Bulgaria launched a procedure for the selection of a contractor for the engineering, procurement, and commissioning (EPC) of the Belene NPP, units 1&2.

TABLE 4. **Planned and proposed nuclear power reactors in Bulgaria**

Reactor	Type	Model	Net MWe	Construction start	Startup
Belene 1	VVER-1000 (AES-92)	V-466	1000	cancelled	-
Belene 2	VVER-1000 (AES-92)	V-466	1000	cancelled	-
Kozloduy 7	VVER-1000 (AES-92) or western PWR	V-466B or AP1000	1000 or 1200	2014	2022
Total planned (1)			1000 or 1200		

Source: *Nuclear Power in Bulgaria* (August 2012). Retrieved from <http://www.world-nuclear.org/info/inf87.html>

The outgoing government of Simeon Saxe-Coburg left the selection of the EPC contractor to the new government which was to come to power after the 2005 general elections in the country. The elections brought to power a new coalition government dominated by the Bulgarian Socialist Party. Its leader Sergei Stanishev became Bulgaria's new prime minister.

In late October 2006, NEK chose a consortium led by Russia's state-owned company AtomStroyExport (ASE), a subsidiary of Rosatom, over a Skoda-led consortium to build the plant. Rosatom regulates and runs Russia's entire nuclear complex, both civil and weaponry. Established in 2007, Rosatom has soon become one of the biggest nuclear energy companies in the world through aggressive expansion of its nuclear power plants division into various markets (mostly developing and emerging). Rosatom is currently engaged in the construction of 29 new nuclear reactors in Kudankulam (India), Akkuyu (Turkey), Belarus, Vietnam, Bangladesh and China. The company is also in various stages of negotiations and planning for the construction of nuclear reactors in more than ten additional countries.⁴ Rosatom's goal is to increase its share in the global market of operating NPPs from 2% to 17% in the period 2015-2019.⁵

In addition to ASE, the winning consortium comprised the French company Framatome (Areva) and Germany's Siemens. A 4 billion euro contract was signed⁶ for the delivery of two third-generation VVER 1000/V-466B reactors in an AES-92

⁴ Rosatom's website http://www.rosatom.ru/en/nuclear_industry/russian_nuclear_industry/. See also in Thoburn (2015).

⁵ Statement from Rosatom Concern's website, http://www.rosenergoatom.ru/wps/wcm/connect/rosenergoatom_copy/site_en/about/

⁶ There are contradictory reports as to whether the Stanishev government had signed or not signed a formal contract with Atomstroyexport. That socialist government had been strongly criticized later by its successor, the center-right government of Boyko Borisov, for failing to sign a formal contract with the Russian company.

nuclear power station. The units will be similar to those being built by ASE at Tianwan in China. The company's AES-92 VVER-1000 reactors will be operated using control and automation systems from an Areva/Siemens consortium called Carsib, while 100 Russian firms would also contribute. Such reactors are already under construction at Kudankulam in India, while two earlier AES-91 units were already operational at Tianwan in China. ASE was also close to finishing the Bushehr nuclear power plant in Iran (see Appendix 2 about Rosatom's international nuclear power plant projects).

As the socialist-led coalition government publicly announced, the ASE offer had been selected on the basis of its "highest safety level guaranteed by several new independent active and passive safety systems," as well as the option for ASE to buy back the old unit supplied in the 1980s. The Belene plant would boast a "unique combination of active and passive safety systems."⁷ Prime Minister Sergei Stanishev called the project "a Renaissance for Bulgaria's nuclear energy" and "the largest industrial project in Bulgaria in the last eighteen years." ASE announced that its success with the tender should "open up new prospects for Russian nuclear technology in Europe."⁸

In December 2006, Bulgarian regulators approved the Belene site for new build, and in December 2007 the project received approval from the European Commission. It issued a "favorable opinion" of financial arrangements to build two new nuclear reactors at Belene, stating that all requirements of articles 41 to 44 of the Euratom Treaty had been met. European Commission approval of any nuclear project in the EU is required under the Euratom Treaty. A favorable opinion of the European Commission is also one of the requirements for a potential Euratom loan. On September 3, 2008, the construction of the Belene NPP officially started (see Appendix 3 with key information about the project).

In 2006, Stanishev's socialist government hired BNP Paribas SA, France's largest bank by market value, as a financial advisor to the Belene NPP project. The Bank had to coordinate the financing of the NPP project – arrange for a Euro 250 million loan to help fund construction of the plant, assess the financial risks and prepare tenders to select banks for funding the project. The plant's estimated cost at that time was Euro 4 billion. Later on the cost was estimated at around Euro 10 billion. In 2006, Deutsche Bank, UniCredit and ten other large commercial banks all turned down invitations to finance the project. In 2008 and 2009, several large energy companies also turned down invitations to become investors in the project. NEK's poor results, combined with the financial crisis, forced it to breach the conditions on the Euro 250 million loan making it callable. Later on, in 2009, the country had to either return the money or negotiate an extension of the loan, which would cost BGN 20 million a year.

⁷ The unsuccessful bid by the Skoda-led alliance proposed the upgrading of V-320 VVER units similar to those built by the company at Temelin in the Czech Republic. Westinghouse would have provided instrumentation and control had that bid been accepted.

⁸ This and all sources and quotes that follow are news reports published by Novinite.com (Sofia Morning News Agency).

4.2. In Search for a Strategic Investor: RWE's Involvement and Withdrawal from the Project

Bulgaria then looked for a strategic investor in the Belene NPP who would own and operate the plant for a stake of up to 49% in it, while NEK would hold a majority control of 51%. Six companies were invited by NEK to submit preliminary bids. In October 2008, NEK selected the German company RWE Power as the preferred strategic partner. According to a statement from NEK, RWE had emerged as the preferred bidder after scoring higher than its rivals in an assessment exercise based on criteria ranging from price considerations, through involvement in future plant operations, to decommissioning and waste management.

In December 2008, an agreement was signed between NEK and RWE Power. Under the contract, RWE would receive a share of 49% of the Belene plant in exchange for a capital payment of €1.275 billion (\$1.736 billion) (equity stake) in the project, a premium of Euro 550 million for NEK, and a loan of Euro 300 million (\$409 million) for the purchase of equipment and other expenditures. According to NEK, RWE's €300 million corporate loan could be made available for the ordering of long lead-time plant components in advance of the financial closure of the deal, expected by the end of 2009.

After signing the contract with Bulgaria's NEK, RWE had come under heavy criticism in Germany from the public and several key shareholders for its participation in the Belene project. The key criticisms focused on issues of safety, economics, environment and corruption. Some 30,000 German citizens sent letters and petitions to RWE's CEO asking him to withdraw from the project.

RWE sought to reduce its risk by trying to find other partners. Discussions with GdF-Suez were held in May 2009 and there was speculation that a deal could involve that company's subsidiary, Electrabel. Such a move would enable RWE to hedge its risks. Electrabel / GdF Suez withdrew its interest in early 2009, however. In late spring 2009, RWE announced that it had been in talks with InterRAO from Russia, Fortum from Finland and two unnamed Swedish companies for participation in its 49-percent stake.

RWE furthermore sought to reduce its risk by refusing to invest any money in the Belene project as long as there had been no clarity about how NEK's 51-percent stake was to be financed. In May 2009, Sergei Stanishev's outgoing socialist government accepted the offer of then Russian prime minister Vladimir Putin for a loan of Euro 3.9 Billion to Bulgaria for the construction of the Belene NPP. The Bulgarian government would provide a 100-percent guarantee for it. In response to this announcement, Greenpeace alerted the European Commission that the government guarantees would be an illegal state aid.

The July 2009 general elections brought to power Boyko Borisov (a former bodyguard and Mayor of Sofia) and his center-right Citizens for European Development of Bulgaria (GERB) party. Boyko Borisov took the post of Prime Minister over promises of release of the EU program funds for Bulgaria, eradication of corruption and organized crime,

political and economic reforms, and reassessment of joint energy projects with Russia so that Bulgaria would be no longer perceived as Russia's Trojan horse in the EU.

Boyko Borisov's government decided to conduct a new assessment of the feasibility of the Belene project and its prospects for funding. The reassessment concluded first that the budget of 4 billion Euro had not been realistic and that construction costs would be in the range of Euro 10 billion. Total cost of the new plant inflated to September 2009 had come to some €6 billion. Including owner's costs, infrastructure, grid uprating, site works, project management and finance the project costs would rise to about €10 billion. The reassessment had further found out that around Euro 500 million had already been invested in the project, from which tens of millions of euro had been unaccounted for. Furthermore, according to the prime minister, there had been lack of transparency in the way Bulgaria's previous government had spent BNP Paribas' syndicated loan for the launch of the construction of the Belene plant.

Unlike Stanishev's government, the Borisov government has not been willing to provide any state guarantees for loans from Russia. Bulgarian energy experts and some rightist parties had called for a halt, saying the loan would translate into a BGN 1,300 tax burden for each Bulgarian taxpayer, electricity hikes for decades on end, and outdated and dubious Russian nuke units.

Russia's image as a reliable supplier of energy, and overall as a somewhat special partner to Bulgaria had been badly damaged by Moscow's halt in gas deliveries in January of 2009. Of all the countries along the supply chain via Ukraine to Europe, Bulgaria had been hit the hardest as it is almost 100 percent dependent on Russian gas and it has no viable pipeline options for emergency deliveries from neighboring countries. The crisis situation demonstrated the urgency of energy supply diversification in Bulgaria and the re-examination of the three projects in the energy sector that had been under negotiation with Russia: first, Gazprom's South Stream gas pipeline; second, the Burgas-Alexandropolis oil pipeline, a project of the Rosneft, Transneft, and Gazpromneft companies; and third, the Belene NPP project. On the other hand, many in Bulgaria were also considering the benefits from the Russian projects, such as transit revenue and job creation in the country, if those projects were implemented.

Bulgaria has also relied on Brussels for partial project finance. By the end of 2009, Brussels had been expected to pay all Euro 550 million (\$800 million) of the promised compensation for the early decommissioning of Kozloduy's units 3 and 4 in 2006. Bulgaria had hoped to receive further aid under the EU's recovery plan and in October 2009, Bulgaria had been granted additional Euro 300 million (\$440 million) over three years from 2010 onwards. The grant would help the country adapt and improve its energy networks and would take the overall compensation package to Euro 850 million (\$1.2 billion).

At the end of October 2009, after a long period of uncertainty, public pressure and inability to find a junior partner to share its stake in the Belene NPP project, the German utility company RWE abandoned its potential 49-percent investment in the

project. A year later, in December 2010, diplomatic cables on WikiLeaks revealed that RWE abandoned plans to participate in the construction of the Belene NPP after realizing that working with Russian and Bulgarian companies in the energy sector had been a “poisonous combination” for European investment. The cables, published by the *Guardian* newspaper claimed that the deal “reeked of side deals” even before RWE bought the 49 percent stake. RWE was said to be “in the dark” on most on-site and technical issues. The lack of clear financing structure of the project has been another important reason for RWE’s withdrawal. According to official government statements, RWE left Bulgaria’s Belene project in 2009 because of lack of financing and lack of an EPC contract for the project.

After two years of efforts, financial advisor BNP Paribas had to concede and withdraw from the project in February 2010 as it couldn’t find any bank willing to lend money for the Bulgarian share of the project cost.

4.3. Freezing of the Project

Throughout 2009, concern had been expressed as to whether the project had been affordable for Bulgaria. Responding to such concerns, the government announced in September 2009 that it would cut its share in the project from 51% to 20-30%, which would still allow the country to keep its blocking quota.

In mid-February 2010, Russia offered a Euro 2 billion loan for Belene, to finance construction activities until a strategic investor was found, without the requirement for any state guarantees on behalf of the Bulgarian government. According to the offer, the funds would be repaid by a future investor or some could remain invested on a permanent basis through a share in Belene’s equity capital. The offer demonstrated Russia’s determination to build the Belene NPP even at a very high price. The motivations could be easily found in Russia’s strategic geopolitical interests and much less so in the future high profitability potential of the plant. The Belene NPP, paid with Russian money, built with Russian design, technology and equipment, using Russian raw nuclear material and resources, would be poised to become the Federation’s own nuclear center inside the EU.

While the deal had been agreed in principle with the Borisov government, the terms had not been finalized and in March 2010 the government declined the Russian financing offer, stating that it would freeze the construction of the Belene plant until it finds “European money” and a “strategic foreign investor.” According to an official statement of the Bulgarian Socialist Party, the decision of the Borisov government to abandon the Belene project would be a “sin” that would lead in a few years to the import of electricity from Turkey.

In a response to the Borisov government’s new energy course, Russia decided to tie the South Stream pipeline project with Bulgaria’s Belene project. Russia’s Gazprom threatened to change the course of the South Stream gas transit pipeline project to exclude Bulgaria and replace it with Romania. Instead of surfacing near Bulgaria’s city of Varna, the pipeline could run to Romania.

4.4. Rosatom and Revival of the Project

Following a visit of Russian Deputy Prime Minister Zubkov to Bulgaria in July 2010, the Borisov government began working on an agreement with Russia to postpone a Euro 280 million down payment due to Russia for the production of the first unit at Belene. The payment had been due in 2010 but Bulgaria had not been able to secure the budget means for it.

Borisov's U-turn towards the revival of the Belene project fueled a new round of public criticisms. The major concern was the cost of the Belene project which was estimated to exceed 10 billion euros, making electricity exports unprofitable. Additional criticisms focused on the environmental risks, the danger of seismic activity in the region and, last but not least, Bulgaria's energy dependence on Russia. Borisov's U-turn had fueled also suspicions about links in the energy sector between the mafia and the political system.

In December 2010, shortly after a visit to Sofia by then Russian Prime Minister Vladimir Putin, Bulgaria's NEK and Rosatom signed a non-binding memorandum. The memorandum had called for a new project company – the Belene Power Company – to be established by April 2011 and for construction to resume before October 2011. NEK would have a share of 51% in the Belene Power Company; Rosatom – a share of 47%; Finnish company Fortum – a share of 1%; and French company Altran Technologies – a share of 1% with an option to increase it. Development of the plant's economic model and the selection of investors had to be carried out by HSBC, which had been selected by the Bulgarian Energy Holding as the project consultant in November 2010.

Several issues had remained to be resolved, however, notably the cost of the project and the price that Bulgaria had to pay Russia for the construction of the plant. A price of Euro 6.298 billion had been set in the memorandum between Rosatom and NEK. Subsequently, however, the Bulgarian government made it clear that it wanted a lower price, perhaps as low as Euro 5 billion. The original price in the 2008 contract between NEK and Rosatom's subsidiary AtomStroyExport for the construction of the plant had been set at Euro 3.997 billion plus any respective escalation costs to be factored in later.

In February 2011, after continuing disagreements over the price, Bulgarian Prime Minister Borisov had come up with threats to scrap again the Belene NPP project. In March 2011, the Russian government gave Bulgaria an ultimatum on the price, setting it at 6.3 billion euro as a fixed price, following Bulgaria's insistence on a fixed price or one that would not allow for additional "escalation costs" over inflation and other factors.

4.5. The Fukushima Nuclear Disaster and the European Commission's Reexamination of the Belene NPP Project

In March 2011, amidst Japan's nuclear emergency with the Fukushima NPP, the European Commission decided to reexamine Bulgaria's Belene NPP project, following an emergency meeting of the EU energy ministers. They had agreed to conduct stress-tests on all NPPs operating in the Union. Germany had decided to freeze its planned

extension of the life of its NPPs. The European Commission declared that Bulgaria's Belene needed additional technological and geological safety studies all along with its questionable financing regardless of the fact that in 2008 the Commission had officially approved the construction of the Belene NPP. The Commission made it clear that its earlier positive position for the construction of the Belene plant had to be reconsidered; that it would issue a new position on the project and would then observe if its recommendations are met.

In March 2011, the Borisov government decided to tie up the Belene nuclear project with the new EU nuclear safety requirements and the anticipated HSBC report. It signed an agreement with Russia for a three-month moratorium on the project. The moratorium would be in place until the exact price of the NPP construction is calculated, a full assessment of seismology risks prepared, and all other debatable issues cleared. The parties had committed also to the signing by June 1, 2011 of an engineering, procurement and construction (EPC) contract for building a NPP at Belene. That last arrangement (made in the "notorious" Annex 12 to the agreement) was actually mandating the sides to build the plant and led to a huge scandal within the Bulgarian government.

It remained an open question whether the signed document was legally binding for Bulgaria. The Belene blunder prompted the opposition to initiate debates in the national parliament as well as to approach the European Parliament with a proposal for imposing a moratorium on the launch and construction of new NPPs across the European Union, which could have affected Bulgaria's project for a second NPP at Belene. The members of the European Parliament remained divided over the future of nuclear energy in Europe, and the so called resolution on nuclear safety in Europe had been rejected by 264 votes in favor, 300 against, and 61 abstentions, in early April 2011. Meanwhile in April 2011, the European Commission had decided to stage an all-out probe of the Belene nuclear project by the end of 2011, amidst growing safety concerns generated by the crisis in Japan's Fukushima NPP.

4.6. International Arbitration: NEK and Rosatom's Legal Claims over Belene

In June 2011, the Russian side came up with a new ultimatum: construction of the plant had to be launched by March 2012, otherwise the project would be considered unprofitable for Russia. At the same time the Borisov government had declared that it wanted to freeze the project for three additional months, as of July. Rosatom had threatened to take Bulgaria to an international arbitration if it missed the July 1 deadline for signing a final agreement for the construction of the Belene NPP. The Bulgarian side had insisted that the price of Euro 6.3 billion demanded by the Russian side had been way too high and unacceptable, and had argued for a price ceiling of EUR 5 billion. The Bulgarian government wanted to extend the deadline to provide more time for the consultant on the project, HSBC, to figure out whether the planned NPP would be economically feasible. The government and Prime Minister Boyko Borisov in particular

had made it clear that the results of the HSBC financial appraisal would be decisive with respect to the government's final decision on whether or not to go ahead with the project.

At the end of June 2011, Bulgaria and Russia had reached an agreement to extend the negotiations over the Belene nuclear project by another three months as of July. However, in July 2011 the Belene project had experienced another huge drawback – mutual financial claims had been raised by both the Russian and the Bulgarian partners over sums allegedly owed for the delivery of new equipment and the buyout of old equipment for the future plant. Thus Atomstroyexport filed an EUR 58 million suit against NEK with the International Arbitration Court in Paris, and NEK threatened to respond with a EUR 61 million compensation suit against Russia at the Arbitration Court of the International Chamber of Commerce in Geneva. The lawsuit was filed later on, in October 2011.

Despite these claims, high-level negotiations continued on implementing the project, particularly its financial structuring. Meanwhile the project's consultant, HSBC, had come up with its first conclusions, which showed that there were ways to make Belene profitable. In early October 2011, ASE and NEK signed a supplement to their agreement on the construction of the Belene plant, agreeing to extend the negotiations over Belene by another six months or until the end of March 2012. This had already been the 15th time when the construction of the plant by the Russian company had been delayed with annexes.

In December 2011, amid court claims Russia offered a “unique” bargain for the Belene NPP – that is, to single-handedly finance the finishing of the Belene NPP. As a Rosatom official commented on the Bulgarian National Radio: “Given our proposal, Bulgaria will have to invest not a penny more than it already has, getting in return 51-percent ownership over a brand new nuclear power plant.” The Bulgarian side declined the offer, however. Prime Minister Borisov announced that the Belene NPP would not be just a Bulgarian-Russian project, and that communication with the European Commission and leading European countries would be crucial for the future of the Belene project.

4.7. Termination of the Project: Political Reactions and a National Nuclear Referendum

The Fukushima disaster and the European Commission's determination to re-examine the Belene project, combined with continuing disagreements between NEK and Rosatom over its price, as well as the government's decision to add a large-scale European or American private investor to the project when not a single such investor had expressed any interest, led to the official termination of the project in March 2012. The nuclear reactor for Belene, which had been completed by that time and for which Bulgaria had already paid approximately 60 percent of the cost, is planned to be transferred and installed at Bulgaria's Kozloduy NPP.

A factor that has been continuously emphasized as critical for the termination of the project was its staggering price, estimated by the consultants from HSBC at BGN

20-22 billion (10-11 billion euros). The Borisov government had stressed that Bulgaria and Bulgarians simply could not afford such cost – for comparison, the construction of Sofia’s subway had cost only BGN 1 billion

The reaction to this decision of the Borisov government among the political parties was mixed. Bulgaria’s socialists slammed the abandonment of the Belene project. Bulgaria’s far-right party Ataka also expressed its disappointment over the government’s decision to quit the construction of the Belene NPP and called it a “betrayal of Bulgaria’s national interest.” Bulgaria’s right-wing parties Democrats for Strong Bulgaria (DSB) and the Union of Democratic Forces were in favor of the abandonment of the project. At the end of March 2012, the Bulgarian parliament sealed the end of the Belene project by adopting a decision to terminate the construction of the plant. A total of 120 members of parliament (MPs) voted in favor of the termination of the Belene NPP, 42 voted against, and one MP abstained. A total of 163 out of 240 MPs were present at the voting.

Following the decision of the Borisov government to terminate the Belene project, in September 2012, ASE increased its legal claim against Bulgaria’s National Electric Company, NEK, from Euro 58 million to EUR 1 billion.

The Bulgarian Socialist Party declared that it would demand a no-confidence vote in Parliament against the Borisov government, and a referendum on the Belene NPP. On April 5, 2012, the Bulgarian Socialist Party and far-right Ataka submitted a no-confidence motion in the Parliament. The move had been triggered by what the two parties perceived as a failure of Borisov’s ruling centrist-right GERB party. The no-confidence vote had been doomed, however, as all other political formations had declared that they would not support it.

Too many interests and stakeholders were involved in the Belene NPP project to let it quietly die. In the summer of 2012, the Socialists pushed for a nuclear-plant referendum. By the end of July the party had been able to gather 770,000 signatures in support of the referendum and used them to table a referendum petition to the Bulgarian Parliament on July 30, 2012. According to the regulations, 500,000 signatures were needed to call a referendum in support of the Belene NPP project. An inspection of the Socialist Party’s petition for a referendum on the fate of the Belene plant had been accomplished in early October 2012 and, with 543 639 valid signatures, the national referendum vote had become irreversible. At the end of October, Bulgarian President Rosen Plevneliev scheduled the country’s nuclear power plant referendum for January 27, 2013.

The referendum was in favor of the construction of a new nuclear power plant in Bulgaria. Thus 61 percent of the voters said “Yes” to it, while 39 percent cast a “No” ballot. Voter turnout had been very low, however, slightly exceeding 20 percent. Under the law, the referendum results obliged the Parliament to put back the Belene NPP project on the parliament’s agenda. Amid street protests and the resignation of the Borisov government in February 2013, the GERB-dominated parliament voted again for the abandonment of the Belene NPP project.

4.8. Post Scriptum

The construction of the Belene NPP was one of the election promises of the Bulgarian Socialist Party in 2013. However, the Oresharski coalition government of the Bulgarian Socialist Party and the Turkish Minority Party which came to power in May 2013 decided to launch a project for the expansion of the existing Kozloduy nuclear power plant instead. It signed an agreement with the U.S. utility company Westinghouse Electric for the construction of an AP1000 unit (Unit Seven) of the Kozloduy NPP. Westinghouse Electric Company is the world's pioneering nuclear energy company and is a leading supplier of nuclear plant products and technologies to utilities throughout the world. Today, Westinghouse technology is the basis for approximately one-half of the world's operating nuclear plants, including more than 50 percent of those in Europe. Nonetheless, speculations about the revival of the Belene NPP project have frequently arisen.

5. Discussion and Conclusions: Determinants of Sovereign Investment Protectionism in Bulgaria

With Russia as a potential strategic sovereign investor in the Belene NPP project, the protectionist knot against the Russian investment has centered around two bottom-line questions: Does Bulgaria really need the plant; and, if it does, What price can the poorest member of the EU afford to pay for it? While these questions might not seem so difficult to answer from the perspective of a pure business logic, Belene has been an on-off project for years, with no clear vision on both questions, as Kondov (2011) asserts.

The key variable that complicates the answers to these two questions is the national identity of the strategic investor – Russian versus Western (European or American). That is, leave a space between the dash mark and the word “Russian”; and eliminate the question mark after the word “American”. Seemingly, the answers to these questions would differ, depending on whether a Russian or a western investor were involved in the project. Debates over the necessity and cost of the project (economic arguments) were intertwined with the deeper political-ideological divides and shadows of the past.

The Bulgarian Socialist Party, a successor to the Bulgarian Communist Party and Russia-friendly, thus became the key supporter of the Belene NPP project with Russian sovereign involvement. It was able to mobilize public support in favor of the project to the extent that the country had to organize a national referendum on nuclear energy, the first in the country's post-communist history. The socialists argued that the planned two reactors of 1,000 MW each at Belene would help Bulgaria restore its dominant position in the Balkans as an energy exporter, which the country lost with the closure of the four Soviet-made reactors at its Kozloduy NPP prior to its accession to the EU in 2007. Supporters of the project further argued that Bulgaria would have to pay around €1 billion in compensation to Russia if it walks out of the project.

The center-right, generally anti-communist political and Russophobe parties in the country, such as GERB, turned into the key opponents of the Belene project with Russian

participation. Initially their protectionist discourse had focused not on rejection of the Belene project per se but on energy diversification and bringing a *strategic investor* from the West (EU or U.S.) into the Belene project. They argued that Rosatom's involvement in the project would deepen Bulgaria's energy dependence on Russia even further, and also voiced concerns about the safety of Russian-made nuclear reactors. Later on, with the withdrawal of Germany's RWE from the project and the impossibility to attract another investor from the West, these parties employed economic argumentation against the Belene project with Russian involvement. They thus argued that there was no firm evidence that demand for Bulgarian-generated electricity in Southeast Europe would rise in the foreseeable future, and that the cost of the electricity from Belene remained unclear.

Overall, because of Bulgaria's high energy dependence on Russia, most of the questions raised against Russia's sovereign involvement in the Belene NPP project concerned the issue of national security and energy security in particular. The gas crisis in January 2009, when Gazprom cut off gas supplies to Europe for almost a month, had hit hard Bulgaria and had fueled a new look at Russia's high command over Bulgaria's energy sector. The accident at Japan's Fukushima nuclear power plant in 2011 and the new EU nuclear safety requirements for building and operating nuclear power plants made it increasingly clear to the Bulgarian political elite that the Belene NPP project is becoming economically unviable. In the end, the fate of the Belene nuclear power plant project was decided on pure economic grounds.

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Appendix 1. Bulgaria's Parliamentary Elections and Post-Communist Governments

	Prime Minister	Elected (Year of elections) or Interim	Period in office	Political Party / Coalition
1.	Dimitar Popov	1990	7 December 1990 – 8 November 1991	Non-party
2.	Philip Dimitrov	1991	8 November 1991 – 30 December 1992	Union of Democratic Forces (center right)
3.	Lyuben Berov	Interim	30 December 1992 – 17 October 1994	Non-party
4.	Reneta Indzhova	Interim	17 October 1994 – 25 January 1995	Non-party
5.	Zhan Videnov	1994	25 January 1995 – 13 February 1997	Bulgarian Socialist Party (leftist),
6.	Stefan Sofiyanski	Interim	13 February 1997 – 21 May 1997	Union of Democratic Forces (center right)
7.	Ivan Kostov	1997	21 May 1997 – 24 July 2001	United Democratic Forces (rightist)
8.	Simeon Saxe-Coburg	2001	24 July 2001 – 17 August 2005	National Movement Simeon II (centrist)
9.	Sergei Stanishev	2005	17 August 2005 – 27 July 2009	Bulgarian Socialist Party (leftist), National Movement Simeon II (centrist), Movement for Rights and Freedoms (centrist)
10.	Boyko Borisov	2009	27 July 2009 – 5 July 2013	GERB, Citizens for European Development of Bulgaria (center-right)
11.	Plamen Oresharski	2013	29 May 2013 – 6 August 2014	Bulgarian Socialist Party (leftist), Movement for Rights and Freedoms (centrist)
12.	Georgi Bliznashki	Interim	6 August 2014 – 7 November 2014	Non-party
13.	Boyko Borisov	2014	7 November 2014 - incumbent	GERB, Citizens for European Development of Bulgaria (center-right), Reformist Bloc (center-right) and ABV (center-left)

Appendix 2. Rosatom's International Nuclear Power Plant Projects

Country	NPP Reactor	Type	Status
India	Kudankulam-1	VVER-1000/412	Started production
	Kudankulam-2	VVER-1000/412	Under construction
	Kudankulam-3/4	VVER-1000/412	Under construction
Turkey	Akkuyu-1/2/3/4	VVER-1200/491	Under construction
Belarus	Belarusian-1	VVER-1200	Under construction
	Belarusian 2	VVER-1200	Under construction
China	Tianwan-1	VVER-1000/428	Under construction
	Tianwan-2	VVER-1000/428	Under construction
	Tianwan-3/4	VVER-1000/428M	Under construction
Iran	Bushehr-1	VVER-1000/446	Under construction
	Bushehr-2	VVER-1000/446	Under negotiation
	Bushehr-3	VVER-1000/446	Under negotiation
Vietnam	Ninh-Thuan 1/1/2	VVER-1000/428	Under construction
	Ninh Thuan 1/3/4	VVER-1000/428	Under negotiation
Bangladesh	Ruppur-1/2	VVER-1000	Under construction
Hungary	Paks-5/6	VVER-1200	Deal signed. Construction to begin in 2018
Egypt	El_Dabaa-1/2	VVER-1200	Deal signed
Argentina	6 NPPs	VVER-1200	Deal signed
Slovakia	Mochovce-3/4	VVER-440	Under negotiation
Ukraine	Khmelnitskiy-3/4	VVER-1000/392B	Under negotiation
South Africa	8 nuclear reactors	VVER-1200	Under negotiation
Nigeria	2 NPPs	VVER-1200	Under negotiation
Jordan	Unit-1/2	VVER-1000	Planned
Finland	Hanhikivi-1	VVER-1200	Planned

Sources: Rosatom Concern's website; Wikipedia

Appendix 3. The Belene Nuclear Power Plant Project: Key Data

Location	Town of Belene, at the bank of the Danube River
Owner	Bulgarian National Electricity Company, NEK
First Start	1981
Construction Start	1987
Project Halted	1991
Second Start	2002
Construction Start	2008
Reactor Model	PWR WWER 1000/V466
Output Capacity	2,000 MW (two units of 1,000 MW each)
Design Life	60 years
Estimated Investment	Euro 10 billion
EPC Contractor (engineering, procurement and commissioning of the plant)	AtomStroyExport (ASE), Russia , a subsidiary of Rosatom (2006 – onwards)
Foreign Investor with Equity Stake (to operate the plant)	(1) RWE, Germany (December 2008 – October 2009); (2) Rosatom, Russia (2010 – March 2012)
Project Cancelled	March 2012
National Referendum on the fate of the Belene NPP	January 27, 2013. Confirms project cancellation
Transition to Kozloduy NPP (Reactor Seven)	2014-2015 Westinghouse Electric, USA , selected with unclear (EPC or Equity Contractor) status