

Note from the LeftEast editors: this article (by Tsvetelina Hristova & Svetlin Vesselinov) is published in cooperation with the Serbo-Croatian web portal Bilten.Org. In the first month of 2015 the new Bulgarian government led by GERB (Citizens for European development of Bulgaria) announced that it was going to start negotiations for reducing the price of the electricity provided by the two big private thermal power plants - Maritsa Iztok 1 and 3. The government is initiating a financial audit in the hope to find inaccuracies and breaches of the Public procurement Law that will allow it to revisit the privatisation contracts with the two companies. According to the contracts in place, the state is obliged to buy all electricity produced by the private power plants at prices considerably higher than the average in Bulgaria. The move has a rather symbolic meaning bearing in mind that the last government led by Boyko Borisov and GERB was forced to resign in 2013 following the mass protests triggered by the unbearably high price of electricity for the end consumers. The protests were not only the biggest social unrest against the growing poverty and the neoliberal policies of the previous governments, but it also led to the horrific phenomenon of a new form of anti-poverty protests through self-immolation.

One has to only compare the statements of government officials with the reaction of the private owners to get a sense of the unfavourable conditions of the contracts and how future negotiations take place on completely unequal grounds. While they are hoping to revisit the contracts and "wishing for lower prices", the foreign companies that own the majority share in the plants are posing ultimatums. The companies rejected the ruling of the State energy and water regulatory commission that demanded a reduction of the price of electricity of 20-30% to be included in the future negotiations between the state and the private plants, and the state regulator has subsequently deterred the ruling. How did the state end up in such powerless position?

The Maritsa Iztok: the largest energy complex in South Eastern Europe  
AES Galabovo, part of Maritza Iztok Complex

The Maritsa Iztok complex was built in 1950s as an ambitious project of the socialist state. It remains the biggest power plant complex in South-Eastern Europe. It comprises of a mine, three thermal power plants, a briquette factory, as well as supporting factories and workshops for maintaining the mines and the plants. It was originally conceived as a closed circle of fossil extraction and production of thermal powered electricity and it produces about 1/3 of the electricity in the country. It also was (and remains) the major source of air pollution in the country emitting sulphuric dioxide in the region of Stara Zagora. The state-owned Maritsa Iztok 2 is the biggest source of air pollution in Europe for 2014, albeit the private-owned Brikel and Maritsa Iztok 3 are also quite high in the ranking.

After 1989 the complex was divided into multiple self-standing companies and most of them were privatised as part of the mass privatisation policy. The deals for the two thermal power plants, Maritsa Iztok 1 and 3 were among the biggest privatisation projects with the largest amount of foreign direct investment attracted in the first 13 years after the fall of state communism. The private investors were two US companies, AES and Entergy. The deal was initiated by the decidedly right-wing and anti-communist government of Ivan Kostov, and was sealed in the last days of its mandate, just before the elections that eventually marked the beginning of the downfall of his political party, Union of Democratic Forces.

The privatization of the two power plants took the form of investment projects for the construction of Maritsa Iztok 1 at the place of a briquette factory and the renovation of Maritsa Iztok 3. The terms of the contracts postulated that the state will transfer the major share to the foreign companies in exchange for their commitment to undertake the agreed renovation and construction work. The obligations of the two investors included also the reduction of air pollutant emissions by up to 90%. The state, for its part, had the obligation of buying the electricity produced at the plants at a price, settled in the contracts, for a period of 15 years. The initial prices demanded by the US companies were USD 0.046 and USD 0.029 for Maritsa Iztok 1 and 3 respectively. The negotiations, which took years to close and lasted throughout the mandate of Ivan Kostov's government were completed in a haste in 2001, days before he had to step down. They took the form of a statement for the geopolitical orientation of Bulgaria and its commitment to attracting (Western) foreign direct investment.

#### An uneven relationship

The final terms of the contracts did not differ substantially from the original intention of the private investors. The prices, at which the state is obliged to buy all electricity produced by the companies are USD 0.043 for Maritsa Iztok 1 and 0.029 for Maritsa Iztok 3, which is more than twice higher than the average price paid to other plants and energy producers. Paradoxically, the state is also obliged to pay, albeit a lower price, for electricity that was not produced at all, if the plants do not manage to work in their full capacity and produce the maximum amount of electricity. Moreover, the state mines in Maritsa Iztok are required to sell coal to the two plants at the lowest prices in the region, the exact price defined at app. BGN 30 (15 euro) per 1.5 ton (enough for producing 1MW electricity). In comparison, the price at which the produced electricity is sold back to the state is BGN 120 (60 euro) per 1MW. A representative of the worker's union Podkrepa, Vladimir Todorov, explains that the mine only gets this money from the private plants after the state pays for the electricity. Currently, the state owes about BGN 700 mln (350 mln euro) to both plants and,

respectively, they owe about BGN 160 mln (80 mln euro) to the mine. This leads to reductions of productivity in the mines, since planned investments in new technology are blocked because of the unpaid debts of the private plants. This threatens to lead to a decreased capacity of the mine and, eventually, to loss of jobs. The miners have been on strike almost every year battling to maintain the remuneration negotiated by the unions and, quite cynically, official and media reactions have been pointing to the strikes as potential causes for new rise in the price of electricity.

#### Absolute entanglement and dependency

Tens of thousands of Bulgarians protested in more than 20 cities against high electricity bills

The result of the privatisation deals for Maritza Iztok 1 and 3 means effectively offering state support to the private plants, putting them in a considerably more advantageous position compared to other energy producers in the country - both state and private owned. This goes against the narrative for the benefits of privatization, which supposedly leads to increased competition, lower prices, and better services. The announce for the new government's "wish" to revise the contracts comes indeed at the end of the 15 years period of validity for the deals but it is yet to see if the state will renegotiate better conditions. When in 2013 people were protesting that their electricity bills include a fee for "non-redeemable expenses" (which masked the higher prices paid to private plants), the response was to rename the fee to "social duties" and combine it with the green energy and brown energy fees.

In this situation of absolute entanglement and dependency of the state the negatives of mass privatisation in Bulgaria are only getting harder to overcome and the blame is put on either the state-owned companies or the workers. Today, in the eve of signing the TTIP (The Transatlantic Trade and Investment Partnership) agreement, states have less and less power negotiating with transnational companies, which might mean that the results of unfavourable privatization deals will linger with us for much longer.

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