THE KREMLIN PLAYBOOK
Understanding Russian Influence in Central and Eastern Europe

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A REPORT OF THE CSIS EUROPE PROGRAM AND THE EUROPEAN SECURITY AND COOPERATION PROGRAM
Appendix. Case Studies

HUngary: Early Illiberalism Adopter

Of the five case countries considered under the scope of this project, Hungary has experienced the most dramatic reversal in national policy orientation during the 2004–2014 period. At the beginning of the study period, Hungary was among the best performers in Central Europe in terms of its good governance practices and was steadfast in its Euro-Atlantic orientation, having acceded to NATO in 1999 and the European Union in 2004. Yet, as the decade progressed, Hungary experienced a marked deterioration in democratic governance standards following its 2010 parliamentary elections. The center-right Fidesz majority government under the leadership of Hungarian Prime Minister Viktor Orban has taken steps to consolidate the government’s control over and restrict democratic institutions and has advocated for an illiberal approach toward governance. The Orban administration has revised the Hungarian constitution five times since 2010 by redefining voting and election laws, and the Fidesz-led parliament has passed legislation that increases the government’s control over Hungary’s judiciary, media, and central bank. The government has also been criticized for passing laws that fail to protect civil liberties and the rights of minorities. This institutional consolidation has coincided with a shift in Hungary’s foreign policy attitudes toward Russia.

There have been two significant shifts in Hungary’s political landscape over the 2004 and 2014 study period. The first was the collapse of the Hungarian political left due to incidents of corruption, the release of damaging taped conversations of the former prime minister, fiscal mismanagement, and the global economic crisis, which paved the way for the center-right Fidesz party to become the country’s preeminent political force following parliamentary elections in 2010. Fidesz won 227 out of 386 seats, which when combined with the 36 seats won by its junior coalition partner awarded Fidesz a two-thirds majority in parliament—a reality that has allowed the Orban government to pursue its policy agenda unobstructed. The second development was the rise of the far-right, ultranationalist Jobbik party, which has rapidly grown in popularity since its inception in the early 2000s to become a leading pro-Russian, anti-NATO, and anti-Semitic voice that today is Hungary’s second largest opposition party in the National Assembly with 24 seats. Thus,
Figure A.1. Hungary

Democracy Scores vs. Russia’s Economic Footprint

<table>
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<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<tr>
<td>FDI stock from Russia as share of GDP (%)</td>
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<td>0.0</td>
<td>0.7</td>
<td>0.0</td>
<td>1.4</td>
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<tr>
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<tr>
<td>Oil and Gas imports from Russia as a share of GDP (%)</td>
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<td>4.1</td>
<td>4.7</td>
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<td>5.8</td>
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</tr>
<tr>
<td>Exports to Russia as a share of GDP (%)</td>
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<td>2.1</td>
<td>2.4</td>
<td>2.2</td>
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<td>12.2</td>
<td>11.6</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Source: CSD Calculations based on data from EUROSTAT, National Central Banks, and Corporate Registers and Databases.
Hungary’s governance changes can be ascribed to two internal political motivations: Prime Minis-
ter Orban’s strong desire, once returned to power in 2010, to first ensure that Fidesz’s very thin
“majority” leadership remained in power and, second, to simultaneously use Jobbik’s rising popu-
larit y as a justification for the continuation of Fidesz rule as a safeguard against Jobbik, while
ensuring that Jobbik does not become a true political rival to Fidesz.

Russia shares an interest in encouraging Jobbik’s success. Although Jobbik began as an anti-
Russian party (due to the Soviet’s brutal ending of the 1956 Hungarian Uprising and harsh commu-
nist rule), it made a decidedly pro-Russian turn following the ascendancy of party member and
financier Bela Kovacs in 2005. Now one of Jobbik’s three European Parliament members, Kovacs,
who is currently under investigation by European authorities on charges of Russian espionage, has
ties to Russia and advocates for Jobbik to cultivate even closer relations with the Kremlin. In 2006,
Kovacs became the party’s foreign policy adviser and personally orchestrated Jobbik party leader
Gabor Vona’s first trip to Russia in 2008. It is believed that Kovacs was Jobbik’s single greatest
patron in the party’s early years, personally sustaining it before the party had entered parliament, and
was eligible to receive government funding. Although direct channels are difficult to uncover, it
appears that Russia may have invested in Jobbik to create a political alternative to Hungary’s centrist
parties; if Jobbik would succeed in becoming Hungary’s largest political party it could severely
damage or potentially terminate Hungary’s membership in Euro-Atlantic institutions. Since then,
Jobbik’s president Vona has visited Moscow and the Russian Duma in 2013, and Jobbik members
were also selected alongside politicians from other European far-right parties to observe the
separatist “elections” in Crimea and Donetsk, which they deemed to be free and fair in opposition
to EU and U.S. policy.

How the rise of Jobbik has directly impacted decisionmaking in Hungary, however, is less obvious.
It is unclear how much of the Hungarian government’s policies stem from Prime Minister Orban’s
desire to politically outmaneuver Jobbik or if Orban believes that a Euro-Atlantic path is no longer
viable for Hungary, thus is hedging that nationalism and authoritarianism are a better future course
for Hungary (as well as the long-term sustainment of his leadership). Since 2010, Orban has be-
come a champion of Euroskepticism in Central Europe and a vocal defender of national sover-
eignty against the creeping reach of “Eurocrats” in Brussels. In many cases, he has positioned
Hungary in opposition to the Commission and European integration, as evidenced by his strong
opposition to the joint migration burden sharing scheme (on October 2, 2016, Hungary will hold a
referendum on the question of whether to accept the EU refugee quotas). Like Jobbik, Orban was
once, in his formative years, staunchly anticommunist and was considered a leading “freedom
fighter” against Russian oppression. In opposition, Orban was a strong critic of the Hungarian

socialist government’s growing economic relations with Moscow. However, since 2010, Orban has reversed his stance and advocated for significant Russian projects, investments, and interests. He has expressed his strong opposition to the EU sanctions regime over Russia’s annexation of Crimea. In September 2014, Hungary also temporarily ceased to supply reverse flows of natural gas to Ukraine after Russia reduced its supply following a meeting between Prime Minister Orban and Gazprom’s CEO. Moreover, the Hungarian foreign minister has stated that because Russia does not pose a threat to Hungary, there should be no NATO forces on Hungarian soil, although Hungary will host a NATO Force Integration Unit. This last sentiment is similar to Jobbik’s stance, which “condemns the Hungarian government’s voluntary commitment to host a command center to help coordinate deployment of NATO’s rapid response force . . .” because “under U.S. leadership, NATO is taking a series of demonstrative and aggressive steps in our region.”

Before 2010, Russia’s economic footprint in Hungary was limited (see Figure A.1). Hungary’s economic relationship with Russia was an average of 11 percent of GDP and insignificant between 2004 and 2014, with the most significant transactions occurring in the energy sector. But while Hungary remained highly reliant on Russian gas imports, its overall energy dependence on Russia began to decline as resource consumption shifted away from hydrocarbons. Russia’s ability to use its networks and business connections in Hungary to advance its interests also appears to have produced limited results. Megdet Rahimkulov, a wealthy Russian businessman and former Gazprom executive, gradually acquired shares in the Hungarian energy company, MOL. After Gazprom’s bid to acquire MOL failed, Rahimkulov sold his shares to Austria’s OMV. In 2009, OMV sold its 21.2 percent stake in MOL to Russian company Surgutneftegas, which was reported to be linked to the Kremlin, despite the fact that Hungarian law barred it from exercising ownership rights due to its own nontransparent ownership. According to reports, “Gazprom-related interests were thought to control significant portions of the floating stocks in OMV,” raising the possibility that Gazprom may have influenced the transaction. Surgutneftegas eventually sold its stake back to the Hungarian government in 2011 for €1.8 billion.

The most significant Russian economic shift in Hungary occurred in 2014, a year before Hungarian Parliament elections, when the Orban government awarded the Russian state-owned nuclear

operator Rosatom a sole-source contract (which the Hungarian government has not made public-ly available)\(^{10}\) to construct two new nuclear reactors at the Paks facility for €12.2 billion—a deal that alone is equivalent to 12\% of Hungary’s total GDP in Russian financing for the project. Prime Minister Orban is believed to be the ultimate authority on all public procurement contracts in Hungary, raising the possibility that he personally may have played a role in advancing this deal. Few details about the specifics of the contract are known, however, as the Hungarian Parliament has restricted access to related information for at least 30 years into the future.\(^{11}\) The Paks contract represents a pattern of Russian economic behavior in the region: the conclusion of a nontransparent and potentially lucrative contract in the energy sector with a government (a year) prior to national elections. Orban was reelected prime minister in 2014.

What is also striking about Hungary’s post-2010 development is the substantial increase in levels of corruption in Hungary. Transparency International describes Hungary as a “centralized form of corruption that has been built up and made systematic.”\(^{12}\) Because corruption is a key amplifier of Russian influence and a lubricant to the unvirtuous cycle, this is a worrying trend that also appears to ape a Russian model of development. Certainly the Hungarian government and parliament have been efficient in passing legislation that prevents transparency and oversight of large, state investment projects. In addition to preventing public scrutiny of the Paks-2 reactor deal, the parliament also modified national laws to enable uncertified companies to construct gas pipelines as part of the now-defunct South Stream project, circumventing EU regulations designed to prevent market manipulation to Gazprom’s benefit.\(^{13}\) That Hungarian MPs have actively reduced barriers that resist corrupt and monopolistic activities that work against Hungarian sovereignty is highly troubling, particularly as it appears that it is purposeful government policy. Therefore, we view Hungary as willing and vulnerable to Russian channels of economic and political influence.

Is Hungary’s increased economic dependency on Russia, combined with Prime Minister Orban’s attraction to authoritarian and illiberal models of governance and increasing skepticism (if not outright rejection) of Euro-Atlantic policy initiatives, simply the product of political expediency or a purposeful change in policy orientation due to Russian influence? The close linkage of energy contracts and lucrative economic deals suggests that the Hungarian government’s desire to create domestic economic benefits takes precedence over its Euro-Atlantic orientation for the time being. It also suggests that the strength of Russia’s energy ties can induce policy changes such as Hungary’s cessation of reverse natural gas flows to Ukraine. However, Prime Minister Orban’s interests may surpass immediate economic benefits or political expediency and

\(^{10}\) Andrew Byrne, “Hungary and Russia Confirm Nuclear Deal,” Financial Times, December 9, 2014, https://next.ft.com/content/48dae3d0-7fc7-11e4-adff-00144feabcd0.

\(^{11}\) “Paks Data to be Classified for 30 Years,” Budapest Times, March 6, 2015, http://budapesttimes.hu/2015/03/06/paks-data-to-be-classified-for-30-years/.


encompass something greater. In November 2015, Orban urged Europe to develop a global strategic framework that awards a “proper place” for Russia, indirectly endorsing President Putin’s “Eurasian Union”—a free-trade area stretching from Lisbon to Vladivostok—and seeking deeper economic and political integration with Russia (as opposed to the United States and Europe). Hungary appears to be an early adopter of a political alternative to Western liberalism that is grounded in nationalist, conservative, Christian values and over which a strong leader retains total control. It is extraordinary to contemplate that Hungary may believe its future is better served by an illiberal model of governance more than 25 years after the country left the Warsaw Pact.

BULGARIA: WHAT STATE CAPTURE LOOKS LIKE

Figure A.2. Bulgaria

Democracy Scores vs. Russia’s Economic Footprint

Source: Freedom House, CSD Calculations

Economic Data

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<tr>
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<tr>
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<td>Oil and Gas imports from Russia as a share of GDP (%)</td>
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Source: CSD Calculations based on data from EUROSTAT, National Central Banks, and Corporate Registers and Databases.
Few European countries are as closely interconnected historically, culturally, and economically to Russia as Bulgaria. A Slavic, Orthodox nation that largely owes its independence to the support of the Russian czars during the twilight of the Ottoman era, Bulgaria’s relationship with Russia dates back centuries and its bond only grew stronger during the Soviet era, going as far back as the Bulgarian leader Todor Zhivkov, who repeatedly sought to make Bulgaria the 16th Soviet republic. Despite membership in NATO (2004) and the European Union (2007), Bulgarians remain largely sympathetic toward Russia. As the case in Slovakia shows, for many Bulgarians, being both pro-European and pro-Russian is not mutually exclusive but a national necessity that has manifested itself in the country’s policies.

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

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

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

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

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

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


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


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

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

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

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

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

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

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

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

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

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