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The Age of the Oligarchs:

How a group of political and economic magnates have taken control of Bulgaria

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Table of Contents

Acknowledgements

Introduction

Chapter 1. Can theory comprehend the reality?

Chapter 2. To change the model

2.1 Securing the top

2.2 Tailored legislation

2.3 Clearing out the scrap metal market

2.4 State aid for the ski dreams of the oligarchy

2.5 The expansion of Corporate Commercial Bank (CCB)

2.5.1 DPS and the oligarchy

2.5.2 CCB, the government's banker: how it works

2.6 The tobacco sector

2.7 CCB and the telecommunications sector

Chapter 3. The conquest of the Bulgarian media

3.1 A Guide to Bulgaria's media

3.2 The theoretical framework

3.3 Bulgaria's media post-communism

3.4 How Bulgaria's economic crisis has affected the media

3.5 How colonization works

3.5.1 European grants used to control the Bulgarian media

3.6 How CCB's media power started, and spread

3.6.1 Mitigating the damage, or securing "Trud" and "24 Chasa"

3.7 Inefficient regulators

3.8 Go gentle with television

3.8.1 How to control television?

3.8.2 The television of Corporate Commercial Bank

Chapter 4. Conclusions

Bibliography

Acknowledgements

It was in June 2007 when I joined the team of Bulgaria's leading business daily newspaper "Dnevnik", which in 2011 was renamed "Capital Daily". For the next six and a half years I had the chance to look from very close at the process of policy making. In Bulgaria, a country with very low institutional capacity, the Ministry of Finance is like a government within the government. I had the opportunity to write many exclusive stories. But many times I had the feeling that the stories I wrote were not really touching the biggest problems my country faces.

This concern was confirmed in 2010 when I overheard one deputy-minister of finance saying to another high-ranked government official that "We're so lucky the journalists don't know what to ask".

It took me a while to decipher his words and when I came to the inner belief that I understood what he meant, the picture was horrifying.

It was a plastic reality of television talk shows where shallow-thinking anchormen were asking convenient "tough questions" focused on the agenda the politicians had set. And they had set it by feeding convenient journalists with exclusive stories of secondary importance which they were promoting as top stories. I was a part of this plastic reality.

When the publishers don't publish newspapers for readers but for advertisers, or use them as a tool to promote their other businesses, quality journalism becomes a rarity. The average age of senior reporters in my country is between 30 and 35 years. At this age people can see enough to disgust them and move to another profession knowing that their publishers will prefer to replace them with naïve freshers rather than giving them the freedom to analyze the key problems.

This trend undermines the healthy role which the media play in society but fits perfectly

the demands of our corrupt political class and the oligarchy.

With this essay I am trying to give a glimpse into the serious wrongs going on in my country. When this essay becomes public, many will say that I am a lackey of Ivo Prokopiev – the publisher of “Capital Daily” and (in their opinion) the most harmful oligarch for Bulgaria.

But it is not Prokopiev or his business group which has benefitted from the deterioration of our political and economic governance since 2009.

And that is the point. It doesn't matter if it is him or some other oligarchic group which exploits the weakness of our state. My essay examines these weaknesses and the way the oligarchs took advantage of them.

I could have never written this research paper if it wasn't for the fellowship offered by the Wincott Foundation. So I thank Sir Geoffrey Owen, the chairman of the foundation, and its staff who gave me the chance to study at the Reuters Institute.

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In Bulgaria we say that strong family bonds are like a second spine. In that sense I would be nobody without the help and encouragement of my family and friends.

I will never forget how proud my father was of the fact that his sons were journalists.

Some of my friends are also proud and very supportive and I owe them my thanks. And finally I wish to dedicate this research paper to my family – my mother and my brother whose love and support are my harbor in any hardship.

Introduction

With this research paper I am trying to show how deep and destructive the links are between the political and business elites in Bulgaria. As a member state of the European Union, Bulgaria has a division of powers and democratic institutions but they act as inseparable parts of a mechanism which I call the ‘rule of the oligarchy’.

The creation of this oligarchy dates from the collapse of communism and the transition period afterwards. The political elite needed to consolidate instruments for influence in the new democratic political system and therefore created a class of state-appointed millionaires. They were supposed to support their creators with the economic power of their corporations and indeed they carried this out. But at some point the centre of weight moved and the number of puppeteers among the political class decreased. Instead a new class of state-appointed millionaires became powerful enough to create and control politicians and whole political parties, and therefore to influence political life in Bulgaria far beyond the standards of acceptability for a European Union (EU) member state.

Because of this there is a clear distinction between the “overachieving” countries in the former socialist’s bloc and the ones that failed. Poland, the Baltic States, and the Czech Republic became examples of market and institutional reforms within the rule of law. Others like Bulgaria, Romania and some of the former Yugoslav and Soviet republics suffer from constantly corrupt governance and slow convergence with high income Western European countries.

This paper aims to explain some of the reasons why Bulgaria couldn’t achieve faster convergence. One of the reasons is that there is no full economic freedom, key sectors are reserved for the oligarchy and small and medium enterprises are repressed by public institutions.

To support this statement, I will describe exactly how some of the brakes on the Bulgarian economy work, and to do this I will look at the interaction between the oligarchy and the political elites. My essay is more a snapshot of the developments which took place between 2009 and 2013, and not a comprehensive map of the whole oligarchy. But it will serve to show how the oligarchy manages to achieve its goals and will try to mark systemic weaknesses of the Bulgarian political system. This paper covers the period up to March 2014.

With this essay I provide real life examples of how a country that is a EU member fell under rule of the oligarchy despite all the principles of the European Union and all the supervision mechanisms it has developed. My aim is to show the systemic weaknesses, where addressing them might prevent the dominance and aspirations of the oligarchy.

The paper also tracks the connections between the oligarchy and the political elite and the patterns of this interaction. The political elites have always tried to transform their political power into economic power. It was not envisaged as a key problem between 2001 and 2008 when Bulgaria was enjoying large capital inflows in terms of lending and foreign investments. This allowed the small and medium enterprises to take a part in economic growth, and the incomes of households were growing as well. This is one of the reasons why Bulgarian society wasn't really attentive and resistant to the consolidations of power and economic strength in the hands of the oligarchical circles.

As a country waiting to become an EU member state, Bulgaria was expected to show developed democracy and freedom of markets so business groups and political elites were trying to keep their connections well hidden.

However, as soon as Bulgaria became an EU member state on January 1 2007, the ruling political coalition immediately started to exploit its benefits, knowing that whatever happened there was no mechanism that could exclude the country from the EU once it had joined.

The ruling coalition at that time was formed by three parties – the Bulgarian Socialist Party (BSP), the Movement for Rights and Freedoms (DPS, the party representing the Turkish Minority), and the National Movement Simeon the 2nd (a centrist party of the former monarch).

The global financial crisis brought recession followed by a long period of slow growth which limited access to capital and market-based wealth. This is why the oligarchy focused on its favorite activity – exploiting and plundering public resources.

One example for the frustration of independent entrepreneurs and the households in Bulgaria is provided by The Economist¹. In an article in November 2013 it wrote:

The formula for business success in Bulgaria seems to be to specialize, produce for export and stay small enough to avoid upsetting powerful interests. Anything requiring the state's support (skilled labor, infrastructure) will take forever arriving. Bulgarian entrepreneurs say things are not as bad as they were. But EU membership and years of rising living standards have raised ordinary people's expectations. If businesses meet them it will be despite the government, rather than with its help.

¹ The Economist, Succeeding in spite of the state, London, 2013

Chapter 1. Can theory comprehend reality?

There are three possible approaches to the development of the oligarchy and the elites in Eastern European countries. A more practical approach is followed by journalists who dedicate their professional efforts to describe the oligarchy. This is more chaotic due to the variety of observations and conclusions that are not underpinned by mutually accepted terminology.

During the cold war some professionals used the word “oligarchy” as a description for the Soviet elite, or in other words high ranked party members who were not rich in terms of private property but who wielded incredible political power and lived a privileged life (John Brown, *KGB - The secret work of Soviet secret agents*, New York, 1974).

Two academic theories adopt two other approaches. The “elite theory” is described by the American sociologist Charles Wright. He sees an elite as a homogenous mass which controls every aspect of the social environment from the public institutions and corporations to the culture (Charles Wright Mills, *The power elite*, New York, 1956). A similar pattern of social construction is described by Douglas North and Barry Weingast in their essay “The natural state” (2005).

They provide a theoretical explanation why some countries manage to achieve well-being through thriving free markets and others do not. They state that the failed countries are controlled by a coalition between political and economic elites. These elites take the rents of the market exchange while the population exists at a subsistence level.

The so-called developing countries are in fact not developing their economies and the gap between them and the industrial economies is growing. The explanation is that developing economies have the characteristics of the ancient ‘natural state’.

In this social order the political elite, in coalition with oligarchical circles, benefits from the limited access to the local market. Property rights and contract enforcement exist but only for the members of the coalition, and the economic system serves as a tool to solidify the ruling coalition.

In the opinion of Mills, North and Weingast, all donor programs that grant financial support from developed economies fail to reform the system and to build prosperity for the population of countries whose governance is described as this 'natural state'. The reason is that the coalition embezzles the grants and they do not reach wider society, strengthen institutions or increase competitiveness.

It might look surprising that governance of the type of 'natural state' can be established in an EU member state, but the experience of Bulgaria confirms that this is indeed possible.

But the elite theories regard the oligarchs and political elite as a homogenous mixture with mutual interests and harmonic co-existence. In fact they are different at least because the rules of the EU require separation between the political and economic power. Therefore EU legislation grants the political elite enough power to cause serious damage to the economy if it decides to do so. There is a potential for internal struggles for dominance in the system and they occur when an ambitious politician or a party tries to claim back a territory of influence from the oligarchy.

As part of the larger concept for political and economic governance, the oligarchy represents the "rule of the few", as described by Plato and Aristotle. The classical definition of an oligarchy is the ability of a small group of wealthy people to influence the governance of the Greek city-states at that time. The emphasis is on the fact that this group of people is capable of making decisions which are crucial for a country. Whether the oligarchy in fact uses its capability to make such decisions has a secondary importance to the system.

In his book “Oligarchy” (2011) Jeffrey Winters points to the time when the modern oligarchy acquired its present characteristics: *‘The rise of modern state in 17th and 18th centuries ushered in the single most dramatic transformation in the long history of oligarchy. It marked the first time oligarchs were disarmed and no longer ruled directly. The notion that property defense could be reliably guaranteed by a state instead of the oligarchs doing the job themselves was untested and generated considerable anxiety’.*

Winters writes that one of the main efforts of the founders of the US was to prevent the establishment of a European type of oligarchy. But it exists, and it is described as a civil oligarchy where the oligarchs are stripped of their tools to use violence. As a way to defend their property they have delegated and trusted this mission to the institutions.

In that sense the concept of ‘oligarchy’ used in my essay does not fit exactly with either of the theories. Rather, it describes the oligarchy and the political elite as two parts of a system where interest is best protected when they cooperate, but they are different in their nature and so conflicts are possible. That is what differentiates the reality in Bulgaria from the elite theories and from the view of Jeffrey Winters.

In the Bulgarian case the oligarchy not only tries to protect its property but to seize as much as possible of the Bulgarian economy, and to do so it tries to bind the principles of democracy and the freedom of markets. So it is not only a protection of property but seizure of more and more of the economy.

Therefore this essay should be regarded as an attempt to expose certain patterns of interaction between the political elite and the oligarchy which shape the political and economic governance of Bulgaria.

Winters intentionally avoids comments and examinations on the Russian oligarchy due to the unreliable nature of information about it. However, there are many similarities between the development of the Russian oligarchy and the Bulgarian oligarchy and their relations to government.

“There are three kinds of businessmen in Russia. One group is murderers. Other group steals from other private individuals. And then you have honest businessmen like us, who only steal from the state”.

This is what a Russian oligarch told Anders Aslund in interview for his book “Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed”. The same pattern of behavior could be attributed to the early years of the Bulgarian oligarchy. The difference comes when a strong statesman comes to power and the outcomes are not the same.

With this essay I try to provide a framework through which many of the Eastern European oligarchies can be regarded.

I propose a specific terminology for this essay. It does not contradict the conventional understanding but specifies the definitions in a distinctive way.

By ‘political elite’ I mean the government and all of its aggregated forms of power - legislative, judicial system and executive power. Thus there is no real separation between legislative power, executive power and the judicial power. Instead of one power balancing the other, all powers work together to support the coalition between the political elite and the oligarchy. There is at least one direct piece of evidence that shows the domination of the executive power over the judicial one².

Modern ‘oligarchs’ are recognized as influential businessmen mostly from the former Soviet Union and the satellite countries who owe their initial capital formation (their first million) to government officials. This is possible through the distribution of public wealth and assets to favor the oligarchs but instead of paying an adequate price to the state they pay bribes to high ranked officials in order to acquire the assets more cheaply. Another

² A transcript from a cabinet’s session from 2008 shows that the minister of the economy and energy Petar Dimitrov considers the Sofia City Court as a notary office which legalizes the political decisions of the government.

source of wealth is scavenging resources from the financial markets and household savings as the Central Bank and the other regulators are simply unable to work because of a lack of experience and capacity, or because they are corrupt.³ (OECD, Bulgaria, *Economic surveys*, Bulgaria, 1997; Petar Ignatiev, *The bank crisis in Bulgaria 1996-1997*, Sofia, 2005).

Their symbiotic cooperation helps the oligarchs to expand their business activity and wealth while the politicians participating in the government increase their personal wealth and try to stay as long as possible on top of the state.

To build a better understanding of what is a modern oligarchical structure of the economy and how it works in Bulgaria we describe it as deviation from the free market economy and distinguish this deviation from other famous deviations.

This paper also describes the interaction between the political elites and the oligarchy. The essay constructs a system of deviations from the classical perception of the free market economy with their characteristics and shows the transition of Bulgaria from one deviation to another and the failure to establish a free market economy.

Each one of these deviations represents an extreme whose characteristics might not be completely fulfilled but it gives an idea for the state of development of the economies and what opportunities for business and economic freedom they provide.

The dominant perception of state capitalism is that it is a political and economic structure of state governance where all key resources – natural and financial – are concentrated in state owned enterprises (SOEs). Therefore the SOEs exist not only to seek profits, but work in compliance with an understanding of what is in the national interest.

³ In the mid-90s Bulgaria suffered a financial crisis that led to the bankruptcy of 13 banks, devaluation of the local currency – Lev (BGN) and the damages of it are estimated up to 44 percent of GDP. Many researches attribute this crisis to the informal support of the institutions. The most reputable research of this crisis is conducted by the OECD, although it prefers not to expose the cases of corruption and focuses on the general conclusions. The Bulgarian economist Petar Ignatiev goes further and describes the malpractices which led to the crisis.

SOEs typically have a large capital base compared to the private sector and are used by the governments as a tool for imposing different internal policies – such as employment, social inclusion etc. They might also serve as a tool in the foreign policies of the country by investing or lending money in other economies with the goal of achieving influence.

China is a practical example of state capitalism because the state creates enterprises, holds a major stake in their shareholding structure and supplies capital (Haley, Haley, and Tan 2004). Because of the government support the financial markets favor the SOEs and sometimes the government even restricts the competition to within SOEs.

Therefore one main characteristic of countries with state capitalism is the fact that such countries accept private property and private entrepreneurship but in a smaller proportion to that which occurs in a free market economy.

All local entrepreneurs and foreign investors know about the structure of the economy and it helps them to adjust their plans in accordance with the existing reality.

Another characteristic is the leading role for institutions and a lesser role for individuals. This means that such countries have established a stable political status quo and mechanisms for continuity where the individual may occupy an influential position but only for the term he is entitled to and there is a mechanism for his replacement. Such a structure of governance may represent a significant deviation from the free market economy but it still depends on its framework, principles and rules.

The ‘corrupt governance model’ is harmful to the economy and the society of the country where it exists but does not threaten the property and entrepreneurial rights of the people. A characteristic of corrupt governance is that most people apply for public positions to use them as source for self-enrichment. They do not see participation in public administration as a chance to contribute for the well-being of the society and their main drive is personal profiteering.

Corrupt statesmen play the role of gatekeepers of public services which they should provide by default. Instead they use their power only when they are especially motivated with bribes from an enterprise or a household.

This characteristic sets up an informal guideline and framework for households and enterprises that act as non-written legislation. It is easy to understand and everyone can take advantage, if they can pay the right bribe.

Another aspect of the political risk in countries with corrupt governments is that if a company asks for a certain permit and pays a bribe to the government official, it might need to make its business dependent on the permit completely operational within the term of the political cycle. Otherwise when the next government is formed by another party or coalition the new government might also ask for a bribe from the company.

In the corrupt governance model, it is still possible to do business but everyone who wants to needs to anticipate that there might be a success fee to be paid to state officials.

The ‘rule of the oligarchy’ is the most dangerous deviation after the types that openly abandon democratic principles. It is characterized by a symbiotic coexistence of the political elite and the oligarchy. As in state capitalism the government uses all tools available to give competitive advantages to some of the enterprises which belong to the oligarchy. But state owned enterprises are not the only ones to benefit. Those which belong to the oligarchy benefit from almost the same support as the state owned ones.

In exchange, the oligarchs help the political elite to preserve its power for as long as possible. The oligarchy provides the government with various types of support. In countries with an imperfect electoral system, like Bulgaria, one oligarch can order his employees to vote for certain parties which, as a result, form the government. Another tool available to the oligarchy is to manipulate content in the media it controls in order to shape public opinion favorable to the government and the parties behind it.

The so-called business elites dominate sectors of the economy that are related to government purchases, such as infrastructure construction, energy, and renewable energy. The

oligarchy may also control the manufacture of goods that are subject to special taxation such as cigarettes, spirits, and fuels.

In Bulgaria, as in all the EU member states, the excises (usually on fuels, cigarettes and spirits) and VAT form a large share of the market price of the goods. And in a poor country like Bulgaria where a large part of the population does not have significant purchasing power, it is a big temptation to look for cheaper fuels, cigarettes and spirits.

They can be provided by undeclared manufacturing in plants licensed by the government that are “supervision-free,” not by law but because the authorities keep their eyes shut.

The sale of undeclared production is never mentioned in the official financial reports of the manufacturers, but it exists and is used for strengthening the power of oligarchs and for expanding their influence in other sectors. These might be real estate, tourism or official acquisitions of state owned enterprises in formal privatization procedures.

The statements of two of our most famous politicians of the last decade very easily illustrate the transition from corrupt governance to the ‘rule of the oligarchy’. The first one was made by Ahmed Dogan – the leader of the Movement for Rights and Freedoms (known as DPS). In 2005 he publicly stated in a TV talk show that political parties surround themselves with supportive businessmen who receive gifts from the parties when in power and return the favor when necessary. He called this phenomenon “corporate rings” and used it as a euphemism for political corruption.

Then in 2013 it was the leader of the socialists – Sergey Stanishev (and a former prime minister from 2005 to 2009) who admitted that Delian Peevski, the newly appointed chief of the counterintelligence service, belonged to the biggest oligarchic group, but he added that he had been assured that Peevski was reliable. Stanishev’s immature statement showed that the oligarchy dictates even the appointments in the security services with all the risks it brings to democracy.

Under the ‘rule of the oligarchy’ the private sector exists but it is difficult to penetrate the sectors dominated by the oligarchs. Companies that do not belong to oligarchical circles

are harassed by the authorities who can delay or deny licenses, construction and ecological permits etc.

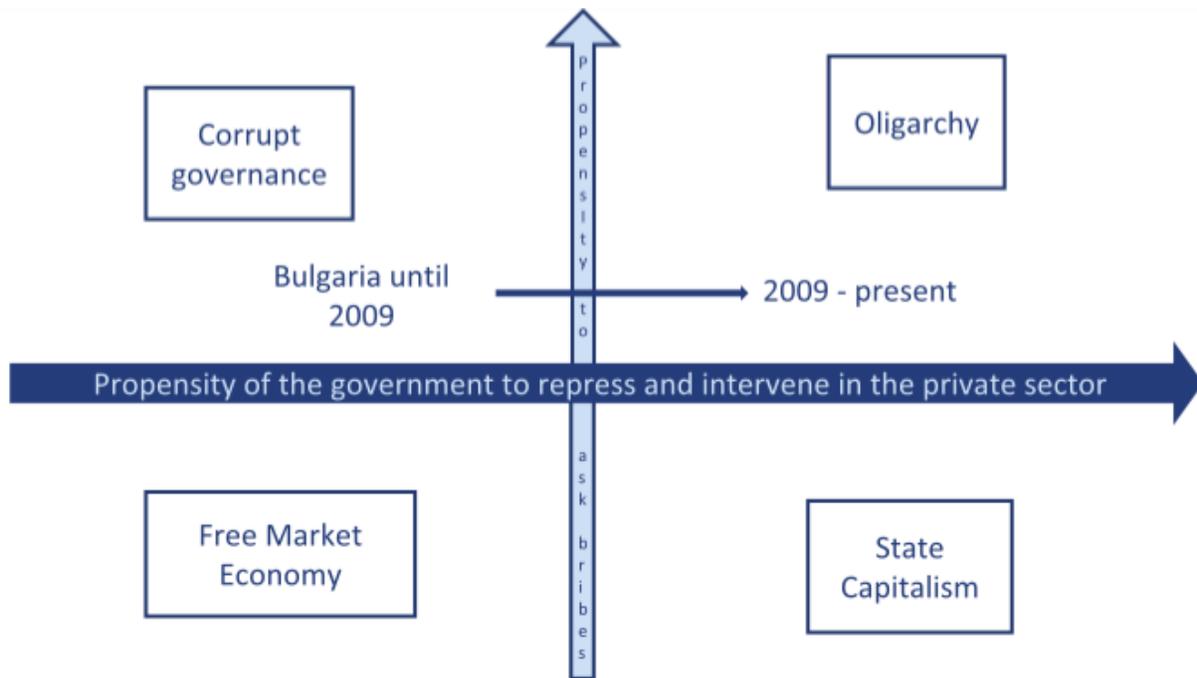
It is a new, qualitatively different level of political risk which is outlined in Table 1 and Figure 1.

Table 1 and Figure 1.

Typological differences between the forms of political and economic governance

Political risks	Free market economy and developed democracy	Corrupt governance	State capitalism	Rule of the oligarchy
Political corruption	By exemption	Widely spread	By exemption	Widely spread
Unpredictable legal framework	By exemption	By exemption	only in accordance to the understanding for national interest	in accordance to the interests of the business elite

Freedom of press	Widely spread	limited freedom of press – in accordance to the interest of the owners	limited freedom of press – in accordance to the concept for national interest	Propaganda machine in the hands of few
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Such a pattern is explained by Preston Keat and Ian Bremmer with their theory of the “Fat tail” (Keat, Bremmer 2010). Using this metaphor, they illustrate rare events that represent the tail ends of the distribution curve of the available statistical data. They represent the risk that a particular event will occur and it appears to be so catastrophically damaging, unlikely to happen, and difficult to predict, that many of us choose to simply ignore it.

Their book comments on the political and geopolitical risks threatening corporations and countries. Among the many case studies they select, is something they call ‘the collective blindness of society’. The same is the case of Bulgaria which led to the establishment of the ‘rule of the oligarchy’. Due to the ignorance of the businessmen who thought they could take advantage of the political corruption, a big part of the Bulgarian economy is now in the hands of the oligarchy and many ambitious businessmen regret their support for certain politicians. This will be discussed later.

Chapter 2. To change the model

2.1 Securing the top

The 2009 election marked the beginning of the ‘rule of the oligarchy’. If the old model of corrupt government was based on bribery, the new model allowed politicians to acquire economic power by controlling private or state owned enterprises (SOEs), and businessmen to acquire political power by using the influence of their corporations.

This process started with Boyko Borisov, the leader of GERB (Citizens for the European Development of Bulgaria). Brought up in a family repressed by the communists, Borisov began his career as an officer in the Fire Services as he had not been allowed to study National Security at the elite Police academy.

With a black belt in karate, in the early 1990s he established a security company and later protected the dictator, Todor Zhivkov, and the Bulgarian Monarch, Tsar Simeon II, after his return from five decades in exile.

In 2001 when the Tsar established his party and became prime minister, he appointed Borisov chief secretary of the Ministry of Interior, which in practice meant operative chief of the police and the security services, under the control of the Ministry. Over the next four years more than 100 killings of criminal bosses occurred without the perpetrators being found and punished.

In 2005 Borisov resigned as chief secretary and shortly after won the elections for mayor of Sofia. In 2007 he established GERB and in 2009 the party stood for, and won, the general election. Because of Borisov’s popularity from his time in the police, his personal charisma and the support of many right wing media, GERB gained 116 seats out of 240 and formed a minority government.

However, despite being regarded as the new hope for more morality in politics, Borisov was forced to resign in February 2013 after large protests by a disappointed public. Bulgarians blamed his policies for protecting the energy monopolists and the oligarchy.

During his three and a half years in cabinet Borisov ran a policy that balanced his own aspirations for power with the ambitions of the oligarchy to seize a bigger share of the Bulgarian economy. Yuri Felshtinsky and Vladimir Pribylovsky describe a very similar picture about Russia, illustrating the governance of Russia under Vladimir Putin as a stakeholding oligarchy of magnates which is never totally unified but divided into clans struggling against each other (Felshtinsky, Pribylovsky, 2012).

When GERB took power in 2009 it formed a minority government with the support of two smaller right-orientated parties; Ataka, a nationalist party; and independent members of parliament who had left their own parties.

But it was not the party's executive committee, nor the local structures, that were making the decisions and shaping the party's behavior. The two strong men were the prime minister, Borisov, and his deputy, Tsvetan Tsvetanov, who held the Ministry of Interior.

Borisov himself conducted relations with the oligarchy, while Tsvetanov established a double-faced model of working both in his ministry and with the secret services. Some key ministry officers were working against political and business opponents, as others were doing their routine jobs. A massive phone tapping abuse was uncovered in March 2013, but it only confirmed existing public fears.

The prime minister and his closest associates had earlier become victims of the monster they created when records of their conversations were leaked to the press in 2011. The conversations showed Borisov's personal patronage of the business interests of oligarchs and Tsvetanov's aspirations to control institutions that were not part of his ministry.

The two men delegated different tools of influence to a small number of favoured MPs who used them for their personal enrichment. Later they repaid the party with the economic power they had obtained. One example was Emil Dimitrov. The MP became a

key factor in proposing legislative changes in the area of renewable energy and forestry management, which favored companies officially owned by his mother⁴.

Another of this group of highly influential MPs, known as the ‘small grey cardinals’, was Iskra Fidosova. Chief of the legal subcommittee of parliament, Fidosova designed and coordinated most legislative initiatives. She also had the task of selecting the appropriate people for various public administration positions. Her unofficial job was to strengthen the informal use of political power⁵.

The rule of oligarchy can be seen as a concentration of powers - judicial, legislative and executive - in government hands. After 2009, this concentration of power was reinforced by the use of the secret services and the ministry of the interior. They collected information to influence the judiciary and MPs, and favor political elites and the oligarchy.

Bulgaria’s judicial system is known to be corrupt and has been highly criticised by EU monitoring reports. Before 2009 it worked for bribes, and after 2009 it worked for the oligarchy and its government backers. Eventually the oligarchy acquired enough power and influence to destabilize the government and to promote its own puppets, instead of relying on its partnership with the political elite.

Foreseeing such risks the older member states and the European Commission managed to negotiate provisions in the pact for the Bulgarian and Romanian entry to the EU. In accordance with these provisions the European Commission launched a special “Co-operation and verification mechanism” to monitor the progress of Bulgaria and Romania in reforming their judicial systems and the tackle of corruption.

The last report from January 2014 went even further and criticised the Government for

⁴ BULGARIA, Commission for tackling and investigating conflicts of interests, 2013, Decision 206
<http://www.cpaci.bg/images/reshenia/206.pdf>

⁵ In July 2013 the chairman of the Commission for Detecting and Tackling Conflict of Interests was charged for abusing his power and the district attorneys showed a notebook where he used to write down instructions by Fidosova. It listed people to be investigated by the commission because they were inconvenient.

allowing economic groups to influence the appointment of chiefs of the national security services⁶. The report is the strongest public statement of the EC, showing the concerns about the weakening of the judicial and national security systems. Despite the attempt to sound diplomatic, the document shows that the European commission is concerned by the fact that the security and judicial systems are not just corrupt but controlled by a small number of groups with economic and political interests. And this outcome should be attributed not only to Borisov's reign but to his successors too.

2.2 Tailored legislation

One symptom of the transition to the new model of governance after 2009 has been the increased use of tailored government legislation that favors selected businesses and corporations. This legislation does not contradict European legislation but discriminates against some market participants, while favoring others.

Such results are achieved by setting a system of criteria and requirements for companies in a specific economic sector. They act as entry limitations for potential new market players, but they can also force existing companies to shut down because of their inability to meet the criteria.

Tailored legislation is usually proposed as a way of tackling a problem that is widely recognized by society. However, the enforcement of such laws does not guarantee that the problem will be resolved, and in fact can cause collateral damage of a scale that negates the expected benefits of the legislation.

These changes in legislation are never accompanied by an impact assessment. Instead they are supported by explanatory notes which say nothing about any negative outcomes they might lead to.

⁶ http://ec.europa.eu/cvm/docs/com_2014_36_en.pdf

The reason I emphasise this phenomenon is that tailored legislation requires close coordination between the government, the party leaders and ordinary MPs. Many of them might be corrupt, but the process of making the whole party, and sometimes MPs from other parties, support a tailored law implies that the centre has greater power compared to the corrupt governance before 2009.

My concept for distinguishing corrupt governance from the rule of oligarchy is based on the level of adhesion. If corrupt governance is built on corrupt systems operating in relative isolation, the ‘rule of the oligarchy’ is based on a centralisation of the public sector, in order to effectively serve the oligarchs.

This centralisation has been achieved through the secret services which work as a surveillance body, collecting compromising information against civil servants, judges, attorneys, inconvenient journalists etc.

2.3 Clearing out the scrap metal market

The first examples I have selected do not expose the main oligarchic group but clearly show the pattern in which the political elite presents the oligarchy with legislative gifts.

In the period between 2009 and 2013, Bulgarian society witnessed how either the government or MPs from the ruling coalition (GERB, the smaller right orientated parties and the so-called independent MPs) proposed legislative changes. These changes can be termed “tailored legislation”.

In spring 2011 the Ministry of Environment and Waters (MEW) proposed a new Law for the utilization of waste. This law was expected to regulate relations between municipalities and private companies hoping to develop waste utilization businesses⁷. The legislation was intended to cover government attempts to reduce the number of participants in the waste market, to make way for a small number of big players.

Due to widespread impoverishment after the fall of communism, many families, mainly from the Roma minority, specialized in waste utilization. They earned money from separating paper and metals from waste produced by households and enterprises and selling it to processing companies or bigger intermediaries. But there had also been a growing number of thefts of items made of metal, such as electricity and telecommunication cables, railway tracks, drain covers and even monuments. The stolen metal was then sold to scrap metal yards who sold it for a profit to steel plants.

This problem has never been adequately addressed, despite the damage and high cost of these thefts for electricity and telecommunication suppliers, and for municipalities. Instead, consumer prices were increased to cover the losses.

This served as the perfect justification for Evdokia Maneva, deputy minister of Environment and Waters (in the GERB government), to promote the new law.

The Law for the utilization of waste proposed a range of new requirements for companies that bought scrap metal and sold it to steel plants.

According to these proposals, every company that wanted to continue to buy and sell scrap metal had to have an operating site on the territory of municipalities with a General Plan for Settlement. In Bulgaria these plans indicate areas dedicated for housing, business services, industrial activity, parks and leisure, etc. In 2011, for many reasons, only one third of the municipalities had General Plans for Settlement. That meant that all scrap

⁷ BULGARIA, Ministry of environment and waters, 2011, Proposal for changes and additions to the Law for waste management, <http://www.parliament.bg/bg/bills/ID/13631>

dealing sites that were based in an area without a General Plan for Settlement had to close when the law came into force.

According to the Bulgarian Recycling Association, which represents companies from this sector, this specific requirement alone would close 2,000 sites of a total of 2,400 sites. The association estimated that 14,000 employees would lose their jobs. Only 6,000 would remain employed in the sector⁸.

The Ministry of Environment and Waters did not deny the estimates, and even confirmed the outcome by repeating its commitment to the law, despite the described collateral damage. Evdokia Maneva admitted, in an interview in June 2011, that the sites would close, but said it was the best decision as society wouldn't tolerate increasing the administration and the recent surveillance capacity was insufficient⁹.

There could not be a better illustration of this mindset than Stalin's principle: "There is a man, there is a problem. No man, no problem."

This was not the only filter imposed upon companies that wanted to operate in the scrap sector. Another proposed regulation concerned territorial coverage. Every waste utilization company was to be obliged to have a waste utilization contract with at least ten municipalities, with a combined population of at least 500,000.

Each of these municipalities had to build a site for waste utilization, or to offset this activity to a private company. The law also prohibited households to sell their old cars, electronic devices, refrigerators, washing machines and kitchen equipment, to the scrap

⁸ Stefan Antonov, Dnevnik, Interview with the Bulgarian Recycling Association, Instead to stop the thefts a whole sector will be destroyed, Sofia, 2011, http://www.dnevnik.bg/biznes/2011/06/27/1113343_vladimir_dimitrov_izpulnitelen_direktor_na_bulgarskata/

⁹ Stefan Antonov, Dnevnik, Interview with deputy-Minister of Environment and Waters, Evdokia Maneva, The main goal is to stop the thefts, Sofia, 2011, http://www.dnevnik.bg/biznes/2011/06/21/1110210_evdokia_maneva_zam-ministur_na_okolnata_sreda/

sites. Their only option was to call the local utilizer and to ask for their heavy waste to be removed without any charges and fees.

These new regulations threatened to reduce the number of scrap purchasers to a small group of large companies. This was a creation of oligopsonic and oligopolistic¹⁰ situation where a small group would become the gatekeepers for scrap metal dealing in Bulgaria, empowered to dictate prices.

The proposed Law for utilization of wastes would have affected many people, including those who were to lose their jobs and householders who would lose their right to sell their metal.

Opposition against the law united 70 different companies including some of the largest companies in Bulgaria, such as Aurubis (copper ore and copper scrap processor); Monbat (producer of car batteries) and Stomana Industry (the second largest steel processor and number one since the bankruptcy of the largest – Kremikovtzi in 2010).

However the Ministry of Environment and Waters insisted the proposals were the only way to stop scrap metal thefts and refused to redraft the project.

One month after it was proposed, following massive protests in front of parliament attended by thousands of people, most from underprivileged social groups, the proposal was changed.

To say that a law is ‘tailored’ it should be indicated that the law supports a company, group of companies or other kind of entity that has a close relationship to the political elite. In an attempt to support this statement I will show that one particular economic

¹⁰ Oligopoly is a definition of a market where a particular good is supplied by a small number of companies and therefore they use their dominant position to extract higher price for it. Oligopsony is another malfunction of the free market when there are a small number of big purchasers for particular goods. Therefore the purchasers set low prices to their suppliers.

group benefitted directly from the new waste utilization law, and the same group benefitted from other legislation initiatives of the GERB Government.

Who benefits?

The few enterprises which welcomed the Law for utilization of wastes were associated with Nadin, one of Bulgaria's largest scrap metal companies. Nadin is a market leader, with scrap metal dealing and processing sites in most of Bulgaria's biggest cities.

There is at least one documented statement by a representative of Nadin which supports the new law. In May 2011, a Nadin manager told *Capital*, a Bulgarian weekly newspaper, that he welcomed the new Law for utilization of waste¹¹ because it would bring order to the sector.

In 2011 Nadin was associated with First Investment Bank (which in 2012 became the only indigenous Bulgarian bank among the top five in the country). At that time it was known that the bank was one of Nadin's main creditors and might even have been the shadow owner of the company. Typically for many politically sensitive ventures, Nadin's ownership is hidden behind offshore companies which make further tracking of ownership impossible.

However, by 2013 it became clear that First Investment Bank was, if not the real owner of Nadin, at least a potential owner. This can be seen in the Bulgarian business register which is administrated by the Bulgarian Registry Agency, part of the Ministry of Justice¹².

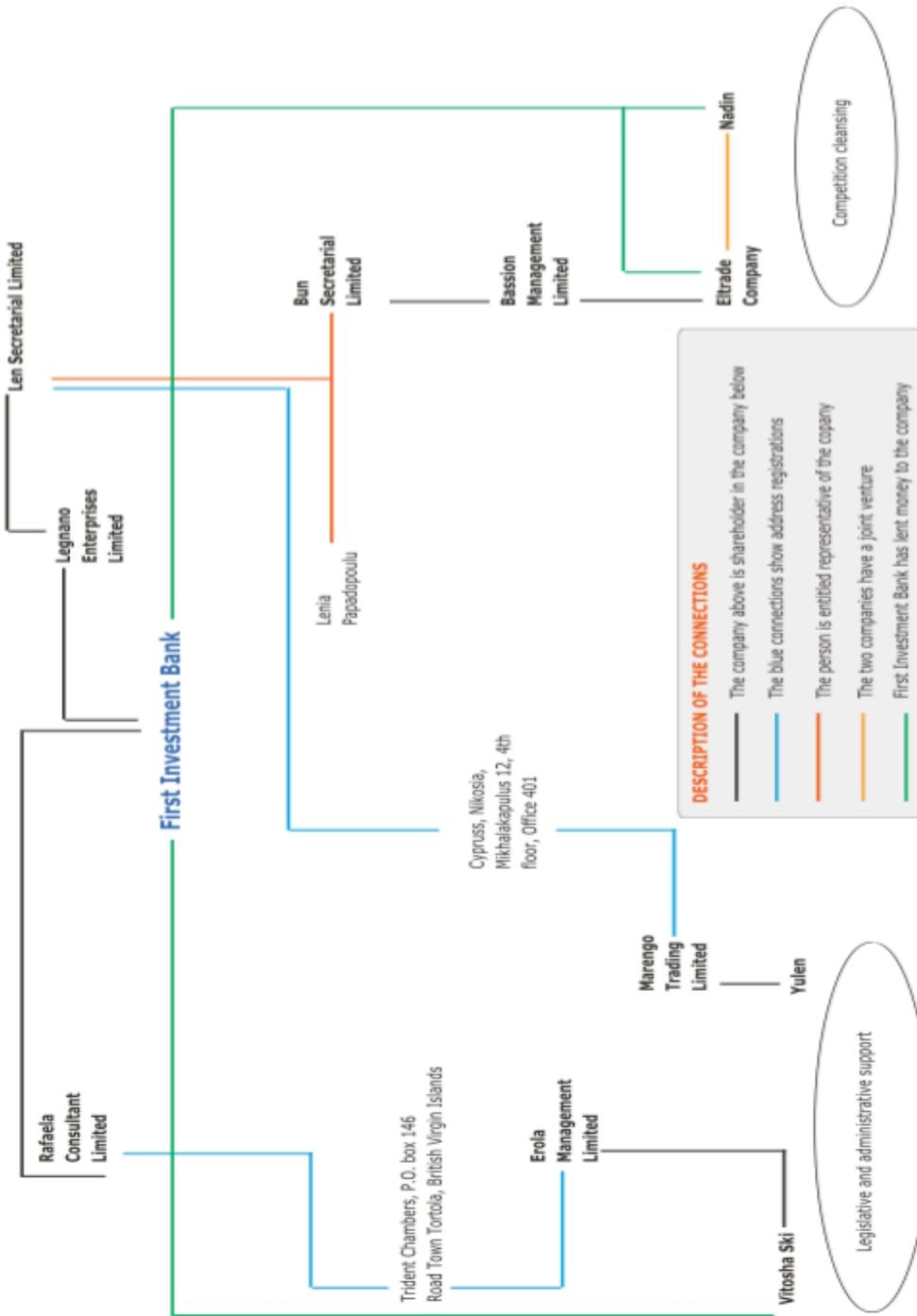
¹¹ Nikolova and Goranova, Is the size of the waste important, *Capital*, May 5 2011, http://www.capital.bg/politika_i_ikonomika/bulgaria/2011/05/05/1085452_vajen_li_e_razmerut_v_bokluka/

¹² BULGARIA, Bulgarian business register, 2013 Inquiry to the ownership of Eltrade Company

The information in the business register shows that First Investment Bank is a creditor of the offshore company which owns Nadin. It has pledged 100 percent of Nadin's shares as collateral to the bank.

In 2011 First Investment Bank deepened its interest in Bulgaria's metallurgical business. It lent BGN 59 million (EUR 30.16 million) to a small enterprise called Eltrade Company, less than one month after it was established. The purpose was for Eltrade to participate in an auction for the assets of Kremikovtzi, once the biggest steel plant in Bulgaria. Kremikovtzi had been pronounced bankrupt by Sofia City Court in early 2010.

Created especially for the acquisition of steel making equipment and real estate properties, Eltrade was the only bidder in the fourth auction, on the 12th of April, 2011. It offered the minimum price set by the administrator, BGN 316 million (EUR 161.5 million). The amount was raised by a joint venture between Eltrade, the formal bidder, and two other enterprises connected with Nadin, one of which was also a debtor to First Investment Bank. The official owner of Eltrade according to business registers at that time, was 26 year-old Lachezar Varnadzhiev. Figure 2 shows in graphic form how First Investment Bank is involved in this and some of the other examples I have selected.



A series of connections showed that Extrude was established as a special purpose vehicle through which a group around Nadin and First Investment Bank aimed to purchase the

steel making equipment of the bankrupt plant, which had produced two per cent of the Bulgarian GDP prior to its closure.

So, after April 2011 the owners of Bulgaria's biggest scrap company controlled the largest steel maker in Bulgaria (although temporarily shut down). The situation represented a concentration of market share in Nadin, and it conveniently happened just before the new waste utilization law was announced.

Only a month after Eltrade bought Kremikovstvi, its nominal owner, Varnadzhiev sold Eltrade to a Cyprus-based, offshore company called Bassion Management Limited. The director of Bassion Management is Lenia Papadopoulou, who is director of another offshore company that is a shareholder in First Investment Bank¹³.

2.4 State aid for the ski dreams of First Investment Bank (FIB)

Another example demonstrates that the Law for utilisation of waste was not the only law that favoured ventures associated with FIB.

Tseko Minev, one of FIB's biggest shareholders, is a patron of Bulgarian ski sport and also chief of the Bulgarian Ski Federation. His passion coincides with his business interests, which also enjoy government support. At the beginning of the 21st century Bulgarian ski resorts became attractive to investors, but they were still underdeveloped compared to the resorts in the Alps and Scandinavia.

Property prices were low compared to the EU, but it was clear that Bulgaria was on its way to join the EU, with all the convergence gains it provides. This attracted Bulgarian

¹³ The law came into force at the end of 2011 but without the ban for households to sell their scrap and without the restrictions for scrap sites. The only filtering requirement which remained was that every waste utilization company had to have contracts with municipalities with a population of over 500,000 people.

and foreign investors to finance the construction of hotels and restaurants in ski resorts, as well as apartments and houses that were to be sold to the emerging Bulgarian middle class and foreign citizens – mostly British and Russians. The increasing demand for properties in Bansko, a popular ski resort, allowed people to double their money within in a few years. This attracted speculative investors.

The four big ski resorts in Bulgaria are Vitosha (30 minutes from Sofia), Borovetz (in the Rila Mountain and 60 minutes from Sofia), Bansko (in the Pirin Mountain and two hours from Sofia) and Pamporovo, the most distant resort from Sofia.

The first three of these resorts benefit most from their locations which allow tourists to visit them for a day trip. Bansko is only 20 minutes away from the international route E79, that connects Romania with Sofia and Greece. But Vitosha is in a Natural Park and the town of Bansko is on the border of Pirin National Park. The ski slopes are on the borders of the National Park, so according to Bulgaria's Law for protected areas all urbanization should be strictly regulated¹⁴.

During the seven years between 2001 and 2008, when the global financial crisis affected Bulgaria, the ski resorts became a subject of disproportionate construction which resulted in houses and hotels offering more beds than the maximum capacity of the ski-lifts and slopes.

According to the Plan for Management of National Park, Pirin¹⁵, which sets the rules for development in the area, Bansko should have the capacity to serve 7,800 tourists.

¹⁴ BULGARIA, National Assembly of the Republic of Bulgaria, 1999, Law for the protected areas, <http://lex.bg/laws/ldoc/2134445060>

¹⁵ BULGARIA, Ministry of environment and waters, 2004, Plan for the management of National Park "Pirin" , http://www.capital.bg/politika_i_ikonomika/bulgaria/2011/05/05/1085452_vajen_li_e_razmerut_v_bokluka/

This recommendation was not followed and according to the latest data the accommodation capacity of the resort is between 15,000 and 20,000 tourists. The first and most visible results are the long queues for the ski lift that takes people from Bansko to the slopes. But there is an even bigger problem. Over-capacity in the town has suppressed property prices, leaving many owners in financial difficulty.

This problem has been ignored by both banks and investors but there are two possible options: either to increase the capacity of the ski lifts and slopes, or wait for hotels and homeowners to become bankrupt.

In 2004, the government had conceded the management of Bansko's ski facilities to a company called Yulen. Yulen is owned by offshore companies, but can be connected to offshore shareholders of First Investment Bank¹⁶.

In 2010 Yulen approached the Ministry of Environment and Waters with a proposal to renovate some of the lifts and the slopes. The proposal was approved by the Ministry but Yulen went beyond what they were allowed to do and expanded the ski area by felling trees in a zone where such activity is forbidden without a special environmental impact assessment. The area where the investment activity (felling of trees and construction) took place covers 64 hectares, or almost 70 football fields.

When that fact was revealed by eco-activists, the Association of Parks in Bulgaria attacked the construction of the new ski lift in court. Over the next three years the Ministry of Environment and Waters and Yulen continuously defended the construction, insisting it would create jobs for the local community and allow small investors to protect their investments.

In February 2013, in a search for a solution, the Ministry of Environment and Waters proposed a new Plan for Management of the Pirin National Park: to change the category of

¹⁶ BULGARIA, Bulgarian business register, 2013, Inquiry to the ownership and entitled representatives of Yulen JSC

the land where the felling had taken place. The result of this plan would be to make the felling of trees legally indisputable, despite the absence of an impact assessment.

Soon after the Ministry announced the changes, the government resigned.

As this paper is finalised the case concerning Yulen is still ongoing in the Supreme Administrative Court. It has been proven that Yulen's investment activity exceeded the area of the concession contract. The subject of the current argument is whether Yulen should be sanctioned or allowed to proceed anyway.

At the time of writing this paper the lifts have not been removed; instead both the BSP, (the main party in the new ruling coalition, from May 2013), and the opposition, GERB, that had originally allowed the tree felling, compete in promising that all investment activities will be fully legalized and there will be other incentives for the development of skiing in Bansko.

The overall result is that no matter which party leads the government there is a clear aim to achieve a resolution favoring Yulen's activities. At least indirectly this will lead to better protection of the investment portfolio of First Investment Bank. If relations between Yulen and the bank do not seem enough strong to clearly say "Yulen belongs to FIB", there is enough reason to assume that both the bank and the ski operator are subordinate parts of a larger oligarchic group.

Such a statement can be supported by the comment of the US Ambassador in Sofia, John Beyrle, who in 2006 said that Tseko Minev was understood to control nearly half of the properties in Bansko. In one of his telegrams to the Department of State, which was dis-

tributed by Wikileaks and translated by its Bulgarian partnering site, Bivol.bg, First Investment Bank, together with some three other Bulgarian-owned banks, were mentioned as institutions which maintained dubious practices and transactions¹⁷.

“First Investment Bank (FIB) was founded in 1993 by Tseko Minev and Ivailo Mutafchiev with funds of questionable origin. They remain owners, along with two offshore companies from the Cayman Islands and the Channel Islands. The European Bank for Reconstruction and Development (EBRD), an early supporter and investor, recently told us that their participation in FIB is seen as bad spot on EBRD's record. FIB is now considered to have one foot in the legitimate retail world (it is known as one of the most aggressive and "polished" banks) as well as one in the murkier criminal realm.”

“...FIB has allegedly extended approximately USD 133 million to shady energy consultant Hristo Kovachki's Atomremontstroy for its energy projects, as well as to help Kovachki acquire a majority stake in the Sofia Municipal Bank. Minev is reported to own most of Bansko ski resort.”¹⁸

Bulgaria has very strict regulations regarding false information which ruins the reputation of banks. The law entitles the Central Bank (Bulgarian National Bank) to take action against distributors of false information. Indeed, the banks mentioned in Beyrle's telegram asked the Central Bank to ask for the removal of that information, but it still remains public.

¹⁷ For the sake of fairness it should be noted that the US Embassy or The Department of State have never commented on whether the telegrams are genuine. However their content upgraded the conventional knowledge on some Bulgarian Banks and the Central bank hasn't punished Bivol.bg for publishing the documents. This I interpret as an implicit confirmation by the Central bank.

¹⁸ John Beyrle, November 12th 2006 / Bivol.bg, June 30 2011

Minev, who does not associate publicly with Yulen, can often be seen in the company of world ski stars like Alberto Tomba and Lindsey Vonn who are invited to Bansko to promote the resort.

Another ski investment of this oligarchic group was also supported by the government and even parliament. On 30th December 2011 – the last working day of the year – the Council of ministers (the Bulgarian Government’s official name) proposed a change in the Law for Bulgarian forests¹⁹. The change allows companies which own ski lifts to cut trees and build new lifts without going through an expensive procedure to change the designation of the land on which the new infrastructure is to be built.

The law in its new version allowed the government to establish exploitation rights of ski slopes in favor of the companies who own lifts nearby. The owner of the lifts on Vitosha Mountain is a company called Vitosha Ski. It won the privatization competition in 2007 with a bid against Yulen.

Vitosha Ski is owned by Elora Management Limited – an offshore company based in the British Virgin Islands. Another offshore company is registered at the same address as Elora – Rafaela Consultant Limited. Rafaela Consultant Limited is an official shareholder in First Investment Bank.

Both Yulen and Vitosha Ski are connected through Petar Petrov, a Bulgarian lawyer. Petrov is a member of the boards of both companies²⁰. During my research I contacted Tzeko Minev’s personal assistant, as well as the FIB’s press office asking them to comment on the claims, but received no response. In a telephone conversation Petar

¹⁹ BULGARIA, National Assembly of the Republic of Bulgaria, 2011, Proposal for changes and additions to the Law of forests , <http://www.parliament.bg/bg/bills/ID/13785>

²⁰ BULGARIA, Bulgarian business register, 2013, Inquiry to the ownership and entitled representatives of Yulen JSC and Vitosha ski JSC

Petrov, who would not speak on the record, denied any links between the two ski lift operators and FIB.

If Parliament had approved the amended version of the law, Vitosha Ski could have built new lifts in Vitosha Mountain, and would be the priority user of the slopes, with the right to charge skiers and instructors, not only for using the lifts but for skiing as well.

The government proposed the law at the end of 2011, but parliament waited until the following June (2012) to vote on it. Bulgarians traditionally start to enjoy their summer vacation in June. But the vote triggered mass protests and thousands of people blocked the main crossroads in Sofia, paralyzing the traffic for hours, over four consecutive evenings. Due to this public reaction Rosen Plevneliev, the President of Bulgaria vetoed the law.

Later in the same year new discussions took place in the parliament and Tseko Minev personally addressed MPs in one of the subcommittees as a president of the Bulgarian Ski Federation. While this does not prove any formal connection between Minev and the ski ventures, it is indicative of the compliance between his views and the interests of Vitosha Ski.

2.5 The expansion of Corporate Commercial Bank

One oligarchical group has gained most from the support of Bulgaria's political elites since 2009. It is Tsvetan Vassilev and his Corporate Commercial Bank (CCB) and its system of satellite companies in different sectors of the economy, many of which were acquired with the support of the government and regulators. CCB is one of the four banks which the US Ambassador John Byrle described as "bad apples" and its main political backers are the Movement for Rights and Freedoms, and GERB.

2.5.1 DPS and the oligarchy

The Movement for Rights and Freedoms, known as DPS, represents Bulgaria's Turkish minority of 588,000 people or eight per cent of the total Bulgarian population. After suffering heavy repression during the 1980s, when the communist government launched the so-called "Revival Process" (in which Bulgaria's Turks were forced to assimilate, or were exiled to Turkey), ethnic Turks consider DPS to be the only protector of their ethnic rights.

This has made the DPS a key factor in Bulgarian politics. Its support has been crucial to the forming of five governments in the last 24 years.

During that period the party's leaders tried to turn their political influence into economic power, supporting companies within their sphere of influence. Despite the fact that the party has never been a leading political power in its own right, DPS leaders have been heavily involved in different corruption scandals; some are subject to criminal investigations, and one even committed suicide in 2008 (this is the official conclusion of the police).

The historian and journalist Petar Karaboev called DPS "the biggest political consequence from the Revival process"²¹.

The one indisputable and everlasting leader of DPS is Ahmed Dogan, who officially led the party between 1990 and 2013, and still holds the power behind the throne. He is also the engineer and designer of the mechanism which turned the party's political power into a money machine.

²¹ Petar Karaboev, This wasn't Mea Culpa, Dnevnik, Sofia, 2013 , http://www.dnevnik.bg/analizi/2013/11/18/2184458_tova_ne_beshe_mea_culpa/

Dogan is also a Doctor of Philosophy and has been revealed as a non-commissioned agent of the communist secret services. During riots in Bulgarian towns with a dominant Turkish population Dogan was convicted for anti-state activities and later released as a political prisoner.

Besides his connections to the communist security services, he is known as the person who made DPS withdraw its support for Bulgaria's first democratically-elected government in 1992. Since that time DPS has been considered untrustworthy as a partner by the traditional right wing parties,²² but it is a party that is hard to ignore.

Instead DPS became a regular coalition partner of the Bulgarian Socialist Party (BSP) which in its desire for power conceded ministries and sectors to people appointed by Dogan. They act as medieval lords – exploiting their power and sharing the rent with their superior commander.

One example (of many) is enough to explain his “untouchability”. Dogan is known to live in a big house in the richest suburb of Sofia, Boyana. In order to explain his standard of living and property in 2008 he declared EUR 766,000 as an honorarium, paid for his services as consultant to a hydro-engineering company, although his area of expertise is philosophy. The same company is the main builder of a dam called “Tsankov kamak” – one example of an ineffective and unnecessary construction project launched and funded by the government.

Dogan was charged with a conflict of interests for accepting the payment when his party was a coalition partner in the government which approved the dam's construction.

He was later acquitted of the charge and the judge who acquitted him – Vesselina Teneva – was nominated Chief Inspector at the Inspectorate of the Supreme Judicial Council of

²² The party of the former monarch NDSV participated in two coalition governments with the movement and this is the main distinction between it and the other classical right parties.

Bulgaria. This is the independent body entitled by the Constitution to run the judicial system; it is supposed to be independent from the legislative and executive powers.

Dogan showed his arrogance again in 2009 when he publicly told party members that their elected deputies have no real power.

“The power is my face. I am the instrument of power which distributes the portions of funding in this country. The power is concentrated in me. Not in your MP’s. I want you to know this²³.” (The statement is recorded and still can be seen on youtube).

DPS political leaders and the appointed business elites no longer hide their relationship and can often be seen in public together escorted by large numbers of bodyguards. One undoubted example of a link between business elites and the DPS political party is Delian Peevski. Born in 1980 he has served two terms as a DPS MP. His political background includes an appointment as deputy minister of emergencies and disasters and an investigator’s position in the National Investigatory Service. He is an MP but he rarely attends parliamentary sessions, but instead spends time around his powerful mother’s publishing business, the New Bulgarian Media Group (see chapter three). He is considered an oligarch in his own right and has close links with other oligarchs.

In June 2013 parliament changed the Law for the State Agency for National Security (DANS), which united the civil counterintelligence, the Service for combating organized crime, with the department for online and phone traffic surveillance.

The changes made it possible for people with less professional experience to head the agency and on 14th June 2013 Plamen Oresharski, the then prime minister, proposed Delian Peevski as head of DANS. The majority of MPs from the BSP voted in favor of the

²³ <https://www.youtube.com/watch?v=a6uZ5zHW8IA>

proposal, despite his obvious lack of any qualification for the job, and by 10am the same morning, Peevski became the fourth Director of the DANS in its five years history.

The fact that someone as unqualified and inexperienced as Peevski but with obvious political and economic interests was appointed chief of the State Agency for National Security showed an ignorance of public opinion and the government's failure to anticipate the public's interest in policy making.

Peevski's appointment triggered massive protests in Sofia's city centre and he resigned 24 hours after his election. The protests then turned against the government and lasted for more than 150 consecutive days, attracting up to 50,000 protesters on some days.

Peevski is a perfect example of how omnivorous the oligarchy is. Despite his DANS resignation he continues to be active in politics while retaining his interests in the private sector. He can be seen to talk with high ranked representatives of GERB and with Tsvetan Vassilev, who controls CCB.

2.5.2 CCB, the government's banker: how it works

The machine that turns political power into money relies upon ambitious, competent managers who are willing to act as nominal owners of private companies. They run the companies acting as if they are in charge but actually all they do is to operate treasure chests which are very well cared for by the parties. The formal owners are usually off-shore entities, which mask their political and corporate connections but sometimes those managers themselves acquire own power.

This is the case of CCB, which is an essential partner within the DPS machine. It is not a leader in retail or domestic banking, but is the bank where most State Owned Enterprises (SOEs) choose to keep their liquidity. Established in 1994, the bank originates from the

Bulgarska Vanshnotargovska Banka (the Bulgarian Bank for External Commerce), re-named after its privatization to Unicredit Bulbank. In 2000 CCB was moved out from the books of its mother bank and sold by the government to ten offshore companies. Tsvetan Vassilev, then a 41 year-old financier, became its chief executive officer.

Born in 1959, Vassilev is known as a literate and skillful mathematician. After compulsory military service he was sent to study in Warsaw. This was a privilege the communists only offered to the brightest minds, the children of the elite and prospective party leaders. After his return to Bulgaria he graduated from university with excellent grades and entered the private sector in 1991. In 1995 Vassilev became manager of the then small, state-owned Central Cooperative Bank.

Between 2000 and 2013 Vassilev built CCB into one of Bulgaria's five largest banks, in terms of assets. Through these years the Bank concentrated its activities mainly on the energy and industrial sectors, focusing on services for large companies. During 2005 and 2006 the bank's slogan, which featured in a series of TV advertisements, became widely known by inviting people to become customers of the bank with the message: "Come to us after your first million".

By 2013, after a series of acquisitions Vassilev became the bank's major shareholder, holding 50.66% shares in CCB, through his company Bromak Ltd. He currently acts as Chairman of the Supervisory Board.

Again the US ambassador John Byrle writes about this bank to his government (John Byrle, November 12th 2006 / Bivol.bg, June 30 2011):

"Corporate Commercial Bank. This bank is also known as "The Bank of Risk Engineering," the most important and notorious player in the energy field, participating in almost all energy consultancy projects. For its close ties with Risk Engineering, owned by Bo-

gomil Manchev, the bank is expected to be strongly positioned in the financing of the Belene project²⁴. The state-owned National Electric Company, which conducts non-transparent electricity sales through middle-men such as Manchev and Kovachki, deposits its funds there. The main shareholder of the bank is Bromak Ltd., owned by Tsvetan Vassilev, which in 2004 was involved in a controversial privatization deal when it purchased the Sofia state railway plant for far lower than market value”.

The fact that CCB holds the biggest share of SOEs’ bank deposits was revealed by the newspaper Capital. Its investigation, published on 27th November 2009, showed that in August 2009 EUR 214 million of free liquidity of the SOEs was deposited in CCB. At the time that represented 35.07 percent of the total liquidity of the SOEs. Nearly two thirds of the liquidity was deposited in CCB and two other banks, also considered property of the oligarchy.

In May 2010, the minister of finance at the time, Simeon Djankov, made public the data available up to 31st March 2010²⁵. He did that as response to the public appeal of 11 senior Bulgarian newspaper editors who submitted a request for access to information.

The data showed that at the end of March 2010 EUR 208 million (0.6 percent of the Gross Domestic Product for that year) was deposited with CCB. But it was also 48 percent of free liquidity of all state owned enterprises.

Other data requested by one of the independent newspapers – Sega – indicated that on 31st October 2010, 70 percent of the free liquidity of the top ten SOEs under the control of Ministry of Economics and Energy were deposited in CCB²⁶.

²⁴ This is a project for the second nuclear power plant in Bulgaria which value is estimated to more than EUR 10 billion

²⁵ BULGARIA, Ministry of Finance, 2010, Inquiry for the size of the liquidity of the State owned enterprises, http://www.capital.bg/politika_i_ikonomika/bulgaria/2010/05/16/901600_korporativna_-_bankata_i_na_tazi_vlast/

²⁶ Yordanova, CCB now holds 70% of the money of the SOE’s, Sega, 2010, <http://www.segabg.com/article.php?is-sueid=8223§ionid=16&id=0000101>

CCB explained this by arguing that it provides the best services and interest rates. It also argued that the CCB focuses on a small segment of big companies in the industrial and energy sectors and so offers the best service for them.

In a 2011 interview for the daily newspaper Trud, Borisov, then prime minister, explained that the CCB was so big because if the government ordered state owned enterprises to withdraw their money, the bank would fail and drag down the whole banking system²⁷.

The prime minister was effectively saying that the government was bailing out private banks with public money in an unauthorized way.

Unsuccessful attempts to stop government support for privileged financial institutions were made by the former Minister of Finance, Simeon Djankov. In 2010 he tried to set a formal framework on how SOEs should choose which bank to hold their money in. He failed to pass it into law and the ministry only released a list of recommendations. At the same time the minister became the object of attacks from CCB-connected media, including various publications about his private life and alleged affairs.

In chapter three I will explain how companies controlled or supported by CCB took significant control of the media market, turning the press into a propaganda machine. Now I turn to giving examples of CCB's increasing control over large companies in different sectors of the economy.

2.6 The Tobacco Sector

The first example is the privatisation of Bulgartabak Holding which is the largest producer and exporter of cigarettes in Bulgaria, with 46-48 percent share of the local market.

²⁷ <http://m.trud.bg/Article.aspx?Id=1103780>

The company is public and is listed on the Bulgarian Stock Exchange, where a minor part of the capital sold during the mass privatization is traded.

In the autumn of 2011 the GERB government sold its major stake. Through the Privatization Agency Bulgartabak was sold to BT Invest. It was the only candidate, with a bid of EUR 101 million, which was close to the government's lowest expectations.

BT Invest is a front company, registered in Cyprus. It is unknown exactly who was behind the company at the time of privatization, but the government declared it was owned by VTB Capital, a venture capital company of the Russian bank VTB²⁸.

One year before the government was to sell its major stake in Bulgartabak, CCB acquired eight percent and earned a 40 per cent return on the investment in the first year, after the government decided that Bulgartabak should distribute dividends before the privatization.

Numerous publications in the Bulgarian press stated that VTB Capital had applied for the privatisation as a front company for a client who wanted to remain unknown. It was never formally proven but a further development showed that VTB has acted at least as a short term speculative investor in partnership with CCB. Later on the Russian group sold its interest to another group of offshore entities, but the real ownership was not officially revealed. The involvement of CCB can be tracked through its minor shareholding and by public statements from the first half of 2014 when CCB executives announced high credit exposures of the bank towards Bulgartabak. To increase the value of CCB's investment in Bulgartabak, government MPs proposed a series of legislative changes in 2012; these strengthened the leadership of Bulgartabak Holding on the Bulgarian tobacco market.

Most of the changes came from GERB and DPS MPs but the most significant one was proposed by Kamen Kostadinov (from DPS) who proposed a ban on the production of

²⁸ An interesting fact is that the number of potential bidders was reduced by the requirement for any new owner to commit to a minimum acceptable level of purchases of tobacco from Bulgarian producers, which are mostly representatives of the Turkish minority and receive government subsidies for producing tobacco.

shells for cigarettes.²⁹ A shell or a tube is the cylinder of paper sealed with a filter at one of its ends. The shells are a sub-product that cigarette factories buy to fill with their own tobacco, but are widely popular among consumers who buy tobacco and make their own cigarettes.

The ban on cigarette shell production was communicated as a way of tackling the illegal production of cigarettes that are later distributed without paying any excises and Value Added Tax.

That problem was, and still is, a serious concern for Bulgaria because the level of cigarettes taxed in 2010 was 40 percent lower than in 2009. That would mean that consumption of cigarettes in Bulgaria had decreased by 40 percent, or that nearly the half of the total tobacco consumption in Bulgaria had been supplied by illegal production and import.³⁰

No matter how serious a concern the fight against the illegal cigarette market was, Kostadinov's proposal to ban the production of cigarette shells came without any proof that it would reduce the illegal trade. When GERB and DPS MPs voted on the ban, the government remained silent and it became another example for a state sanctioned competition cleansing. I contacted Kamen Kostadinov to explain his initiative, but received no answer.

The biggest loser at the time was Yuriy Gagarin, a factory in the City of Plovdiv (the second largest in Bulgaria) whose main business was to produce and export shells for cigarettes.

²⁹ BULGARIA, National Assembly of the Republic of Bulgaria, 2012, Law of tobacco and tobacco products, <http://www.parliament.bg/bg/laws/ID/13838>

³⁰ Alternative research of the tobacco importers indicates that each third cigarette smoked in 2010 has been provided to the consumers illegally. http://www.dnevnik.bg/biznes/2010/11/04/987368_izvoditeli_vsiaka_treta_izpushena_cigara_v_stranata/

With an annual turnover of EUR 27 million in 2011 the factory suffered a decrease to EUR 24 million in 2012. It also claimed EUR 5 million losses related to wasted investment in specialized equipment.

In early 2013 the two offshore companies which held a majority stake in Yuriy Gagarin, equal to 83.7 percent of the capital, were sold to new offshore entities, registered in Belize and the Seychelles. Their offshore status did not allow the real ownership to be revealed but in one of its articles, Capital newspaper stated that they were indirectly connected to Tsvetan Vassilev (CCB's major shareholder), quoting own sources from the management of Yuriy Gagarin³¹. No formal confirmation has been publicly revealed.

The ban on the production of cigarette shells was significant because it marked the ability of two political rivals – GERB and DPS – to work together to protect the interest of certain oligarchical groups.

Yuriy Gagarin also had a kind of oligarchic backer. The factory was a debtor of First Investment Bank and the successful attack against the company indicated a hierarchy within the Bulgarian oligarchy, which put CCB above the group, including First Investment Bank.

It is interesting that the ban on the production of cigarette shells lasted only one year before an attempt was made to reverse it. After Yuriy Gagarin's major shareholders sold their stake in 2013, the new government, in which DPS was a coalition partner, proposed that the ban be removed. Parliament still hasn't approved this proposal (at the time of writing, March 2014). The outcome may serve as a counter claim to my thesis. One possible explanation is that another company, associated with the BSP, has built capacity to produce cigarette tubes and therefore, if the ban falls, Yuriy Gagarin will no longer be the sole producer benefitting from this act.

³¹ http://www.capital.bg/biznes/kompanii/2013/03/07/2017879_obratno_v_bulgartabak/

The above gives if not clear evidence than at least a serious reason to suggest that political decisions were made according to who owned the factory, and that the ownership was related to the oligarchy.

In 2013 when the government was formed following the coalition between the BSP and DPS, Bulgartabak received additional support.

In early October 2013 information was leaked which showed how far the coalition was ready to go in its support of the oligarchy. A draft of changes in the Law for excises and the code for the Tax Procedures became public. The texts proposed a ban on selling cigarettes in stores which also sold (or sell) food, in petrol stations, and in restaurants and bars. Instead cigarettes could be offered for sale only in specialized shops where the cigarettes could be reached only by the sellers, not by the customers. Apart from cigarettes only alcohol, newspapers and magazines could be sold in these shops.

The changes in legislation came two years after CCB and VTB Banks acquired a major share of Bulgartabak Holding. During that time Bulgartabak developed a large network of distribution kiosks with the brand “Lafka” in strategic locations in most Bulgarian cities. The synergy was clear – in one place people would have access to all consumers’ products of the satellites of Corporate Commercial Bank, namely print media outlets and cigarettes. And, to guarantee that the kiosks would be visited, the sale of cigarettes was redirected only to these specialized shops, such as those belonging to Lafka.

When the proposals leaked, their author was unclear. However, experts from the Ministry of Finance admitted to me that they had seen them, and that coalition MPs asked the Ministry to support them but the Ministry refused to do so.

The important thing here was not what happened but what the aspirations of the oligarchy were.

2.7 CCB and the telecommunications sector

The CCB acquired another big enterprise during the reign of GERB and later on would get the chance to develop it with the support of the Socialist / DPS coalition.

In November 2011 a consortium between CCB and the Russian VTB Bank acquired the Bulgarian Telecommunication Company, known as BTK. Once the only provider of telecommunication services in Bulgaria, BTK owns a communications infrastructure with nationwide coverage, but in 2003 it didn't have a network for digital phone calls. It became a blue chip company on the Bulgarian Stock Exchange immediately after its listing in late 2004. But it needed to penetrate the mobile phone market which was already shared by two big telecoms. So to support that process with new investments, BTK increased its indebtedness with loans that matured between 2008 and 2013.

BTK's difficulties in repaying those loans presented a golden opportunity for Tsvetan Vassilev to add a telecom company to his portfolio. He negotiated another joint venture with VTB Bank - called Viva Telekom Bulgaria, to provide extra capital. After the purchase of the shares and restructuring of the existing debt, Viva Telekom owned 93.99% of BTK. In 2011, the year before the acquisition, BTK's turnover was EUR 457 million, or 1.13 percent of Bulgaria's GDP for the year.

In the summer of 2013, the owners of BTK prepared a bond issue of EUR 400 million on the Irish Stock Exchange, with the intention of using the proceeds to roll maturing liabilities.

Soon after this, but before the bonds were announced, the Government proposed legislative changes to allow investors to subtract all revenues from interest paid on bonds issued

by Bulgarian companies or by companies who issue bonds³². This was effectively a boutique law, designed for BTK and one of the strategic SOE which was and still is financially distressed.

Now in opposition and under harsh criticism from CCB-friendly media, GERB MPs criticized the tax exemption and called it the errand of Tsvetan Vassilev.

³² BULGARIA, Ministry of Finance, 2013, Proposal for changes and additions to the Law for the corporate taxation, <http://www.parliament.bg/bg/bills/ID/14621>

Chapter 3. The conquest of the Bulgarian media

“However, concerns persisted about the deterioration of the media environment due to corporate and political pressure that, combined with the growing concentration of media ownership, gravely damaged media pluralism”

2012 Human Rights Report (relating to Bulgaria), Department of State, United States of America (9th April 2013).

In this chapter I demonstrate how since 2009 the relationship between publishers, the political elite and the oligarchy has become so close that it has damaged basic human rights, such as the freedom of speech, freedom of the press and freedom of entrepreneurship. Because media ownership is concentrated in the hands of a few powerful oligarchic groups, it has become difficult for people to raise awareness of subjects that threaten society.

3.1 A Guide to Bulgaria’s media

This section describes Bulgaria’s current media landscape in early 2014.

There are about 15 daily newspapers including Capital Daily, Trud (Labour), 24 Chasa, Segha, Standard, Telegraph and Monitor. All of them are owned by publishers with aspirations to influence politics, but after 2009 many of them were forced to anticipate the leading role of CCB and Delian Peevski, and some were even acquired by them. Only Segha and Capital Daily have an editorial policy which doesn’t try to avoid conflicts with the dominant oligarchs.

It is difficult to quantify their influence through the circulation data because in Bulgaria it measures the number of copies printed and not the copies sold. However the total circulation of the newspapers listed above is about 250,000, while Capital and Sega have a total circulation of less than 20,000.

There are four major television stations, including the national broadcaster Bulgarian National television (BNT), as well as three big commercial stations which are BTV, Nova TV and TV7. TV7 is controlled by CCB.

There are also ‘yellow papers’ (similar to the UK tabloid newspapers), and a growing number of news websites. A number of these websites are owned by and supportive of the oligarchy.

It is estimated that 80% of Bulgaria’s media is under the control of business and political elites. This has been noticed by external commentators.

In 2013 the German ambassador to Bulgaria, Matthias Hopfner, openly discussed the lack of transparency of media ownership in the country.

In September he and his colleague, Philip Ottier, the French ambassador, published a joint statement in which they criticized the lack of freedom of press.

“Democracy cannot sustain without pluralism of media. A growing number of Bulgarian citizens and the European partners of Bulgaria are afraid of the growing concentration of ownership over the print and electronic media under opaque conditions and the following risks for the freedom of speech. The media pluralism requires an effective legal framework to tackle the concentrations and the implementation of this framework should be maintained effectively by the competent institutions.

To be a part of the European Union is a civilizational choice. The oligarchical model does not comply with it neither in Bulgaria or elsewhere: it can lead to the creation of a state in the state”³³.

The joint statement was published as a letter in 24 Chasa. This rare external criticism of ongoing developments was welcomed by a minority of the Bulgarian media. The rest of the media blamed the two diplomats for intruding into the sovereignty of the Bulgarian state and asked the governments of France and Germany to recall their ambassadors.

The government responded by not awarding Ottier the order of “Stara Planina” when his term in Bulgaria expired.

Later in September 2013, Hopfner gave a speech to a special forum about the media. He expanded on his message by pointing out in detail almost all of the weaknesses of the Bulgarian media. The ambassador said:

“The media sector has enormous importance for the democracy. When the concentration of media companies is so high, when the relations between the owners are so opaque, when the media companies depend on few economically influential and oligarchically connected people, then democracy is endangered...

...When the transmission of the political processes through the media works correctly, one autocratic or oligarchic political system will democratize itself. But when the media machine doesn't work correctly, every country will continue to lose its democratic achievements even if the democratic façade remains...

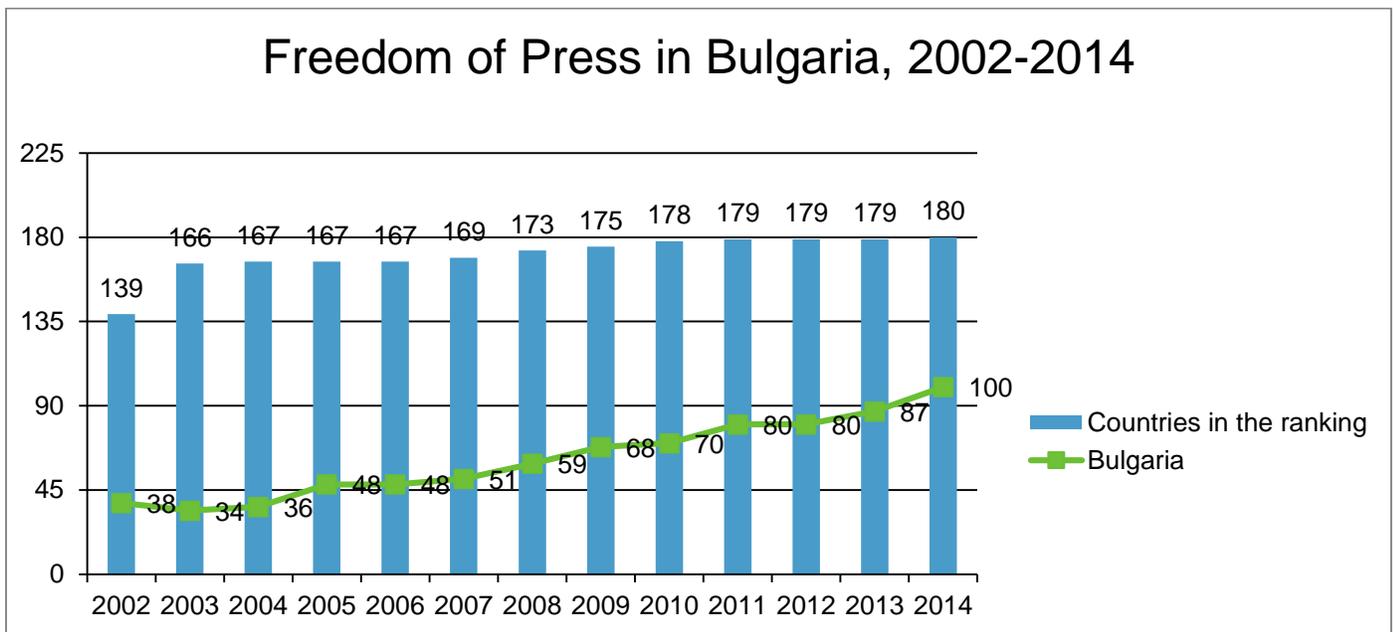
...Behind the colorful forest of newspapers there are few actors hiding, each one of which controls a colorful bouquet of newspapers and other types of media companies...”³⁴

³³ <http://www.24chasa.bg/Article.asp?ArticleId=2128929>

³⁴ http://www.dnevnik.bg/analizi/2013/10/02/2152421_niakolko_mediini_magnati_si_suzdavat_durjava_v_durjava/

He also pointed out that one of the negative outcomes of the concentration of media ownership was the biased coverage of public life, when the media selectively ignores or emphasizes certain scandals, depending on the interests of their owners or advertisers.

Chart 1 Freedom of Press in Bulgaria, 2002-2014



Source: Reporters without borders

3.2 The theoretical framework

The process of deteriorating press freedom has been described by a number of authors. Decreasing advertising revenues make media companies less objective when writing about their biggest advertisers (Stetka 2013). Advertisers increased their pressure on the media to be less critical in articles about them, but also to insert public relations messages, masked as informational articles.

“However, it is not just conventional commercial advertisers who have become bolder in pressuring for positive PR; the crisis has made the media more susceptible to political pressures, which are often exerted through the state-channelled advertising, distributed either via government agencies and ministries or via state-owned companies. While practices of preferential distribution of state advertising to “friendly” media were already commonplace in the region before the crisis, the radical cuts in advertising expenditure in the private sector have made the money channelled by the state a particularly valuable resource in the struggle for survival, giving the politicians in power more leverage in shaping news content. As the Chair of the Lithuanian Journalists’ Union succinctly encapsulated the situation, “Businesses did not have money. The state had money. The media, they need this money”³⁵.

Peter Bajomi-Lazar goes even further and calls the ongoing developments in some Eastern European countries “media colonization” (Bajomi-Lazar 2013). Colonization is a process in which the ruling party wants to use the media as a tool for preserving its presence in power. In reality it proves to be a pattern that can last longer than the political term and it is possible for one colonizer to be replaced by another. This process can be attributed to parties from the whole spectrum of the political sphere. Even right wing governments such as Bulgaria’s Union of Democratic Forces (1997-2001) tried to establish control over the public and some private media.

“Colonization of the media, the extent and patterns of which vary across time and countries, may enable parties to mobilize inactive supporters, to deliver messages to undecided voters, to deploy new resources for party funding, to engage in party patronage, to paralyze rivals by means of limiting their visibility, and to influence decision-making pro-

³⁵ Interview with Dainius Radevicius, Chair of the Lithuanian Journalists’ Union, 28 September 2010. According to Radevicius, some Lithuanian newspapers have between 60 and 80 per cent of their content paid for by ministries. Stetka (2013)

cesses. It may target both public and private media, but its primary targets are the regulatory authorities and public service broadcasters that parties may be able to control more easily than private outlets, since the appointment mechanisms of their supervisory board members are designed in ways that enable parties to delegate supporters to these institutions.”³⁶

Another theory, “audience democracy” explains why the media is so important for the Bulgarian oligarchy. Audience democracy is a term described in Bernard Manin’s 1997 book “The Principles of Representative Government” which demonstrates a pattern where people vote differently from one election to another, but not because of a change in their socio-economic or cultural backgrounds.

The main features of audience democracy rely on personalities rather than platforms. Public trust depends on the charisma of the candidate, rather than any evaluation of his (and his party’s) plans for future action. The platform, offered by a particular political figure, is composed of images and values in which the voter can recognize himself by watching television.

In this process the electorate goes from the state of active citizen to a community of passive spectators who rely on TV talk shows and newscasts to point out who is the most appropriate candidate to lead the political system.

The same process, but for Italy, is described by Paolo Mancini, who examines the success of Silvio Berlusconi as a politician in contrast to his poor qualities of statesman (Paolo Mancini, *Between commodification and lifestyle politics*, RISJ 2011).

³⁶ Bajomi-Lazar 2013

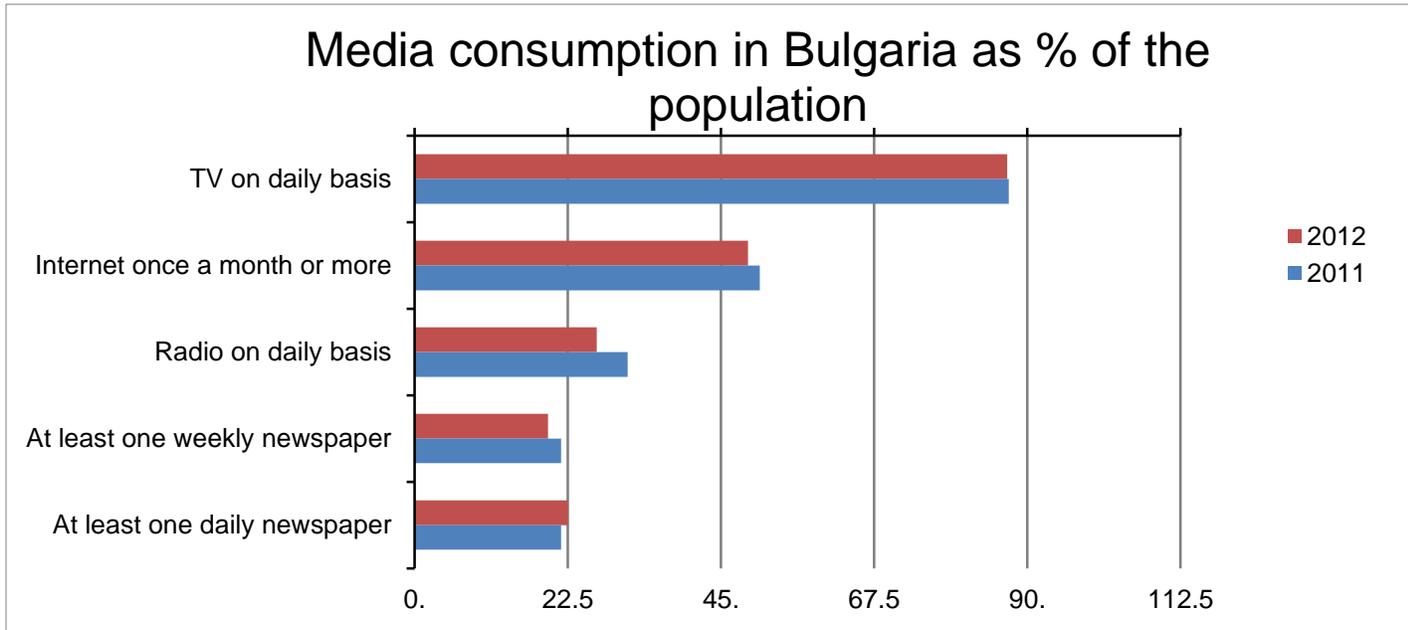
Mancini calls this phenomenon ‘commodification and lifestyle’ politics. He regards Berlusconi’s continuous stay in power as a result of his ability to communicate with the electorate, without the mediation of a party network. Instead he uses the media for audience democracy.

This approach for building and promoting political platforms can be seen in Bulgaria. Boyko Borisov is also a populist with strong ability to attract the masses.

“You are a simple man and I am a simple man - this is why we get along together pretty well,” he once told a protesting working man in Bulgaria’s countryside. He spends a big part of his time playing football and exercising - activities that make him associate with the people in a way that no other Bulgarian politician can, or wants to, do.

In parallel with Italy, in Bulgaria there is also a shift from written culture to a visual culture. This marks a transition in the preferences of people to watch and trust television more than to read and to trust newspapers.

Chart 2



Source: TGI Bulgaria

The concept of audience democracy is a good tool for constructing a model in which the oligarchy aims to seize the media in order to dictate to them which politician to promote. Later that politician will be expected to repay them by using his power to support the oligarchy.

The difference between Bulgaria and Italy is that in Italy established, charismatic politicians use the media to promote their own success. However, in Bulgaria those who receive media support are (in most cases) puppets of the oligarchy. This makes the Bulgarian media's role more important because it often inflates the reputations of 'chosen' people, who have neither the personal nor professional qualities to be effective politicians.

3.3 Bulgaria's media, post-communism

After the collapse of communism in late 1989 when the state monopoly over newspapers and broadcasters was removed, many businessmen tried to establish or acquire media companies. Most of them were newspapers, but radio stations and TV channels were also launched. Society was hungry for new types of content that was not filtered through party censors. This encouraged a growing media pluralism.

Owning a media company was seen to offer a number of advantages. Many newly emerged media outlets served the interests of their publishers, whether to attack competitors or to monetize their support of political parties.

During the years of initial capital formation, when today's oligarchs and wealthy businessmen were making their 'first million', it also became apparent that owning a newspaper was a profitable business which allowed some publishers to expand their interests in various sectors of the economy (The owner of EconoMedia, owner of Capital and Capital Daily, is one example, through his companies the owner managed to acquire "Kaolin" – the only extractor of Kaolinite in Bulgaria after the mass privatization in the late 90's).

Foreign investment

The post-communism liberalisation of Bulgaria's press was noticed by foreign media groups seeking opportunities to invest in the emerging markets. Among the first was WAZ (Established after World War 2, Westdeutsche Allgemeine Zeitung, has a portfolio of hundreds of media outlets in Germany and Eastern Europe). In 1997, WAZ acquired the press group 24 Chasa (it included a daily and weekly newspapers and some minor publications) and its biggest competitor Trud, also a daily newspaper. For a long time these newspapers had high circulations and were considered to be trustworthy.

In 2000 News Corporation (controlled by Rupert Murdoch) entered the Bulgarian market with its subsidiary, Balkan News Corporation. It launched the first national commercial television broadcaster, BTV. BTV quickly became number one in terms of popularity, despite not always being number one in terms of trust.

Another German group “Handelsblatt” acquired a minor shareholding in Economedia. Bonnier from Sweden acquired the business newspaper Pari (Money).

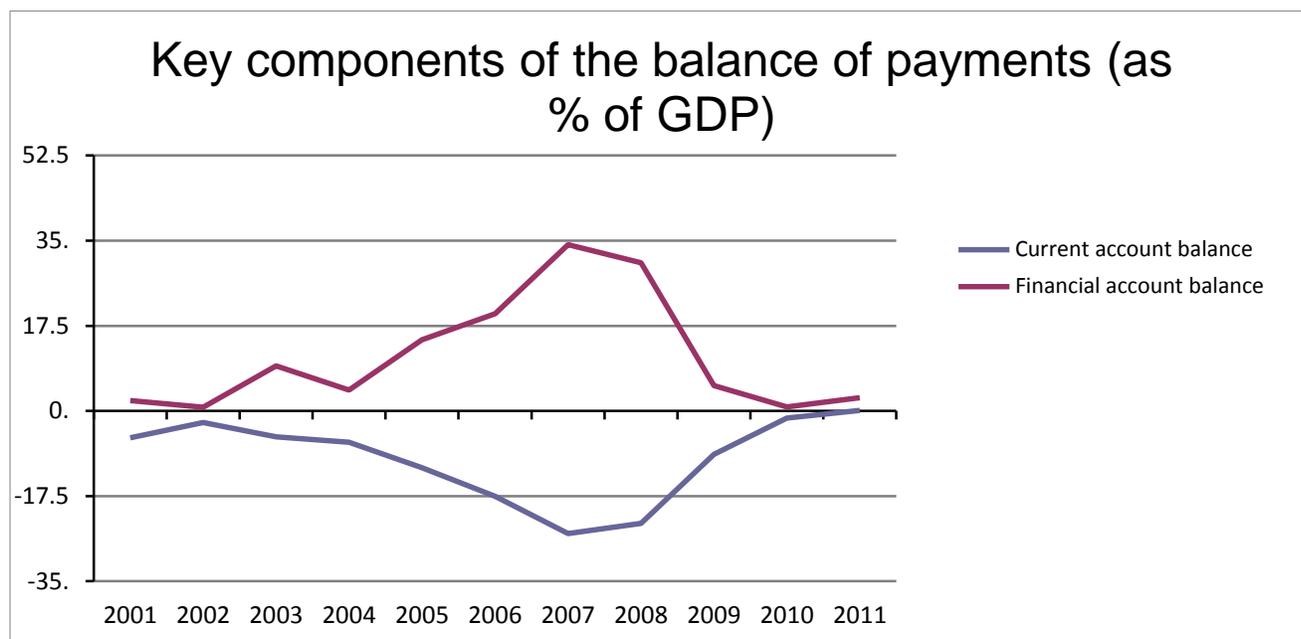
To be a journalist working for these publications was a chance to be in an environment with higher professional standards and better remuneration than in local media.

Some of the foreign owned newspapers could also be accused of protecting the interests of their publishers but to a lower degree, and in a much more sophisticated way than the Bulgarian publishers.

3.4 How Bulgaria’s economic crisis has affected the media

Bulgaria was deeply affected by the economic crisis (2008-2009). The sectors that had previously driven economic growth were construction, real estate and financial services. However, they had been based on unsustainable capital inflows, such as credits and foreign direct investment. After these flows almost dried up in 2009 and their share in the economy decreased, Bulgaria had to shift its growth model.

Chart 3



Source: Bulgarian National Bank

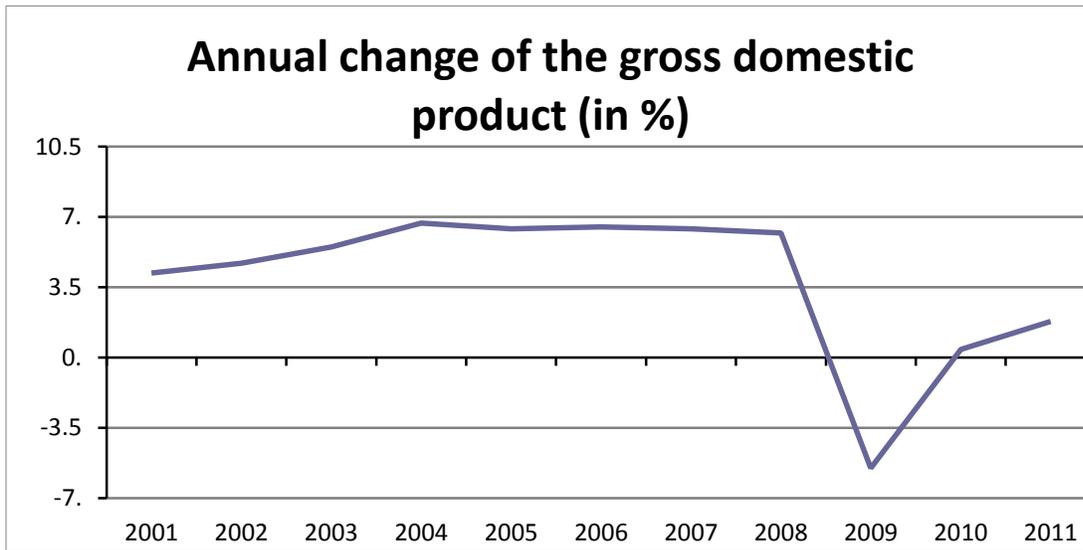
Chart 3 shows the growing deficit of the current account which marks the growth of the aggregate demand in Bulgaria before the crisis.

It is supported by the capital flows in the country due to the growing foreign direct investments and the lending from foreign banks towards their subsidiaries in Bulgaria which lend the money to Bulgarian enterprises and households with higher interest rates compared to the Eurozone.

This situation changes at the end of 2008 and the decrease of capital flows causes the recession in 2009.

The dynamic of the economic growth can be seen on Chart 4:

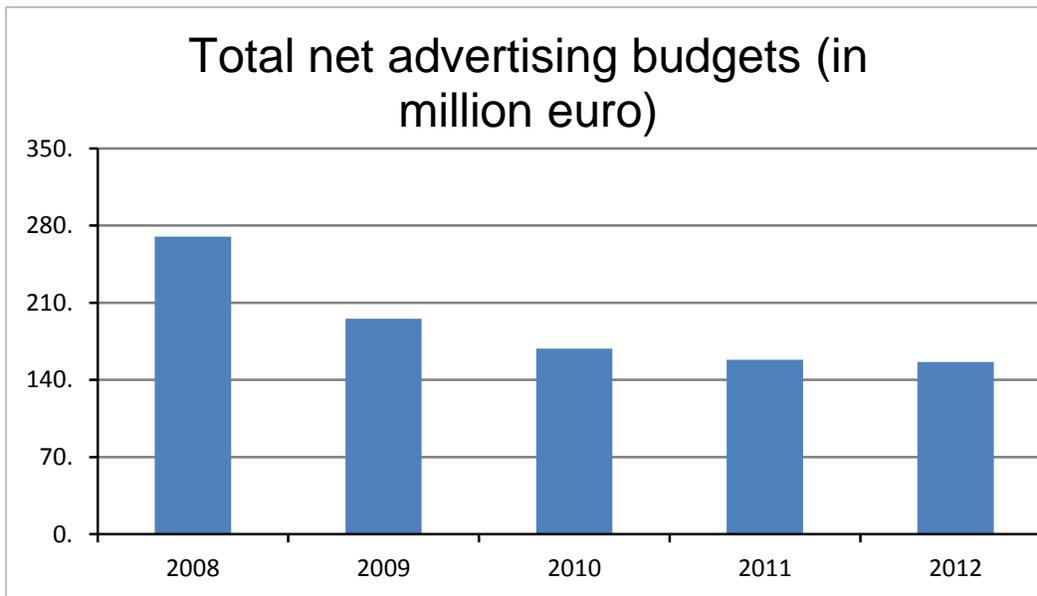
Chart 4



Source: National Statistical Institute

After 2010 Bulgaria's GDP grew at a slower pace. For the media this meant lower advertising revenues. Each media company had to make expenditure cuts and look for new sources of revenues.

Chart 5



Source: Piero 97

Fearing losses, many foreign media groups decided to sell their Bulgarian interests.

Among the companies that left Bulgaria during the economic crisis were the broadcaster News Corporation, which offered BTV for sale in 2008; the publishers WAZ, Handelsblatt and the Swedish group Bonnier.

But their departure provided a chance for a particular group of oligarchic organizations to seize control over most of the country's media companies. Media pluralism became only nominal – a large number of newspapers, magazines, TV and radio stations, were soon in the hands of a small number of owners. The most powerful and most visible of them are CCB and Delian Peevski.

Falling revenues caused by the economic crisis also meant that before long, almost all Bulgaria's newspapers and their publishers were either dependent on government advertising or were under the control of CCB.

Vaclav Stetka draws a parallel between the withdrawal of foreign media owners and the expansion of local business groups and oligarchs (Stetka 2013). In his paper, "Media ownership and commercial pressure" he quotes the Romanian media expert, Manuela Preoteasa who said the new mixture of business interests, replacing foreign owners, was harmful to quality journalism.

3.5 How colonization works?

Table 2 The main Bulgarian Daily Newspapers in 2013

Name of media	Founded in/by	Foreign acquisition or partnership	Exit of the foreign owner or partner	New form of ownership	Editorial policy/bias in 2013
24 Chasa	1997/ Petyo Blaskov	1997/WAZ	2010	Bulgarian businessmen who were forced to sell it in 2013.	Slightly critical towards the government / neglecting the oligarchy
Trud	1936*	1997/WAZ	2010	Bulgarian businessmen who were forced to sell it in 2013.	Slightly critical towards the government / neglecting the oligarchy

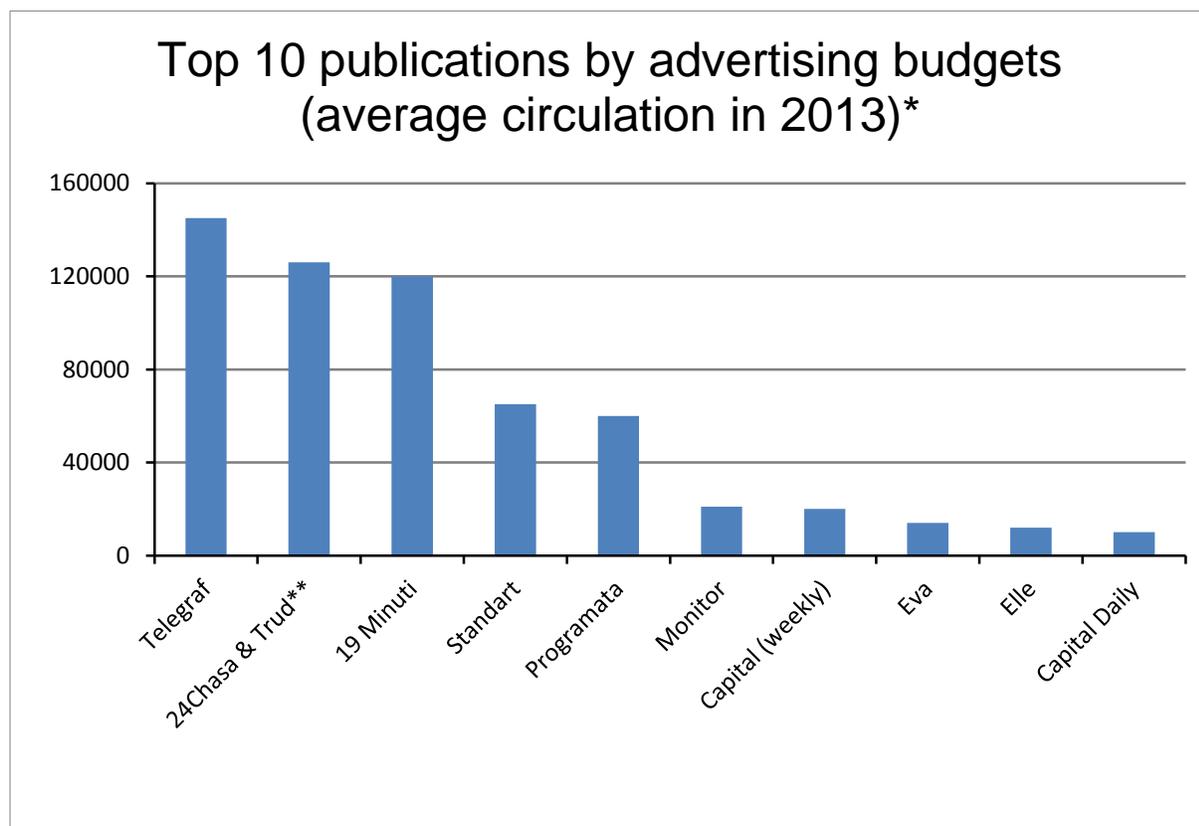
Dnevnik	2002/ Econo- media (of Ivo Prokop- iev and Philip Harmandzhiev)	2003/ Han- delsblatt	2007	Economedia (of Ivo Pro- kopiev and Philip Har- mandzhiev)	Anti -govern- ment against the dominating oligarchy
Standard	1992/ Krasimir Stoychev	-	-	Todor Bat- kov**	Pro government and supportive to the dominat- ing oligarchy
Pari	1991/Valentin Panayotov	2008/Bonnier	2011	Economedia	No longer exists
Tele- graph	2004/Petyo Blaskov			New Bulgar- ian Media group	Pro government and flagship of the dominating oligarchy

Monitor	1998/Petyo Blaskov			New Bulgarian Media group	Pro government and supporter of the dominating oligarchy
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*The year is arguable, some historians claim the “Trud” as known nowadays was founded in the 90’s and has no legal relation to the newspaper founded in 1936.

**Todor Batkov was a lawyer of the Russian Oligarch Michail Cherney. He is now the formal owner of the popular football club, Levski (formerly owned by Cherney) and his family members have businesses related to the government.

Chart 6



Source: Piero 97

* The data shows how many copies of the outlets are printed. There is no reliable data for the real volumes of sales.

** As a part of the portfolio of one publisher all advertisements purchased for one of the papers Trud or 24 Chasa are published in the other as well. This is why the data provides their total circulation. Despite the lack of official data, it is thought that the distribution is 60% for Trud and 40% for 24 Chasa.

3.5.1 European grants used to control the Bulgarian media

During Bulgaria's economic crisis media advertising revenues declined sharply. Many newspapers became dependent on quasi-subsidizing, a system designed by the Bulgarian government.

The subsidy money came from EU grants and from Bulgarian tax revenues. This money was distributed by the government's powerful PR consultancies, but they only funded media groups that supported the ruling parties and their ministers.

As an emerging economy and EU member, Bulgaria is eligible for various grants, funded by European structural funds. Road and railway infrastructure, purification systems or improving central and local government administration, are a few of the areas where Bulgaria receives financial aid. Between 2007 and 2013 nearly EUR 7 billion were directed towards Bulgaria (half of this went to the agriculture sector).

A small part of this EU funding was supposed to be spent on information campaigns to promote the benefits of EU membership, and to invite the private sector to apply for funding.

A total of EUR 69 million was spent on information campaigns. This might seem insignificant compared to the total sum of grants available, but directed at a small number of influential media it became a win-win situation. Certain companies were compensated for any loss of advertising revenues, in exchange for friendly coverage towards the government.

“The country has been severely hit by the economic crisis, so the only real money is with the government. And the government found a very sophisticated way to influence the media through this money [from EU structural funds], because /.../ it is often used for publicity and informing the public about certain activities. And of course, during the previous government [until July 2009] most of this money was channelled through a couple of big PR agencies, which were subsequently distributing the money to certain media; so if you wanted to get a chunk of these funds then of course you had to be careful what you are writing about”³⁷.

But just quoting that explanation would be understating the reality. In fact the ministers whose institutions were appointed to distribute money from structural funds hired media advisers and clerks who were former employees of the big PR agencies. These specially-

³⁷ These are the comments of the Bulgarian media expert Ognian Zlatev. He was speaking to Vaclav Statka, a media academic, who quoted them in his publication “Media Ownership and Commercial Pressure”.

appointed clerks prepared the papers for the public tenders and took personal responsibility. If there was any investigation into their questionable practices the clerks would be sacrificed, not the ministers.

A leaked conversation between former Prime Minister, Boyko Borisov, and two former senior statesmen, revealed how the process worked. After his resignation, between February and May 2013, Borisov held meetings at his home with the former minister of agriculture, Miroslav Naydenov and the Chief prosecutor of Sofia City, Nickolay Kokinov.

Their conversations were secretly taped and leaked to a website called afera.bg. What became clear from the tapes was that the former statesmen expected the media not to be critical of anyone who gave them money. Naydenov admitted that public tenders were biased in favour of media that agreed to unwritten conditions. These conditions were negotiated between the Ministry of Agriculture's PR officers and media representatives. The specifications for the public tenders were written afterwards in accordance with the agreements.

Miroslav Naydenov: The only problem is that some of the public tenders have been tailored in concrete directions. The same as Djamjieva (former CEO of one of the biggest newspapers groups). When they cracked her Skype account, she was explaining how we helped Trud to survive. If we look the reality from this technical assistance we have given money to Trud, to BTV and to all those who now make me look like a monkey.

Boyko Borisov: This technical assistance is for the media companies. Not for the farmers but for the media companies. And they perfectly know to get it sorted among themselves which company to win each next public tender in order to survive.³⁸

³⁸ Afera.bg full records of Boyko Borisov's conversation with Miroslav Naydenov and Nickolay Kokinov, <http://goo.gl/CmB8FT>

During Borisov's time in office there was one PR agency called D&D which managed to become the informal subcontractor for the government's PR services. The agency's biggest customer was the Russian-owned oil company Lukoil and the General Manager of the company Valentin Zlatev (a son of the former mayor of Pravetz – the birth place of the communist dictator Todor Zhivkov) is a partner to Borisov in playing cards. Diana Damianova from D&D was also mentioned by Miroslav Naydenov later in leaked conversation.

Miroslav Naydenov: When Annie Ruscheva and Diana came to an agreement, they were gathering the media to see how much to give to each other. Before they write the specifications for the technical assistance, Chrissy and some people around her have written them. Now my concern is if those people (the prosecutors – author's explanation) continue digging and call them some of them not to blow it up. I called Diana to see her and I think she is reliable.

Boyko Borisov: Who is Diana?

Miroslav Naydenov: Diana Damianova. They were coordinating the things with Annie Ruscheva and Diana Damianova but the actual work in terms of technical specifications was done by couple of people and Chrissy was coordinating them.

The person referred to as Chrissy is Christina Spasova who now lives with Naydenov. During Naydenov's time as a minister Spasova's company took EUR 25,500 to create Facebook and twitter accounts of the operative program "Development of the rural areas".

The exact amount of money given to the media in exchange for friendly coverage, through consultancy firms, is impossible to track. This is because most of the money goes through multiple creative studios and advertising agencies, whose cash flows cannot be tracked to media companies.

The new government also has a special PR brain – Monika Stanisheva. She is the wife of the leader of the BSP, Sergey Stanishev, who was prime minister from 2005 to 2009.

During that period the government paid an Austrian lobbyist to polish Bulgaria's reputation at the European Union. However, some of the fees paid to the lobbyist returned to a Bulgarian subcontracting company, controlled by Stanisheva. At this time Stanisheva was not married to the prime minister. However many journalists I interviewed believe that she now has the power to direct government advertising money towards her favoured media companies.

And in the past there have been other favorites. An interesting example is the Prime Time agency. Prime Time is closely connected to Martin Batkov, the brother of Standard's owner, Todor Batkov. In the past it has worked as cabinet's contractor, and has served a number of smaller public institutions and SOEs. Martin Batkov is also on the board of the Standard.

3.6 How CCB's media power started, and spread

CCB started to expand its business into the media sector in 2007. Until then it had seemed to be a regular banking operation which lent money to applicants with viable business plans and sufficient assets. But the reality was different.

CCB's media expansion was the beginning of a process that created a dangerous concentration of influence. It directly funded one associated oligarchic structure, which acquired leading media companies and made others economically dependent upon it. The outcome was that CCB, along with Delian Peevski, and his mother, Irena Krasteva, became one of Bulgaria's most powerful media players, with enough presence to manipulate public opinion.

The links between Vassilev, CCB and the Peevski family are complex and deliberately obscure. While Vassilev and the Peevski family have their own separate businesses they are co-ordinated to an extent. CCB (of which Vassilev is the largest shareholder) provides money to the companies of Peevski's mother and in exchange they provide Vassilev with the full backing of their media outlets (New Bulgarian Media Group). This

includes promoting Vassilev's businesses and destroying the reputation of his competitors.

Because Peevski holds various political roles, his mother officially holds the majority stakes in the family companies. Their media interests have grown rapidly.

In 2007 with loans from CCB Krasteva acquired the press group "Monitor" which at the time consisted of a portfolio of three newspapers – Monitor (a daily newspaper), the tabloid Telegraph which the following year became the best-selling daily paper, and the weekly Politika which mainly covers political and economic issues.

In 2008 Krasteva acquired the sports daily "Meridian Match" and established the "New Bulgarian Media Group". Later, Krasteva acquired some of Bulgaria's biggest newspaper distributors and became powerful enough to influence the distribution of the group's newspaper competitors. The climax of their media spending spree was reached when Krasteva and her son bought one of the country's biggest yellow newspaper, Weekend.

At the same time CCB also launched its own campaign to acquire media influence. Tsvetan Vassilev officially bought a minor share in TV7, but was considered to have full control over the TV channel. Formally it is owned by an offshore company called Alegro Capital, registered in the British Virgin Islands (see section 3.8.2 below).

Companies associated with Vassilev also obtained licenses for digital television multiplex distributors. They now control six out of the seven multiplex distributors.

The Vinprom Peshtera group reportedly took control of 35% of Standard newspaper. Later (3.6.1) I explain how the owners of the two biggest newspapers (in terms of circulation and trustworthiness) Trud and 24 Chasa were forced to sell them and after that their editorial policy became if not supportive at least uncritical to the business of CCB.

After this series of acquisitions, the CCB group and the Peevski family had full or partial control over Bulgaria's five biggest-selling daily newspapers. Between 2007 and 2013

Peevski also created a network of supportive media companies (he did not own them), whose task was to publish the same kind of propaganda coordinated by DPS.

It included yellow newspapers Weekend, Show, Retro (aimed at elderly people) that reported the affairs of celebrities and politicians, their financial troubles or their sexuality. Also involved were the biggest regional newspapers Stuma (covering the South West of Bulgaria), Maritza (South Central) and Yantra (North Central).

The same thing was done to web media outlets where they obtained direct, or indirect, control over various news websites, including “blitz.bg³⁹”litz.bg thing was done to web media outlets where they obtained direct, or indirect, control over various news websites, including national newspapers Stuma (covering the South West of Bulgaria), Maritza (South Central) reality was different. ash flows cannot beat it is quoting another media outlet. And because the Bulgarian system of justice is not very effective, victims usually prefer not to waste time and money on filing any legal claim.

In an attempt to highlight CCB’s growing influence over Bulgaria’s media, an IT company called “Mazelabs” created a web application in 2013 which warned people when they were about to open a website controlled by the group of CCB and its associates.

Vassilev and CCB repeatedly assert that the bank has only lent the money for the expansion of the New Bulgarian Media Group. They insist they do not participate in the company’s management and do not shape the editorial policy of the newspapers.

However, there are many examples of the media group’s support to Vassilev’s business interests, and towards his political allies. Among all of them, Telegraph is the main propaganda outlet.

³⁹ The direct control means that the sites belong or are headed by people connected to CCB or Delian Peevski. The indirect control can be seen when there cannot be tracked any formal connections but their editorial policies and content coincide too much to think they are not dependent.

For example, in March 2010 both – Monitor and Telegraph published stories on their front pages entitled “Octopus in the energy”⁴⁰. The message was that one insurance company, Energia, had gorged EUR102 million by insuring the equipment of Bulgarian SOEs in the energy sector. Indeed the newspapers’ so called ‘investigation’ contained one correct fact – the contracts with the insurance company were signed without public procurement, due to a legal procedure that allowed it.

Indeed it was questionable whether one company should be chosen as an insurer without a competitive procedure. But the publication came one day before another state owned company, Maritsa Iztok 2 was to decide who would insure its equipment for the next four years and the value of the contract could reach EUR 25.5 million. A company called Victoria participated in the competition. At the time, Vassilev, chief shareholder in CCB, was also chairman of Victoria’s supervisory board.

Krastevais newspapers, Monitor and Telegraph, published their stories about Energia at the same time as the competition to insure Maritza Iztok took place. The competition to Vassilev ordered the newspapers to attack the competitors of his insurance company but this case and couple of others that came afterwards seem to indicate a pattern.

Vassilev had lent money to the publisher and her outlets had a supportive attitude towards her creditor⁴¹.

Every witness remembers election night, 5th July 2009, when Boyko Borisov gave a victorious news conference. He joked, live on air before the cameras, to a Telegraph reporter, that the newspaper had been very critical of GERB during the campaign.

⁴⁰ During the late 80’s and early 90’s an Italian TV series called Octopus (La Piovra) was broadcast in Bulgaria and ever since this animal has been a metaphor for the long hands of Bulgarian organized crime.

⁴¹ Capital, The fifth power: Racket, 2010, http://www.capital.bg/politika_i_ikonomika/bulgaria/2010/04/16/888290_petata_vlast_reket/

When it became clear that Borisov would be the new prime minister, the Telegraph's editorial policy changed overnight and the New Bulgarian Media Group became the GERB's biggest supporter.

The New Bulgarian Media Group's newspapers became a tool to attack the prime minister's political opponents - although not those from the DSP. Telegraph journalists remember when Telegraph's editors changed a caricature just before the newspaper was to be sent to print because the drawing included a picture of sunflowers, but they could be confused with the gerbera daisy. The noun for members and supporters of the ruling party – GERB in Bulgarian is pronounced “Gerber” which is the same as the Bulgarian word for gerbera daisy.

It was easy to understand the interests that influenced the change in the editorial policy – friendly coverage in exchange for government support, but it seemed highly unlikely that someone would admit it publicly.

But in August 2013 somebody did. The former minister for culture, thinking that he was speaking privately, was quoted by a website saying:

“We left the money to go through the bank of this guy... of Dogan. The money to flow, to rule peacefully, for the media comfort and now we realized that these people are freaks who cheated us”⁴².

3.6.1 Mitigating the damage, or securing “Trud” and “24 Chasa”

The CCB-controlled media group (incorporating media owned and controlled both by Peevski and Krasteva) leads the market in terms of circulation, but not in terms of trustworthiness. It simply lacks accountability.

⁴² Pik.bg, Recorded statement of Vejdi Rashidov, Sofia, 2013, <http://pik.bg/бившият-културен-министър-рашидов-към-медиите-всички-се-продадохте-на-един-дебел-грозен-ла-news90815.html>

So a golden opportunity emerged in late 2010 when the German publisher WAZ announced the sale of its Bulgarian media interests. Known as the ‘Media Group Bulgaria’, WAZ owned the newspapers, Trud and 24 Chasa, as well as a number of smaller outlets.

If there was a scoring system based on both circulation and trustworthiness both Trud and 24 Chasa would probably top the newspaper rankings in Bulgaria. So Vassilev and Peevski planned to obtain some sort of control over the two trusted newspapers to ensure that they could not attack the coalition of the political elite and the oligarchy.

But the WAZ management wanted to find a new owner who was not connected to existing market players, to ensure that their exit would not contribute to further monopolization⁴³.

In December 2010 WAZ announced a deal with “Bg Printmedia”, a company established especially for the deal. Shareholders at that time were Ognian Donev (whose biggest interest is concentrated in the pharmaceutical sector), Lubomir Pavlov (ex-banker and shareholder in Municipality Bank), Hristo Grozev (financial investor) and two Austrians – Carl Habsburg and Daniel Ruzz (the last three shareholders invested through their own company registered in Austria).

The exact price for which they acquired Bulgaria Media Group was never disclosed, but it is considered to be between EUR 40 and 50 million.

After the deal it seemed that Vassilev and Peevski could not influence the newspapers, so according to Pavlov and Donev they tried to buy the shares of Grozev and the two Austrian partners.

This is why, in the first and second quarters of 2011, Donev and Pavlov diluted the shareholding interest of Grozev and the Austrians. After a series of deals they obtained control

⁴³ In its publication from December 17th 2010 the newspaper Capital mentions the criteria which the new owner should cover. EBRD has been also asked to approve the new owners as a minor shareholder in Ost Holding which is a subsidiary of WAZ and actual owner of the Bulgarian press group.

over 83 percent of the shares. Grozev and Habsburg kept the remaining 17%. The fifth partner, Daniel Ruzz pulled out completely.

In public statements Donev and Pavlov said they took advantage of the clauses in the partnership agreement to consolidate their interest after Grozev and Habsburg had not paid their contributions to the capital of the joint venture⁴⁴. This information was denied by Grozev with open letter to Capital weekly newspaper.

However, Pavlov later stated that the move was made because Donev and Pavlov were concerned that their partners would sell their interest to someone connected to CCB.

A media war started soon after this. Trud and 24 Chasa attacked CCB and Peevski. In response, Telegraph and other CCB-controlled newspapers, as well as satellite websites and TV7, launched a campaign against, Donev and Pavlov.

Nickolay Barekov, a notorious TV7 presenter, ripped a copy of Trud in half on air. His TV7 colleagues aired a series of pseudo-investigative reports against Donev and Pavlov. The content of these broadcasts was repeated by Peevski's newspapers.

Later, these attacks against Donev and Pavlov were supported by the judicial system. Pavlov and Donev became subject of a criminal investigation by the National Investigatory Service. They were both charged for money laundering, and Pavlov for fraud.

The case was built on the scheme they used to dilute the other partners in BG Printmedia in order to gain 83% of the shares.

In May 2013 the charges against Donev and Pavlov were dropped and just a month later the two partners sold the company and Pavlov resigned as chairman of the publishers union.

⁴⁴ http://www.capital.bg/biznes/media_i_reklama/2011/04/01/1068947_trud-ni_168_chasa/

Bulgaria Media Group's new owner was a company called 'Pro News Bulgaria'. This company had been set up only one year before and was officially owned by Venelina Gocheva. Gocheva had been editor in chief of 24 Chasa when the newspaper was owned by WAZ. Since she took control of the newspapers, (until the date of this research, March 2014) editorial policy appeared to change and the newspapers have avoided any involvement in oligarchic conflicts.

There is no formal evidence of external control over 24 Chasa and Trud, or to link them to Vassilev and Peevski. However, a review of their content indicates that there has been a change of editorial policy since Donev and Pavlov sold the newspapers. Trud and 24 Chasa no longer criticize the growing influence of CCB and its eco-system of related companies.

In fact the newspapers publish articles arguing in favour of the bank's expansion through privatization deals in the Western Balkans.

Notably, CCB-controlled TV7 no longer attacks the newspapers.

3.7 Inefficient regulators

One reason for the terrible condition of the Bulgarian media is the weak regulatory framework and the even weaker regulators. The print media in Bulgaria used to have a self-regulating body: the Ethical Commission of the Bulgarian Media. Founded in 2004, its activity was based on the 2004 'Ethical Code of the Bulgarian Media'.

The code was written by non-government organizations and not all media signed up to it. Telegraph, Monitor and some of the other CCB-controlled newspapers have still not signed the code.

As a young journalist I read the code in 2005 and in my personal opinion it was a very good guide on to how to proceed. It was an addition to the few regulations in the Bulgarian Constitution which protect an individual's privacy and prohibit photographing people without their consent.

The code also covered how to deal with mourning families, how and when to picture children, how to protect sources etc.

Although I admired the code at the time, I doubted that it could ever be successful as it was not legally binding.

In 2011, when Donev and Pavlov took over 24 Chasa and Trud, their content was critical of the government and CCB. These papers, with Capital Daily (the renamed daily paper owned by Economedia) and the weekly Capital, formed a coalition of media outlets that questioned the bank's government-supported expansion.

At that time Pavlov was head of the Union of Publishers in Bulgaria. However, CCB group and Peevski's group established a second, rival union, the Bulgarian Media Union. The CCB group also supported the founding of a new newspaper, Pressa which was mostly staffed by former leading journalists of Trud and Monitor.

The website of the Bulgarian Media Union shows that only Pressa is accountable to it; the other members mainly belong to the yellow press. The union also added companies which publish the Bulgarian versions of National Geographic, Cosmopolitan and other international outlets. The website displays the logos of these foreign brands, an obvious attempt to insinuate international media participation.

In late 2013 Bulgarian Media Union launched a second ethical code for participating media companies to sign.

The Executive officer of the Bulgarian Media Union, Grisha Kamburov explained the creation of the new code in a December 2013 statement to Capital. In it he asserted that the existing code did not work.

“There is a firm belief that up to this moment the system of self-regulation doesn’t work. The Foundation for journalist ethics could not achieve the needed social accountability, neither gained the necessary legitimacy of the sector. Despite the availability of a paper which is called “Ethical code” it is not actively implemented”. Kamburov, 2013⁴⁵.

It is true that the existing code is ineffective but the main reason for this is that newspapers controlled by the CCB group refuse to follow it. Looking at who is behind the new code it is likely that it will also be unsuccessful.

Kamburov added that the content of his code puts the accent on “additional regulations regarding the relations between the media companies and the distribution”.

“We work very intensively on many tasks – the different options for auditing the circulations, the fair distribution of the public funds from the communication budgets of the European structural funds and better self-regulation.”

Two governments created a system for paying their media supporters through state advertising budgets, using European taxpayer’s money. Now the main ally of the government, CCB, along with Peevski’s group, intended to legitimize it by building a new ethical code, supported by the media that had refused to follow the original 2004 code. The idea was to bind government funding to obedience to these new ‘ethical standards’.

It is a similar situation with Bulgarian television. All TV stations are subject to state regulation. They have to obtain a license from the Electronic Media Council – a regulatory body whose members are appointed by the parliament and the president, to balance the partisan aspirations.

⁴⁵ Vessislava Antonova, The standards of Peevski, Capita. Sofia. 2013, http://www.capital.bg/biznes/media_i_reklama/2013/12/15/2202814_standartite_na_peekvski/

The Council regulates TV and radio stations in accordance with the Law for radio and television. This sets many requirements for ethical and impartial behavior of the television stations. But it acts more as a morality watchdog than as a regulator.

In December 2011 Barekov, the Chief Executive Officer and presenter at CCB-controlled TV7, made a now infamous comment on air about a protest by farmers in Sofia at that time.

“This trash which was dropped here in the form of tractors and other machinery must be swept today from the capitol city where we come to work for our bread. If not I will lead a citizen’s society against this run amok brood from the countryside. You don’t know what we could do – we could cut tyres, we could burn tractors. I don’t want some wild peasants to stop me from earning my bread.”⁴⁶

The Council for Electronic Media could do nothing except morally criticize Barekov. The chairman of the council at that time, Georgi Lozanov, stated that the behaviour of the host went beyond the level of acceptability and good ethics but the Law for the radio and television was not violated.

The same council later contacted district attorneys when a rapper performed a song, live on air, comparing the colors of the national flag with cocaine, marijuana etc., in a decadent and offensive way.

3.8 Go gentle with television

The total circulation of Bulgaria’s daily print media outlets, including yellow papers etc, is about half a million people, or just ten percent of the adult population. It is the print media which is responsible for major investigations and exclusive news. The television

⁴⁶ Nickolay Barekov in his show on TV7 <https://www.youtube.com/watch?v=jWIManhfgB0>

stations reach almost the entire population of Bulgaria, but in most cases they follow the agenda set by the printed press.

The few exceptions include morning talk shows. Politicians appear on these programmes on a daily basis and if a politician says anything sensational the online media and newspapers will rush to follow the story.

It is rare for a television channel to produce its own in-depth report, but if an exclusive newspaper story is not followed up by the television stations, all their discoveries and scandals remain “a storm in a teacup”.

Therefore television is a more powerful tool in forming public opinion and television journalists are subject to a similar kind of pressure as the print media.

Decreasing advertising revenues impacted TV channels in the same severe way as the print media companies. Due to the restrained market conditions the biggest commercial broadcaster, BTV Media group, had to close one of its channels, Pro News, in 2010. One small and independent cable television RE:TV which targeted a more educated audience, also closed in December 2009.

In 2013 the staff of BTV were required to take three days unpaid leave every month, so the station’s gross labor costs could be decreased between eight and nine percent without the necessity of layoffs.

Some of the major TV channels positioned themselves as government partners in campaigns to popularize European structural funds. This was done with the hidden commitment to provide the government with friendlier, supportive coverage.

However, unlike the print media, the TV market is not as clearly polarized. Bulgaria has three leading TV channels – the Bulgarian National Television (BNT), and two commercial channels – BTV and Nova TV - both owned by foreign media groups. Nova TV is owned by the Swedish Conglomerate MTG (Owner of Viasat and many other brands). BTV’s ownership has recently become less clear. In 2010 News Corporation (BTV’s

creator) sold the station to a Bermuda-based company, Central Europe Media Enterprises, and it is suspected that the real owner is at least one oligarchical faction.

Both BTV and Nova TV established networks of smaller channels with different specializations – BTV Cinema and Kino Nova – for movies, Ring and Nova Sport for various sports games etc.

The one other channel is TV7 which is controlled by CCB. It is still insignificant in terms of ratings and market presence, but the huge financial resources allocated by the offshore owners (Alegro Capital from Great Britain)⁴⁷ to the channel attracted some of the most popular (although not the best) TV presenters to host their shows, both on TV7 and its smaller channels – News7 etc.

3.8.1 How to control television

The way television stations support or oppose a particular party or a corporation is similar to newspapers. There are legislative regulations which require impartial coverage, but certain methods are used to manipulate public opinion within the existing legal framework.

It goes like this: newscasts may seem to be impartial, but they can neglect or exaggerate the proportions of events, such as the size of a popular demonstration, in accordance with the interests of the owners and the advertisers. They can also ignore news items. The other way is to harshly criticize or glorify someone, a party or a corporation, on air.

In Chapter Two I mentioned the changes in the Law for the forests that was tailored for a particular oligarchic group.

The changes immediately triggered protests that blocked the central streets of Sofia for

⁴⁷ The public secret was confirmed by investigation of the site Bivol.bg: <https://bivol.bg/tv7-offshores.html>

four days. Dependent on both the government and upon First Investment Bank for advertising revenues, BTV depicted the protests as a gathering of people getting drunk on the streets as decent citizens tried to get home from work. On the second day of the protests the demonstrators made it clear to television journalists that they were not welcome. A cameraman was attacked and injured.

At the end of the protest week, a TV presenter, Diana Naydenova, hosted a talk with Petko Tsvetkov, a member of Biodiversity Foundation and one of the protest's organizers.

Not counting her arrogant behavior towards her guest, with all the questions and comments she made, her aim was to humble the protests and to show that they were little more than a decadent street mob.

Blogs, conventional media forums and the public reacted with outrage, forcing BTV and Diana Naydenova to apologise publicly.

The case showed how the story was manipulated. It started with news reports that focused on the way people protested rather than their reasons for protesting. Later the coverage again focused not on the controversial law but on the way protesters behaved. The fact that the law was giving the right to a company to cut trees, to build lifts and to seize control over existing infrastructure, without competition, was totally ignored.

Another example of how the television stations can become subject to massive pressure (which they prefer not to resist) happened in June 2013.

On 17th June 2013 the then Prime Minister, Plamen Oresharski, spoke on "This morning" – BTV's talk show. It was exactly 71 hours after he had proposed Delian Peevski as chief of the State Agency National Security. In chapter one I described how his appointment was approved by parliament and brought tens of thousands protesters on the streets.

The Prime Minister appeared on television in an attempt to extinguish the public outrage but in fact his appearance only deepened the problems. The hosts Ana Tsoleva and Victor

Nikolaev asked him “who was the first who mentioned Delian Peevski to head DANS?”, implying that it was coalition party leaders, or probably puppeteers from the oligarchy. Oresharski tried to avoid giving a direct answer so the hosts repeated the question a total of eight times. They still did not receive an answer.

Two weeks later their show was stopped. Shortly after, Tsoleva and Nikolaev left BTV and moved to Nova TV, which is the second most popular commercial television station in Bulgaria. In an interview for another Nova TV programme, Tsoleva said:

“The reason we left BTV is not in BTV. It is somewhere outside”.

The aim of giving these examples is to show that the television stations, just like most of the newspapers, don't dare to clash with the government unless their owners' interests are jeopardized. Instead they prefer to leave their battles to particular TV presenters and to proceed case by case if there is a pressure to take someone off air. But they are even more cautious not to obstruct corporate sector advertisers.

3.8.2 The television of Corporate Commercial Bank

Only one TV group is considered to be under CCB's control. This is TV7, Bulgaria's fourth highest rating channel. Its portfolio also includes a sports and a movie channel.

First, I will try to explain how the group surrounding CCB controls TV7, then I will show why TV7 is influential, despite not having a leading presence in the television market.

In 2011 Tsvetan Vassilev owned a minor share in TV7 and advised an offshore venture capital fund, which tried to improve the performance of the station. There is no available legal connection between Vassilev, or his companies, which could prove his influence over the channel. However, he was photographed in a CNN office in the US with some of his partners, after signing a contract for cooperation between the channels. Under this agreement CNN provided some kind of support for TV7.

The public learned that the CEO of TV7, Nickolay Barekov, spent some time in CNN on an exchange programme. It was announced that he was learning from Richard Quest personally.

Despite these informal signs of an association between Vassilev and TV7, Vassilev pretends that he does not influence media companies. He even wrote an open letter of denial to the Economist in response to an article entitled: “Gravely damaged media pluralism” which exposed him as a puppeteer behind Bulgarian media outlets.

As well as the indirect associations between Vassilev and TV7, TV7’s content is the same as the Telegraph’s and as other newspapers controlled by Irena Krasteva and Delian Peevski, and linked to Vassilev.

The Krasteva / Peevski media group demonstrates formidable cooperation with TV7. When the TV channel broadcasts a story, “pretending to be investigative reporting,” Peevski’s newspapers quote the TV story the next day.

The main subject of attacks by TV7 were the owners of Trud and 24 Chasa, Ognian Donev and Lubolir Pavlov (the attacks stopped once they sold the newspapers); also Rosen Plevneliev, the President of Bulgaria, and Ivo Prokopiev, a businessmen with various enterprises (and publisher of Capital newspaper).

All of those people were accused by TV7, and Peevski’s newspapers, of being oligarchs, aiming to rob Bulgaria. But TV7 has never become a leading channel. A contact, working for a media shop, told me that in 2012, TV7 tried to raise its advertising prices to the same level as BTV and Nova TV, but the attempt had failed because TV7’s ratings were so low.

Nickolay Barekov, CEO and the channel’s top presenter, institutionalized the poor journalism in the channel.

Convicted for libel, Barekov is known as a man who supported Boyko Borisov and his government through multiple comments and interviews. He was even the first to congratulate Borisov after he won the 2009 elections, presenting him with a bouquet of flowers.

In early 2013 when Krasteva and Peevski's media turned against Borisov, Barekov also started to criticize him publicly, telling lies against him.

In one example, in summer 2013, Barekov produced a picture at a press conference of Ivo Karamanski, (a notorious gangster from the 90's), accompanied by his bodyguards.

Barekov pointed out a similarity between one of the bodyguards and Borisov, and stated that it was the young Borisov in Karamanski's entourage. It was a lie and Borisov sued Barekov for libel.

Yet TV7 has attracted some of Bulgaria's most famous TV presenters, despite the lack of good journalism. I will provide one example of TV7's biased journalism, to demonstrate the dramatic change in editorial policy after the protests in early 2013.

One of Bulgaria's best known TV presenters is Lyuba Kulezich, but she is also known as a supporter of Borisov. When TV7 was pro-Borisov, Kulezich hosted a talk show on TV7, from which she kept attacking Borisov's political opponents. In 2013, after Borisov resigned, she was laid off and accused of bias. And indeed she always had been. The problem was her employer no longer had an interest in tolerating her bias.

In early 2014 it became clear that Kulezich has been retained at TV7 because of the cooperation between Borisov and Peevski. In a statement in 2014 Delian Peevski admitted that he has asked Peevski to hire Lyuba Kulezich and I find this as an indicator that by that time there was a compliance between the interests of Peevski and Borisov⁴⁸.

Later TV7 became an illustration of Barekov's political aspirations, with the support of Vassilev. When he resigned from the TV station in mid-2013, many believed that

⁴⁸ Pik.bg, Delian Peevski: "I asked Barekov to hire Lyuba Kulezich", Sofia, 2014. <http://goo.gl/t20zie>

Vassilev had made a scapegoat of him, in order to tackle the public outrage towards TV7 after it tried to ignore the protests against the new government of Plamen Oresharski.

In fact Barekov's resignation from TV7 was followed by switch to politics and he has since established a movement which has grown into a political party: Bulgaria Without Censorship. He started a roadshow in Bulgaria's countryside which was regularly covered by TV7.

Barekov hopes to be elected to the European Parliament, with popular leftist policies, such as promises of free dental care for pensioners and a free tablet for every school pupil.

In reality his new party, Bulgaria Without Censorship is the nominal conductor for Tsvetan Vassilev's political power and Barekov, despite his charisma, is Vassilev's puppet.

At the beginning of 2014 a couple of MPs (from GERB and the Bulgarian Socialist Party) left their groups and announced that they would work for Barekov's party, although they continue to be "independent" MPs.

Understanding the delicate majority which supports Oresharski's cabinet (with only a few more than 120 MPs out of 240), Barekov called his party a legitimate participant in political life and a deciding factor in whether the government would fall.

The only unclear issue is what the real role of Bulgaria Without Censorship will be.

The first assumption is that this is Vassilev's private project and that he wants to make the Bulgaria Without Censorship party as influential as DPS. If this is true, it indicates the ambitions of Vassilev to emancipate himself from his political backers and to become an independent actor, influencing political life and decisions which affect his business.

The second assumption is that Bulgaria Without Censorship will become part of the coalition between the oligarchy and the political elite, but with two centres of influence –

Ahmed Dogan and Tsvetan Vassilev. In that case it will only try to attract support from the voters with Bulgarian, rather than Turkish, ethnicity. Once it is in parliament it can coordinate with DPS, even if not publicly.

In both of these cases the eventual entry of Barekov's party to the European Parliament will be a sign of the oligarchy's growing influence over the political life of Bulgaria.

Chapter 4. Conclusions

In chapter two I described the phenomenon of ‘tailored legislation’. It is a process which serves a small number of economic agents, usually associated with the oligarchy. It also restricts the market to businesses that support the coalition between the oligarchy and the political elite.

Tailored legislation can be used to remove competition, or to legalize acts of favored companies. There is a clear difference between political lobbying and tailored legislation. Lobbying aims to defend the interest of a particular group during legislative and regulatory changes. Lawmakers generally seek a balance between the interests of the different groups and try to make impartial and proportionate regulations.

However, tailored legislation is a grotesque form of corruption under which an oligarch can literally purchase a law, tailor-made to his business, disregarding the damage it will cause to other parts of the society.

One main distinction between corrupt forms of governance and the “rule of oligarchy” is that only organizations considered being a part of the coalition between the oligarchy and the political elite are able to arrange tailored legislation.

The developments described in the last two chapters of this paper are mutually dependent. Much of the tailored legislation described had to be altered after triggering massive public outrage and protests. While this is a sign that Bulgaria’s civil society is maturing, it also made controlling the media - and therefore public opinion - more important to the oligarchy.

In order to learn and understand more about tailored legislation, and its devastating impact, society needs free, competent and fair media to act as watchdogs. This is why the oligarchy had to destroy media pluralism and independence. With this conclusion I will

try to summarize some of the key weaknesses of our political and economic system that make it possible for the oligarchy, rather than society, to dictate the government's agenda.

The first one is the personification of power, especially over institutions which have the legal authority to gather information and use violence. Designed to be guardians of law and agents of enforcement, these institutions have instead become tools for the defence of the oligarchy and the suppression of the oligarchs' competitors and political opposition.

In late January and early February 2013 massive protests were held in major Bulgarian cities. Initially they were targeting high utility bills and uncontrolled pricing in the utility sectors but the protests eventually led to the resignation of Borisov's government.

Just after his resignation the media ecosystem around CCB reversed its editorial policy and again became aggressive towards Borisov and his party, just as before the 2009 elections.

There are many explanations about why the Krasteva's press and CCB's television turned against Borisov, but the most convincing is that Borisov was about to become a threat, due to his growing influence and the aspirations of his party to play a bigger role in the economy. This hypothesis remains formally unproven, but it is a logical explanation for the processes I describe.

Many believed that it was the unification of the oligarchy against Borisov that triggered the anti-government protests which led to Borisov's resignation.

There are only two reasonable explanations for Borisov's behavior in his first term as a prime-minister. The first is that he tried to seize power for himself and his associates and to become something between Viktor Orban and Vladimir Putin. The other possible explanation is that he was incompetent.

His government was removed with the help of the oligarchy, and the new government is also likely to fall, if it tries to attack the oligarchy. With all explicit consequences described in this paper, there is an entirely new and higher level of political risk in Bulgaria. A situation when oligarchs can influence the political decisions and to trigger instability for the sake of their own interest is possible; but when such a thing occurs in a EU and NATO member state, the risk becomes one for all of the member-states. Although the risks are still implicit and hard to quantify, such developments undermine the trust that the EU and NATO can preserve the values for which they stand.

This paper does not provide enough information by which to assess the size of the oligarchy. But it demonstrates that there are dangerous weaknesses of our political and economic system which enable the oligarchy to expand its power over an increasing share of the economy, and to influence political powers in a way that benefits only certain oligarchic groups.

There is a lack of systemic stabilizers to restrict the oligarchy's power and influence.

External scrutiny and accountability can often be an effective stabilizer, but Bulgaria's strategic geopolitical location means that this is less likely. Bulgarian society is loosely divided between people who support Russia's politics (Russofiles) and those who fear Russia and want west-oriented policy (Russofobs)⁴⁹.

The Russofiles vote for the Bulgarian Socialist Party and are mostly older and from the countryside). In contrast the Russofobs are active younger people from the cities. Their numbers constantly increase, due to migration and demographic developments.

⁴⁹ Bulgaria, just like Russia is a Slavic nation with dominating East Orthodoxy and it was the Russo – Turkish war in 1877-1878 which led to the reestablishment of the Bulgarian state. This is why many Bulgarians believe that Bulgaria should always support the Russian foreign policy. However the Russian state invests a lot in building pro-Russian NGO's, parties and media companies so there is propaganda trying to reinforce the sentiments.

Right-oriented parties take advantage of Russophobia fears about Russia. They promise anti-Russian and pro-western foreign and economic policy. However, as soon as they gain power, self-enrichment becomes the priority, rather than public interest.

This is how they obtain support from foreign partners. For example, Borisov is supported by the European People's Party, Angela Merkel, and the US.

The Russophiles have Sergey Stanishev, leader of the Bulgarian Socialist Party. He also became president of the Party of the European Socialists. With his Russian education, Stanishev is one of the many candidates for the title "main conductor of Russia's interests in Bulgaria."

Focused on these geopolitical struggles, both the western and eastern great powers shut their eyes to the domestic policies and acts of their Bulgarian protégées.

This sets significant obstacles for the strengthening of the Bulgarian institutions because every party, no matter which great power supports it, takes advantage of the same weaknesses and does not have incentives to remove the weaknesses. A situation where the security issues undermine the economic reforms and transition explains the slow convergence of the former Yugoslav republics. I would argue that even despite the lack of war, Bulgaria suffers almost the same security issues since the political parties strive to address the desires of the oligarchy and their foreign patrons before thinking of wider society. The only difference is that in Bulgaria the conflicts occur in the financial sector and in the media and rarely escalate to violence.

What needs to be repaired?

History offers two approaches for reducing the influence of the oligarchy. The ancient city state of Athens practiced the procedure of "ostracism" which meant that citizens, whose influence had made them tyrants, could be expelled from the city for ten years.

The scholar Jeffrey Winters claims that attempts to take away the property of the oligarchy would have catastrophic effects. He cites Russia's Bolshevik revolution as an example. Winters claims that the solution lies in building independent institutions, which serve the public interest, rather than the oligarchy.

As a journalist I have seen more than one hundred new laws proposed, but very few of them had any sort of impact assessment beforehand. One example of a new independent institution to serve the public interest could be a body to conduct impact assessments of proposed new legislation. This could act as a whistleblower, alerting the public if a legislative initiative is potentially damaging.

It is difficult to know if this should be a single, independent institution, to which the government and MPs would submit their proposals for impact assessment, or whether every ministry and parliament should itself set up their own department for impact assessment.

In a country where the independence of the regulators, and even of the central bank, is questionable, it is likely that the creation of such extra administration will be undermined. But it does not change the fact that society needs such a stabilizer.

The third chapter of the paper discussed how the oligarchy and various governments have made the majority of Bulgaria's media dependent upon them. This has been done through quasi-subsidizing, advertorial pressure and acquisitions. The monopolization of newspaper distribution has also been used to suppress independent media companies

I believe that direct state intervention is the only way to repair this situation. This could mean supervising distributors to ensure that they regularly pay publishers what they owe. Establishing state-owned distributors could also guarantee that the newspapers reach their audience and are in fair competition with all other papers.

State advertising has also been used as a tool to influence the media: for example, channeling EU grants in exchange for pro-government content, which can be described as between selective subsidizing and legal bribery, so the way European and national publicity

campaign funds are distributed needs to be repaired. Objective principals and quantifiable criteria (circulation, website clicks, etc.) should be established. Government advertising should only be directed towards companies whose outlets meet these criteria and obey certain ethical norms. It should not be possible for either an individual or a department to make subjective decisions regarding allocating public funds for state advertising.

Perhaps, if the EU made Bulgaria accountable for the way its grants are disbursed, the government would be more likely to enforce these criteria.

A state subsidy for those media companies that follow an ethical code and serve the public interest should also be considered. Media companies are subsidised now, whether the money comes from oligarchs or from foreign foundations. If media companies need a subsidy to operate, perhaps it is better if the government provides the subsidy, rather than private or foreign investors. At least it is worth considering.

I am perfectly aware that the ideas outlined in this conclusion have very little chance of becoming reality and indeed some travesty of them could be imposed in order to simulate activity. But the systemic weaknesses in our political system exist and the biggest achievement of this paper is that it describes them systematically. Once such a description is published, it can serve as a basis for further analyses. But the main message is: “these problems are defined, look for solutions”.

Afterword (July 2014)

The beginning of 2014 marked the separation between Tsvetan Vassilev and Delian Peevski. The newspapers of Peevski turned against Vassilev and his businesses which led to a run on deposits and the possibility CCB being nationalized. Just a week later, First Investment Bank was subject to speculative attacks and deposit runs which forced the bank to shut down for a day on 27 June 2014.

The crisis forced all parliamentary parties, the president and the Central bank to launch a joint statement calling for calm.

However, it drew attention to the fact that the concentration of assets with the support of the government leads to dependency which makes the banks fragile. Once the support from public institutions is withdrawn, it becomes questionable whether the people will believe in the strength of these banks or prefer to move their money out.

For a society with low political and financial culture it increases even the risk to household savings. Call it redistribution of wealth or robbery, it proved that even the peaceful existence of the oligarchs could be harmful for the society if there are not constraints on their aspirations, and that their conflicts might lead to even greater losses if the oligarchs have significant economic and media power.

This is yet one more signal showing that the public must strive to decrease the influence of the oligarchy and build knowledge on how to do this.

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