MINISTRY OF FOREIGN AFFAIRS OF DENMARK
THE TRADE COUNCIL

Bulgarian Oil and Gas Sector


Sofia – November, 2013

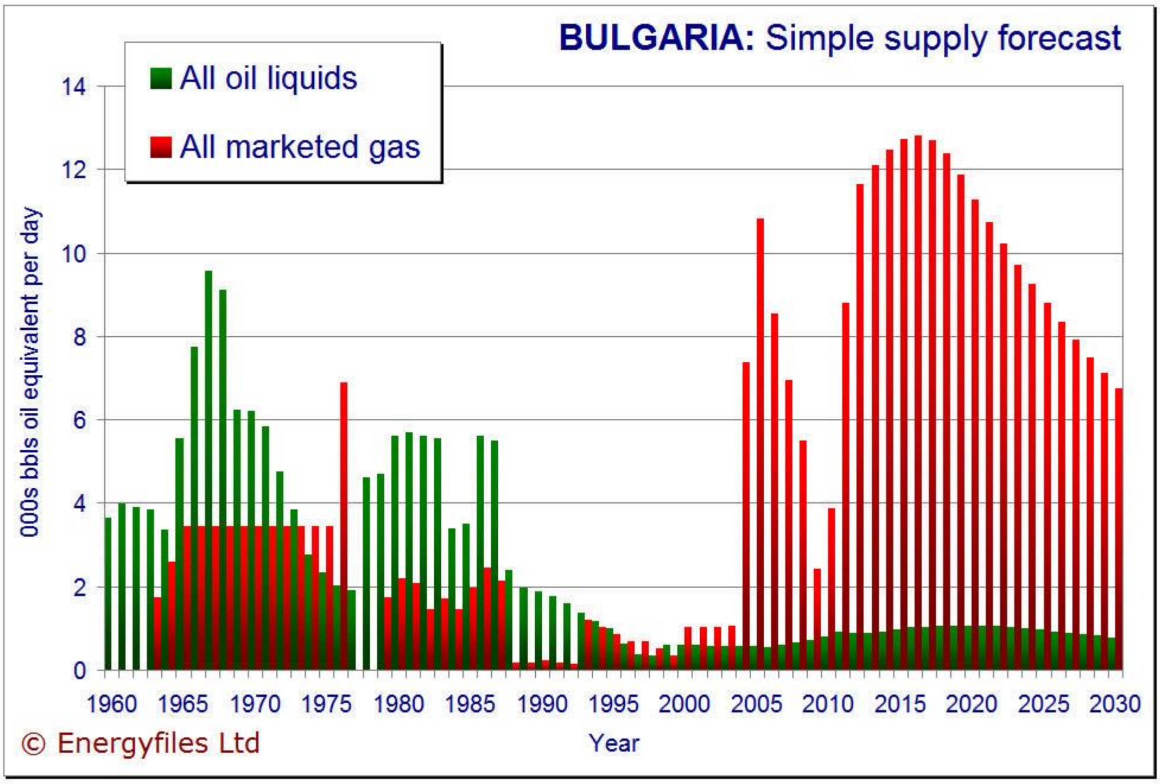
General Overview

Bulgaria is a net oil importer and produces negligent quantities of oil. According to the Ministry of Economy and Energy, residual gas reserves in the working fields are just over 2 billion cubic meters and the reserves for oil are much less - 139 thousand tons. Bulgaria's geographic location on the Black Sea gives it the ability to serve as a transit route for Caspian Sea oil exports headed to European refineries, as well as a transit point for Russian gas exports to Turkey. Oil is imported through Bulgaria's main port at Burgas, where both the oil terminal and refinery are connected by a pipeline to several Bulgarian cities.

According to the data coming from the Ministry of Environment and Water, over 800 million tons of oil and gas are hidden beneath the surface of the territory of Bulgaria. Their estimation indicates that this particular quantity is enough to cover Bulgaria's oil and gas consumption in the next 10 years. The scientific groundwork of geologists indicates that the extractable resources on the Bulgarian territory amount to 58 million tons of oil and over 160 billion of tons of natural gas. The northern Bulgarian Black Sea economic shelf keeps over 30 million tons of oil and over 50 billion cubic meters of gas.

In Bulgaria oil has a limited significance for the energy balance due to the fact that its extraction provides only 3% of the power needed for electricity and heat plants. Overall, crude oil reserves are estimated to be 20 million tons while annually ***Neftochim*** uses around 10 million tons. Extraction of oil in Bulgaria has a long history and dates back to 1951 and is mainly situated in Tyulenovo and Shabla; since 1962 oil began to be extracted near Dubnik and Gigen and since 1975- in Lovech, Pleven and Vratsa as well as some more sites on the Black Sea Coast.

Limited oil reserves require annual imports of about 10 million tons mostly coming from Russia, Uzbekistan, Kazakhstan and some Arab countries.



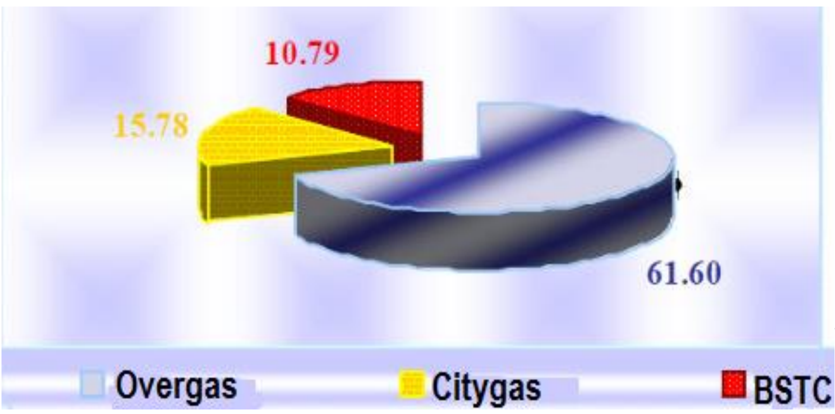
Major Players in the Sector

There are several main operators in the oil and gas sector in Bulgaria. The most significant one is ***Lukoil Neftochim Burgas*** JSC, which is one of the biggest refineries in Central and Eastern Europe and it imports and refines oil. In 2011, it imported about 4.5 million tons of crude oil, which is a 16.1% decrease compared to 2010. Other smaller players in the field are: ***Petrol*** JSC, ***Shell Bulgaria*** Ltd, ***Overgas INC*** JSC, ***Shell Gas Bulgaria*** JSC, ***OMV Bulgaria*** Ltd, ***Eco Bulgaria*** Ltd, ***Prista Oil***, ***Bulmarket DM*** Ltd, ***Vitogaz Bulgaria*** Ltd, ***Gastrade*** JSC, ***Kalvacha Gas*** JSC, ***Naftex Petrol*** Ltd, ***Rompetrol Bulgaria*** JSC, ***Insa Oil*** Ltd, ***Synergon Petroleum*** Ltd.

Natural gas in Bulgaria

At the moment, Bulgaria imports around 3 billion cubic meters of natural gas per year from ***Gazprom***, which covers its total domestic consumption.

According to the baseline estimations by 2022 Bulgaria will need 4.5 billion cubic meters of gas per year from which only 1.5 billion will be accounted to local production.



Market Shares for the companies that are responsible for gas transportation, 2012

Bulgartransgas even specifies that the accounts are prepared on the basis of two assumptions: (1) Bulgaria has constructed the major gas interconnections (2) the deposits of ***Direct Petroleum*** near Gornik and ***Melrose Resources*** in the Black Sea shelf are put into exploitation.

It is expected that by 15th November, 2013 the country will sign a new contract with ***Gazprom*** for natural gas supply for another seven years.

Shale gas in Bulgaria

Bulgaria has shale gas reserves of 17 trillion cubic feet, which is enough to meet its needs for natural gas for a hundred years and has the capacity of 200 million barrels of shale oil. This data is taken from the report of Energy Information Agency / EIA / of the United States. However, Bulgarian government had imposed a moratorium over the exploration of shale gas due to the huge protests of the citizens, concerned about the consequences over the environment.

SWOT

Strengths

1. The offshore East Kavarna field will be brought on stream in 2014, further adding to gas production growth and anticipated production is 766cm^3 by 2017

2. A new vacuum distillation unit with a capacity of 50,000 barrels per day is in the process of being built by ***Technip*** and is expected to be operational by 2015

Weaknesses

1. Moratorium over shale gas extraction increases the need of import from other countries
2. Too big dependency is put on a single importer, hence prices are not very elastic

Opportunities

1. **Exploration and development of the deep-water off-shore oil and gas resources of the country**: Further upside to Black Sea potential could be gained in the Khan-Asparuh block, to the South of Romania's successful Neptun block. In June OMV, Total and Repsol began the largest 3D seismic survey ever in the Black Sea

2. Bulgarian government has allowed a German vessel to navigate in the country's Black Sea Exclusive Economic Zone to investigate methane hydrates. Research will begin in December 2013 and conclude by January 2014.
3. Transmission inter-connections to be build:

   - Bulgaria-Romania, operation planned to be launched in 2014;

   - Bulgaria-Greece, planned to start operation in 2014 with the aim to connect Bulgaria to the Turkey-Greece-Italy pipeline;

- Bulgaria-Serbia, which was awarded in 2012 to Gastec BG;
- Bulgaria-Turkey, with length of 77 km, which aims to transport gas from Azerbaijan to Bulgaria; the project is planned to be completed in 2014;

4. '*South Stream*' – the project is supported by Russia and Gazprom and aims to eliminate the role of Ukraine in the natural gas transmission;
5. '*Nabucco*' – the project is supported by the European Commission and aims to diversify the natural gas supply for Europe using sources from the Middle East;

Threats

1. Very strong social opposition to shale gas extrusion
2. Instability of Government may lead to not signing contracts for interconnections as well as delay for the ones which already have been approved

Danish Perspectives

There are several opportunities for Danish companies to focus on. First of all, a possibility for doing business lies in providing know-how and equipment for on-field analyses of possible drilling and extraction of the resources.

Another one is more in the sphere of consultancy in regards to the projects for interconnections that are going to be launched soon.

All Danish companies interested in learning more about the exciting outlook for the oil and gas sector in Bulgaria are more than welcome to contact the Commercial Department of the Royal Danish Embassy in Sofia.

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