



The Hungarian energy policy, 1989-2018

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Structure



- (1) Early history, resources, the geological matrix.
- (2) Policy factors after 1989:., policy and political attitudes, corporate structure, strategies.
- (3) The Orbán government's energy policy (2010-18)
- (4) Case studies on the major issues: gas interconnectivity and pipeline politics, the Paks nuclear extension, attitudes towards energy transition, etc.

Early history

1911 – first law on oil mining (subsoil minerals belong to the state).

After 1937 – JV with Standard Oil (MAORT) boosts production – self-sufficiency.

Since 1954 – Magyar Kőolaj Rt. (since 1991 MOL) in HU ownership.

In late 1950s, early 1960s – new oil and gas fields in Southern Hungary (Algyő)



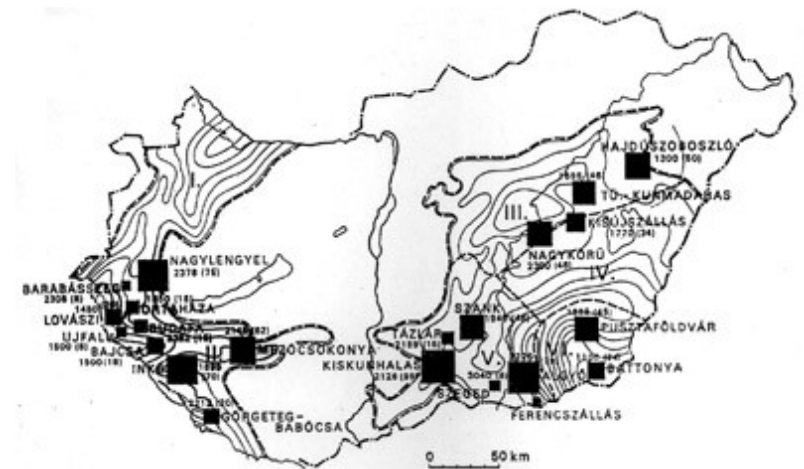
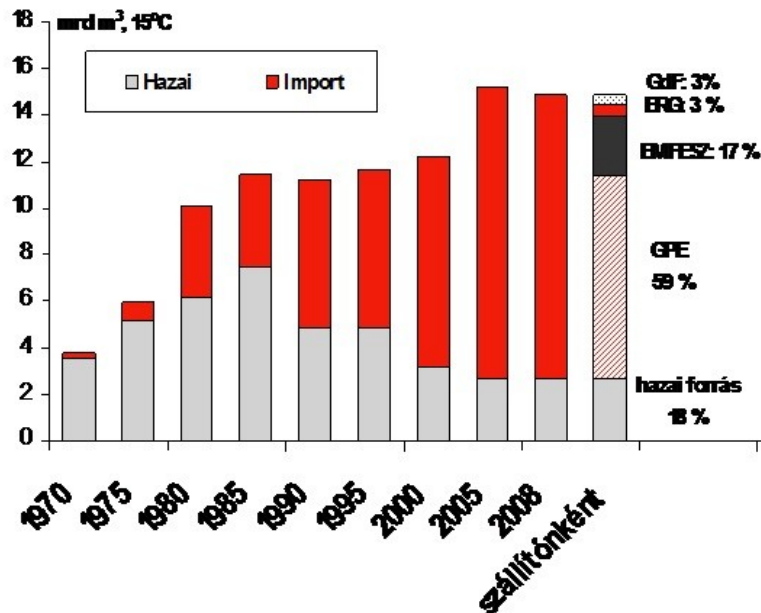
Resources – bright past...

Quasi self-sufficiency until the mid-1960s, limited dependency until the mid-1980s:

Natural gas production peaks in the 1980s around 7 bcma.

Significant, but relatively expensive coal, cheap, but low calorific lignite.

Diversification relatively early (Kosigin's message) - Adria pipeline, 1970s.



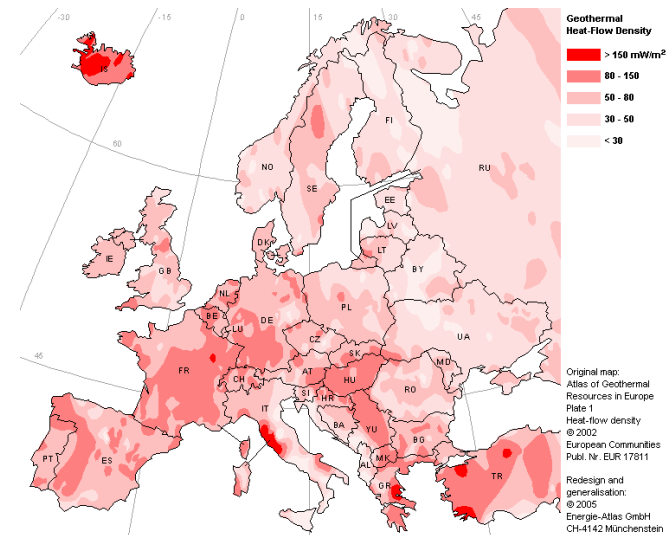
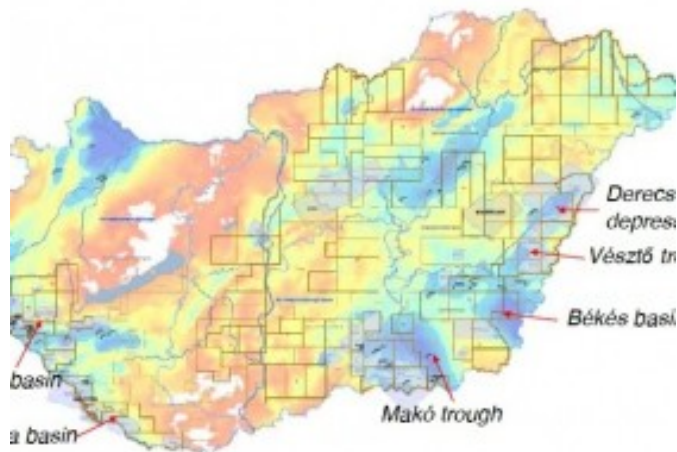
Resources – ...bleak present

Depletion of conventional resources is certain (roughly 20% - gas, 10% - oil).
Some small scale alternatives:

Unconventional natural gas – since mid-2000s, poor results.

Geothermal – heat production, poor governance and social trust.

Wind potential is relatively limited, solar potential, bio energy is fair, but limited.



Kádár's legacy – ramifications not only for energy policy

„Goulash-communism” – „no more 1956”, grand compromise with people.

- (1) Social, political stability is a „sui generis” priority.
- (2) Stability is to be achieved through „Socialist welfare state”:

State paternalism – extensive social benefits, price controls.

Private companies sanctioned at the end of the 1960s –

strong reform-communist legacy both at home and West.

Regular debt crises since 1950s, high indebtedness inherited.

Openness to the West – people could travel to Europe once a year.

- (3) Transition without mass protest, through elitist compromises.

Main expectation is „goulash-capitalism”: welfare, not freedom

Stakeholder's formation – NOCs and IECs

Two major motivations: managing the debt crisis, privatization is not bad.

- (1) Large scale sell-off of gas and electricity distribution/plants to W. energy companies in mid-1990s. Aim: Avoiding further austerity.
- (2) Regulator established parallerly: modern methodology, its mission is to guarantee 8% profits for foreign investors.
- (3) MOL – a management buyout. Domestic private property as early as in the mid 1990s. Oil and gas company, entrenched in decision making. Expansion: Slovnaft, INA, Russia, Northern Iraq.
- (4) MVM – what has been left. Paks and the high-voltage electricity transmission.

Stakeholder's formation – Party attitudes

Until 2010 two major formations: Socialist-liberal (MSZP-SZDSZ) and Centre-right (MDF, after 1994 Fidesz)

Conservative mindset: Cultural legacy from the periods prior to 1945: Russia-sceptic, light statism, opposes privatization in energy industry, both gas price and energy security high on the agenda.

Socialist-liberal mindset: Reformcommunist legacy underpinned by liberal presence: Russia-friendly, market-friendly with strong social sensitivity, energy security not a major issue until 2006.

After 2010 the HU party system collapses, different setup with Fidesz at the core, democratic and right-wing radical opposition at the two flanks.

Energy strategies and major policy documents

1993 – 1st energy strategy – couple of pages without real substance;

2008 - 2nd energy strategy – key principles but without TPES targets;

2011 – National Energy Strategy

top policy objectives: (1) decrease dependence (esp. gas dependence)
(2) more state involvement in policy formulation

Nuclear+green+coal combo.

Energy policy decision making system is highly determined by existing obligations on the EU and international level.

After 2010 – What happened to Orbán? – I.

From the biggest critic of Russia to one of the best friends of Putin.

- (1) New self-definition after 2/3 landslide victory in 2010: leader of the nation – conservative agenda not as binding as in the past.
- (2) No major risk of being pro-Russian – almost all major parties are affected by pro-Russian sentiments, Jobbik in particular.
- (3) Confrontation with the EU and with Western capitals. Ideological pattern or bargaining chip.
- (4) Exclusively utilitarian understanding of foreign policy: a business relationship with Russia.
- (5) Overtly populist attitude towards utility prices – utility rate cuts (around 25%) is the single biggest instrument in the 2014 campaign.

After 2010 – What happened to Orbán? – II.

From the proponent of capitalist Hungary to the defender of statism.

- (1) Harsh regulatory regimes for energy sector participants, regulated fees driven below profitability, sectoral taxes.
- (2) Renationalization of some major assets (Russian LTC, storage from E.ON in 2013, distribution companies are bought out).
- (3) Reinforcing MVM as state national champion in the field of energy (entering gas industry, Paks expansion).
- (4) Sovereignty over the nation's energy policy – highly restraint attitude toward common policies, including Energy Union.

The Russian energy nexus – a controversial agenda

Cooperation in the field of gas:

- (1) 1990's – the Era of Rakhimkulov, Hungary is one of the „foreign capitals” of Gazprom. Decline starts with Chernomyrdin's departure from the government in 1998 and Putin's arrival in 2000.
- (2) EuralGas and Emfesz – Hungary as a market for Rosukrenergo's Russian-Ukrainian gas (in some years it provided up to 20% of the HU market).

Confrontation over hostile takeover attempts around MOL:

MOL owners could not consolidate their control over the company through property relations:

- (1) At the end of the 1990s Gazprom management tries to overtake chemical industry, partially successfully.
- (2) In 2007 OMV's hostile buy-out of MOL failed, 17% of the company sold out to Surgutneftegaz. Orbán bought it back, state property reenters MOL.

The Russian energy nexus under Fidesz

- (1) Not only about energy (Eastern opening, Decline of the West etc.);
- (2) Gas import prices, conditions are negotiated on the top level;
- (3) Strong belief, that gas will come from the South via Hungary;
- (4) Paks extension – the „crown jewel” of RU energy presence;
- (5) Murky private deals: the case of the MET-trader.

Is Hungary the showcase of Russian energy statecraft?

Resources – the Soviet/Russian connection

Import dependence managed through Soviet relations:

Nuclear blocs contracted relatively early (mid-1960s), built 4 VVER-440 blocs between 1982-87 (covering today around 40% of electricity demand).

Natural gas imports increased rapidly after 1980 – depletion + pro-gas policies:

Hholds penetration of gas 20% in 1980, 50% in 1990, around 85% after 2000.

Around 40% of electricity generation provided by gas plants prior to 2008.

Gas perceived as cheap, green, secure thorough the 1990s.

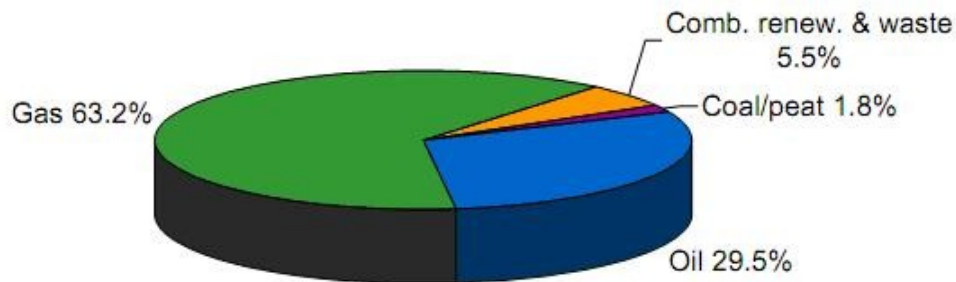
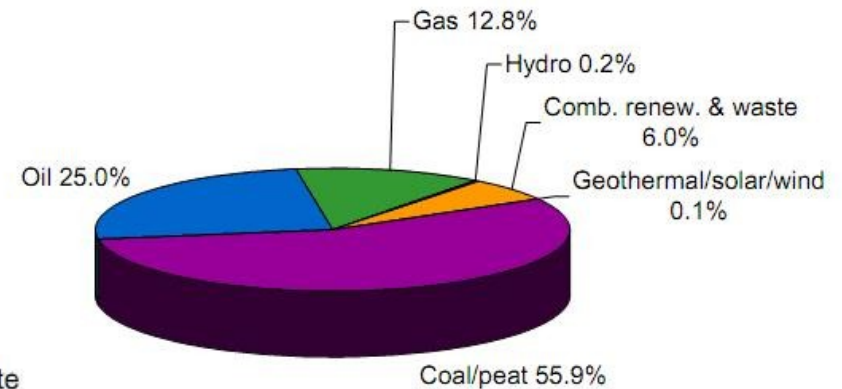
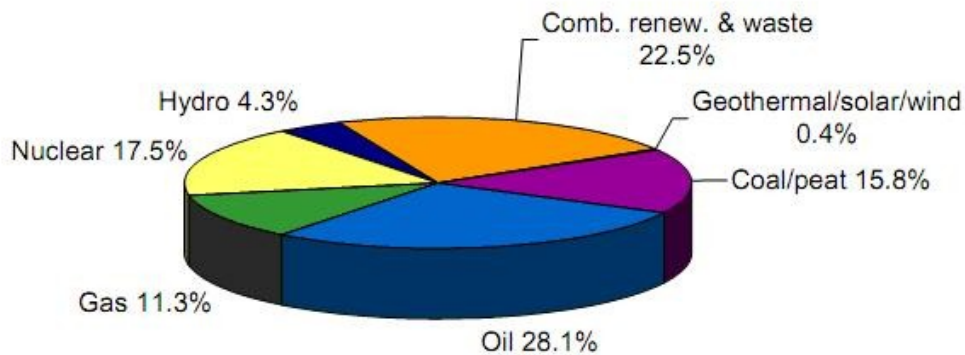
Supply security – the statistical side

Energy dependence indicators, 2013, %

Country	Share of energy imports in TPES, %	Share of gas imports in TPES, %	Country	Share of energy imports in TPES, %	Share of gas imports in TPES, %
Estonia	11,9	8,28	Latvia	55,9	31,18
Denmark	12,3	-4,25	Slovakia	59,6	26,66
Romania	18,6	3,60	Greece	62,1	13,29
Poland	25,8	10,38	Austria	62,3	15,68
Netherlands	26	-35,54	Germany	62,7	19,60
Czech Republic	27,9	16,50	Spain	70,5	21,68
Sweden	31,6	1,94	Portugal	73,5	16,86
Bulgaria	37,8	13,28	Italy	76,9	31,60
United Kingdom	46,4	16,37	Belgium	77,5	25,50
Slovenia	47	10,04	Lithuania	78,3	32,37
France	47,9	14,65	Ireland	89	27,00
Finland	48,7	8,42	Cyprus	96,4	n.a.
Croatia	52,3	9,27	Luxembourg	96,9	20,52
Hungary	52,3	24,43	Malta	104,1	n.a.
EU (28 countries)	53,2	15,16			

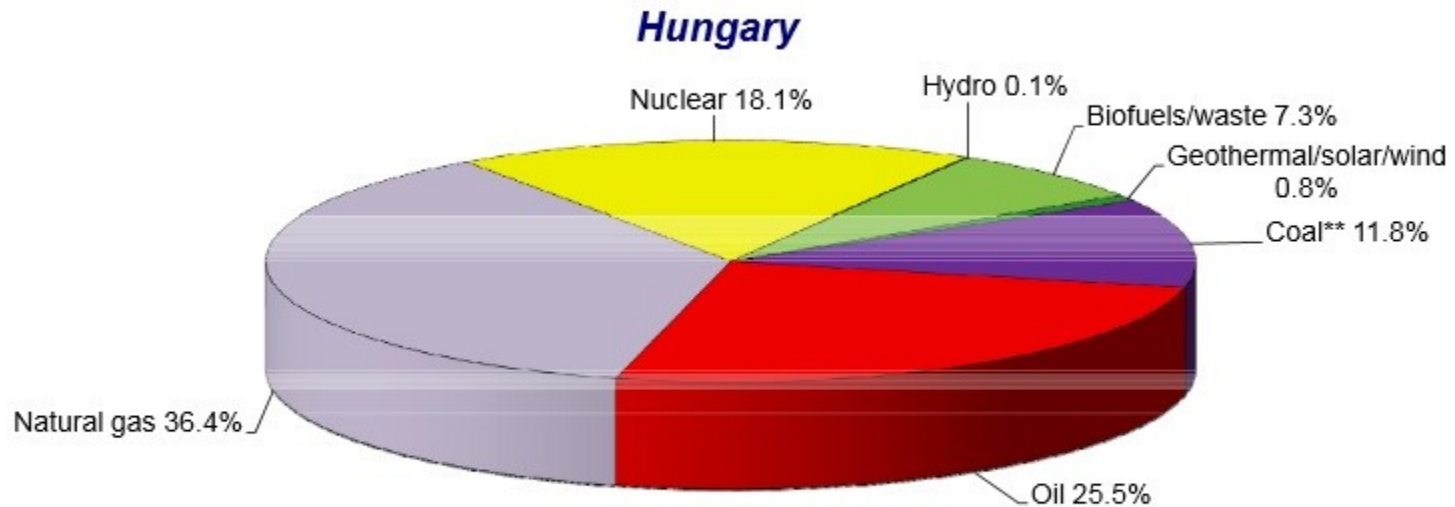
Source: Eurostat, 2014

Dependency is a must – but how to manage it?



Your impression about Hungary?

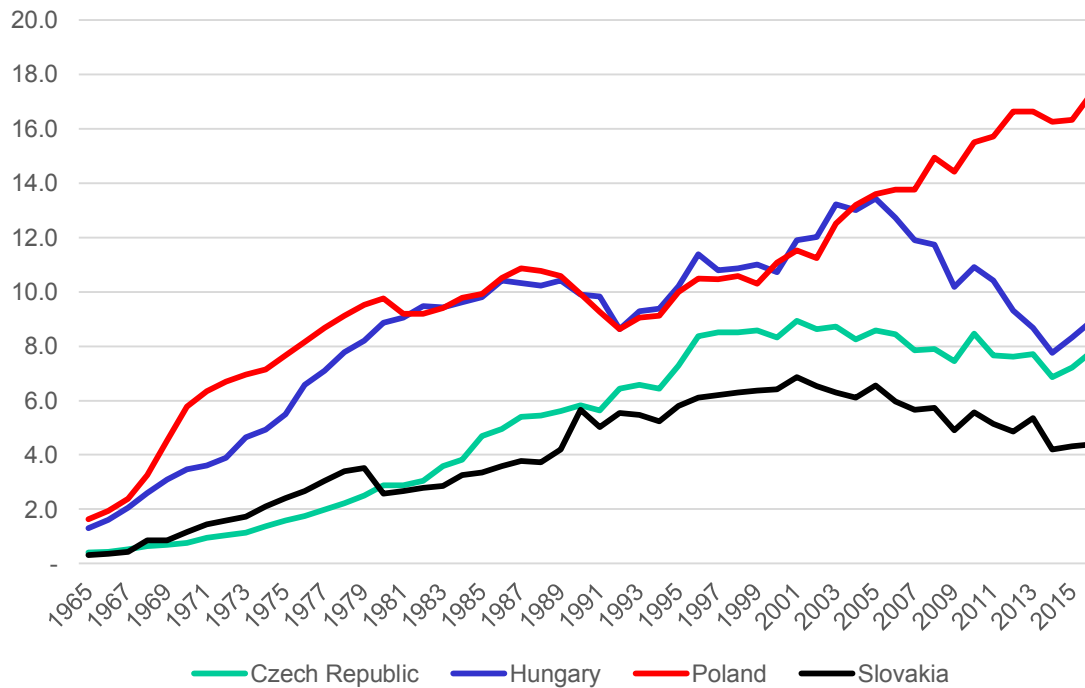
Share of total primary energy supply* in 2012



23 469 ktoe

The „Golden Age of Hungarian natural gas”: 1993-2007

Gas demand in the V4, 1965-2016, bcm



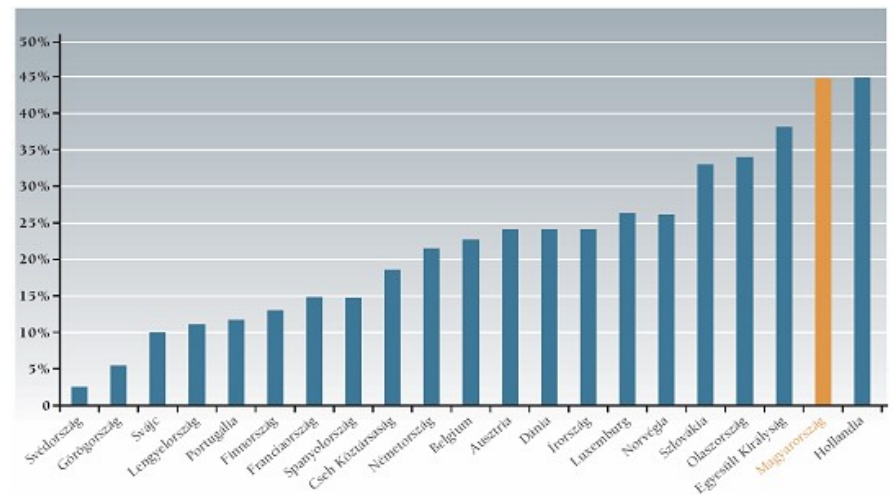
Natural gas - the mismanaged dependence

- (1) High consumption levels accompanied with high import ratio.
- (2) Double dependence on RU supply and UA transit – only limited imports from AT.
- (3) No significant transit volumes unlike in other Visegrad countries.
- (4) Individual heating systems with high social sensitivity and capital scarce central heating.
- (5) The only remedy for SoS situations: huge storage capacity in HU.

Gas network in Hungary



Share of natural gas in TPES in 2003



2009-2012 – The Golden Age of SoS in V4

- (1) Existing common agenda: regional interconnectivity, non-RU supply (Nabucco, LNG), European internal market.
- (2) Unique and favorable constellation of market, policy and political factors.
- (3) EU emerges as a considerable policy supporter for the first time.
- (4) Relatively peaceful Russian-Western relations, interdependence seemed to be manageable.

Outlook: *More competitive regional markets and gradual deconstruction of Russian dependence.*

Champion of interconnectivity

Hungary practically interconnected with all of its neighbors.
Domestic consumption of gas fell from 13 bcma to 8,5 in 10 yrs.

Robust infrastructure with low utility rates.

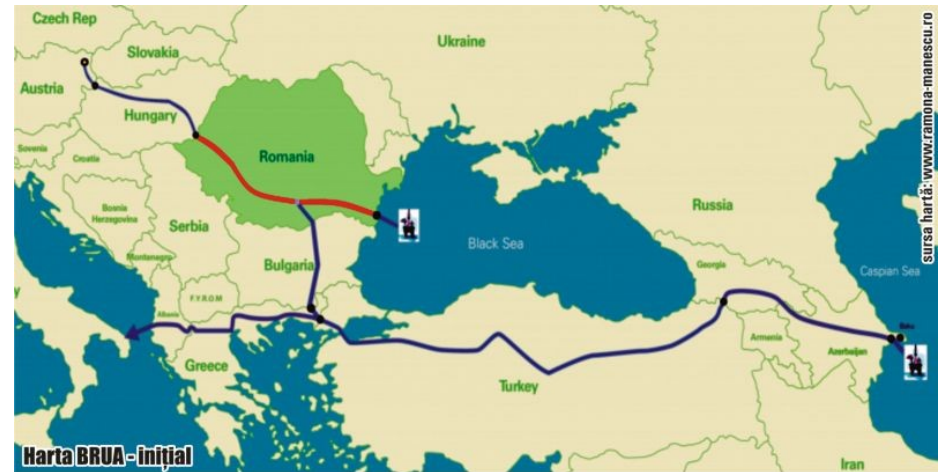


2013-17 – Back to normality or Dark Age?

- (1) The common agenda has been partially fulfilled (interconnectivity, integration). SoS challenges practically responded.
- (2) Gazprom is the cheapest marginal supplier again. Market drivers are not fully in line with policy targets.
- (3) No alternative supplies at competitive prices (Nabucco failed, LNG too expensive). Social affordability issues unresponded.
- (4) EU-Russia energy relations in freefall, worsening geopolitics.

Outlook: *No alternative supply at competitive prices, but deteriorating conditions of Russian supply.*

Emerging projects and their Hungarian welcome: the Krk-terminal and the BRUA-pipeline



Outlook for Visegrad cooperation

V4 positions on some current EU-related policy actions

	2030 Climate targets		Attitudes towards UA transit	UA reverse flow	Energy Union	"Loop flow" problem
	GHG emissions	Renewables				
Czech Rep.	negative	restraint	Commercial, UA-to-Nord Stream switch	Not applicable	Restraint, supportive	Policy maker
Hungary	moderately supportive	negative	Commercial, anti status quo actor	Contradictory, supportive	Highly restraint	Supportive, mediation
Slovakia	neutral	restraint	Commercial, status quo actor	Contradictory, supportive	Restraint, supportive	Supportive
Poland	negative	negative	Political	Supportive	Supportive	Policy maker

The Paks-extension - 1

- (1) The old blocs (4*500 MW) are due to be decommissioned between 2032-37. These provide roughly 1/3 of total electricity demand.
- (2) March 2009 – Parliament almost unanimously supports „conditional permission for preparing the extension” (later it becomes back-stair to decision).
- (3) January 2014 – Viktor Orbán sign intergovernmental agreement with Russia on the extension.
- (4) During 2014 – Russian credit line agreement, construction contracts signed.
- (5) 2014-2017: EU permitting process. Issues: nuclear fuels, state aid, lack of tendering, information and confidentiality issues.

The Paks-extension - 2

- (1) Two VVER-1200 units for 12.5 bln EUR, online between 2025-27.
- (2) Russian government provide 80% (10 bln EUR) credit-line with a tiered interest rate between 4-5%.
- (3) Localization rate is set at 40%, the Rosatom will strive for it.
- (4) The total project cost will be covered from the Hungarian budget under the auspices of the Prime Minister's Office.
- (5) Different arguments in favor: strategic project (self-sufficiency and preserves HU nuclear industries; utility rate cut – the cheapest option; profitability expectations).

The Paks-extension - controversies

- (1) Non-transparent decision, first signals only three weeks before signing, prepared in total secrecy and without the inclusion of experts, public.
- (2) Six units will run parallelly between mid-2020s and 2032. Why do we hurry?
- (3) No tendering, state aid remains open, many issues unresolved with the EU at the beginning.
- (4) Total right-about turn three months prior to the 2014 elections. Motivations?
- (5) Implications on energy security and security in general.