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## Consistent increase in Hungary's energy dependence on Russia

**On September 27, 2021, Hungary signed a new natural gas supply contract with Russia, which would de-facto prevent the import of this commodity from any other location. The signing of the agreement is part of a consistent policy of the Viktor Orbán government, which is based on closer cooperation with Russia. The suggested alternatives (e.g., supplies from Azerbaijan) have so far not been supported by real diversification activities. Hungary's attitude towards Russian projects in Europe is quite different from that of other Central European countries, which seek to limit the monopoly position of OAO Gazprom in the region.**

**Background and characteristics of the new contract.** The signing of a new contract at the end of September 2021 marked the end of several months of negotiations between Hungary and Russia. The first declarations of willingness to sign the agreement appeared at the beginning of June 2021, during the Petersburg Economic Forum. The contract duration announced at that time, which was supposed to be 15 years, was a surprise. Importantly, the Hungarian authorities had previously suggested that after the last long-term agreement (concluded for 19 years), drawn up under the left-liberal coalition (MSZP-SzDSz), another agreement would not be signed for such a long period. Ultimately, however, the new contract was signed for 15 years, with an option to renegotiate after 10 years. This new agreement provides natural gas supplies at the level of 4.5 bcm/per annum, and they are to be delivered through other more import channels than before. From October 1 2021, supplies will be sent via Serbia (3.5 bcm per year via the TurkStream gas pipeline and the newly launched Serbo-Hungarian interconnector) and Austria (1 bcm from the Baumgarten hub). Previously, natural gas to Hungary was delivered via the collection point in Berehovo at the Hungarian-Ukrainian border. Importantly, at that time, Hungary played an important role as a transit country for the supply of Russian gas to Croatia, Serbia, and Bosnia and Herzegovina (around 3.4 bcm in 2020). From the beginning of 2021, i.e., from the moment the TurkStream gas pipeline was put into operation, gas supplies via this route to Serbia and Bosnia and Herzegovina were suspended. Under the contracts implemented so far, natural gas imported by Hungary came almost exclusively from Russia (in 2020 it was 8.6 bcm). These were mainly contracts concluded with Panrusgáz Gázkereskedelmi Zrt. (the largest in terms of volume), WIEE Hungary (a subsidiary of Gazpromexport), and MET International, with the latter two under short-term spot contracts. The new contract will reduce the importance of Panrusgáz Gázkereskedelmi Zrt.<sup>1</sup>, which has been handling all long-term supplies of Russian natural gas to Hungary since 1996. A new contract has been concluded between LLC Gazprom Eksport and MVM Magyar Villamos Művek Zártkörűen Működő Részvénytársaság (MVM Group).

**Simulated diversification.** Hungary's activities related to the diversification of natural gas supplies are, to the greatest extent, purely simulated activities. While Hungarian companies have been active in the Azerbaijan market for several months<sup>2</sup>, Azerbaijan's inability to increase natural gas production in the following years has meant that increased imports can only be made from Russia, resulting in the actual energy policy leading to a systemic increase in energy dependence on them. Interestingly, the materials posted on the occasion of signing the contract on September 27, 2021, were entitled „historical initialing”. On this occasion, Péter Szijjártó, the minister of foreign affairs and foreign trade, said that thanks to the 15-year agreement, OAO Gazprom will ensure energy security for Hungary and will also enable further reductions in energy prices. It was also emphasized that the new negotiated prices are lower than those established under the previous agreement in 1996-2015 (annual agreements). Undoubtedly, thanks to this policy, Hungary is now one of the few European countries where there is no mention of any gas price crisis caused by pressure exerted by OAO Gazprom on European suppliers. Moreover, the Hungarian

<sup>1</sup> The company's shareholders are: LLC Gazprom Eksport, MVM Magyar Villamos Művek Zártkörűen Működő Részvénytársaság, and Centrex Hungária Zrt.

<sup>2</sup> In November 2019, the Hungarian state-owned company MOL purchased shares in the Azeri-Chirag-Gunashli field (9.57%) and the Baku-Tbilisi-Ceyhan pipeline (8.9%), these were crude oil, not natural gas assets.

government can ensure that the policy of systemic cuts in energy prices in Hungary (rezsicsökkentés) will be maintained. However, the involvement of the Russian company in the region is understood not as a threat to energy security, but on the contrary – as ensuring it, which is significantly different from the understanding of Russia's role by other partners in the region. Hungary's position on this issue is closer to recognizing that the country is a spokesperson for Russian interests in this part of Europe. Already during the construction of the Serbo-Hungarian interconnector, representatives of the Hungarian government highlighted that its creation would be beneficial for their country (it was known then that the interconnector would weaken Ukraine's position in relations with Russia). Viktor Orbán himself has been making efforts to establish the connection (it is an extension of the TurkStream gas pipeline).

**The agreement with Russia and the issue of Ukraine and the Nord Stream 2 gas pipeline in the background.** The Hungarian-Russian agreement has been heavily criticized by Ukraine, whose position in the region and energy security in general have been limited. As of October 1 2021, natural gas supplies were redirected, thereby reducing the gas transmission through Ukraine. In the opinion of the authorities in Kiev, the agreement was motivated by political rather than economic reasons, as the shortest route for the supply of Russian natural gas to Hungary runs through Ukraine. Hungary also takes an unequivocal position on the construction of the Nord Stream 2 (NS2) gas pipeline. On August 23, 2021 – that is, on the day preceding the official visit of the Russian Foreign Minister, Sergei Lavrov, to Budapest on August 24, 2021 – an interview was published in the Hungarian pro-government daily *Magyar Nemzet* in which the head of Russian diplomacy referred to the topic of NS2, saying: “for us (Russia) this is just a business project.” He added that the opinions that NS2 would increase Europe's dependence on Russian natural gas supplies remain unfounded. Minister Szijjártó himself indicated that the signed agreement for the supply of natural gas via NS2 „cuts off all hypocritical discussions and clearly shows Russia's key role in gas supplies.” According to Szijjártó, an agreement was born between the leaders of Western countries and Russia regarding NS2, which goes to show that there is beneficial energy cooperation between the partners. At the same time, it would not be fair to threaten the countries of Central or Southern Europe as they develop supply routes as part of the expansion and modernization of national energy systems. Minister Szijjártó referred to the completion of the NS2 gas pipeline also almost on the eve of signing a new agreement with OAO Gazprom, because on September 23, 2021, while the Hungarian delegation was in New York at the UN meeting, where he said: „Russian-Hungarian energy cooperation contributes greatly to Hungary's energy security and I believe that the new pipelines that have been built, I mean Nord Stream 2 and the Southern Stream pipeline, all contribute to the long-term security and stability of gas supplies for the entire EU. „Hungary's position on both the transit of Russian natural gas through Ukraine and NS2 is, therefore, different from that of most Central European countries. Interestingly, the next steps taken by Hungary may threaten Ukraine's energy security even more. In the future, Hungary may theoretically still act as a transit country and ensure gas supplies from Russia to Austria and Slovakia (via TurkStream). In 2020, OAO Gazprom sold a total of 18.2 bcm of natural gas to these countries (Austria – 7.6 bcm; Slovakia – 10.6 bcm), and supplies were carried via Ukraine. In the event of Russia's withdrawal from transit via Ukraine (the contract for transit through Ukraine expires at the end of 2024), supplies could be carried via Hungary.

**Conclusions.** Hungary's energy policy remains largely dependent on Russia in terms of both natural gas and crude oil supply, and know-how in the implementation of other energy projects (e.g., the nuclear power plant in Paks). The need to reduce CO2 emissions by Hungary will force the need to increase the use of natural gas (in connection with the construction of a new gas unit at the Mátra power plant), which will make Hungary even more dependent on Russia.

Since at least 2014, Hungary's policy has become more and more pro-Russian, which makes it possible to increase Russian influence in the region – mainly, but not only, in the field of energy supply<sup>3</sup>. Increasing Russia's influence in the region makes it difficult to build a consensus within the EU, e.g., in the field of energy policy.

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<sup>3</sup> See more: D. Héjj, *Wpływy rosyjskie na Węgrzech*, [w:] A. Tatarenko, S. Czarnecki, Ł. Lewkowicz, D. Héjj, *Wpływy Federacji Rosyjskiej w Republice Czeskiej, Republice Słowackiej oraz na Węgrzech*, Prace IES 8/2020, <https://ies.lublin.pl/prace/wpływy-federacji-rosyjskiej-w-republice-czeskiej-republice-slowackiej-oraz-na-wegrzech/>.

The new supply agreement with Russia means that Budapest is de facto resigning from the policy of diversifying supplies and sources of natural gas. The chances of and willingness to increase gas supplies from other directions are limited (so far, Hungary has a small – at the level of 1 bcm/per year – supply contract via the regasification terminal on the island of Krk in Croatia, which accounts for approximately 10% of the annual demand). Other solutions (supplies from Azerbaijan) are only declarative, and not real steps towards changing the structure of natural gas imports.