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## Hungary: energy cooperation with Caspian Sea countries

**For years, Hungary has focused its energy policy on the supply of energy resources from the Russian Federation. Essentially, cooperation with Russia, including the construction of the Paks nuclear power plant, has been the foundation of Hungary's energy security. Despite the key role of Russia in Hungarian energy, the government in Budapest has long been taking steps toward closer cooperation with the Caspian Sea countries. Consequently, the importance of Azerbaijan and Kazakhstan has increased in Hungary's energy policy.**

Russia in Hungary's energy policy. For many years, Hungary's energy policy has been directed toward close cooperation with the Russian Federation. Importantly, the outbreak of the war in Ukraine and the subsequent EU sanctions did not fundamentally lead to a reorientation of mutual political and economic relations. Crude oil supplies via the Druzhba pipeline, as well as natural gas imports from Russia, mean that Budapest's level of energy dependence on Russia remains high at 70-80%. According to the Hungarian government, there is no possibility of rapid diversification of crude oil and natural gas supply sources and directions. However, in reality, Hungary does have the infrastructure to undertake such activities. In terms of crude oil imports, the Százhalombatta refinery can receive crude oil not only through the Druzhba pipeline, running from Russia through Belarus and Ukraine to Hungary, but also through the Adria pipeline, which runs from Croatia. The capacity of the crude oil terminal in the port of Omišalj, as well as the transportation capacity of the pipeline itself, is optimal for supplying crude oil to Hungary. This transport channel also enables the supply of crude oil to the Bratislava refinery, owned by the Hungarian company MOL. Significantly, no repair or modernization work is currently underway to potentially increase the capacity of the Adria pipeline, although MOL has previously indicated the need for such improvements as part of its diversification strategy for crude oil import sources. Hungary is also participating in the Sad-Algyő pipeline project, which aims to extend the existing Druzhba pipeline to allow crude oil supplies from Russia to Serbia (["IEŚ Commentaries" no. 807](#)). In the context of natural gas supplies, Hungary has existing connections with neighbouring countries such as Croatia, Serbia, Romania, Austria, Czechia, and Slovakia. These connections provide opportunities to import natural gas from directions other than Russia. The expected termination of the Russian-Ukrainian natural gas agreement for the transit of this commodity through Ukrainian territory at the end of 2024 will not affect the volume of supplies from Russia to Hungary as the TurkStream pipeline is used for such operations (["IEŚ Commentaries" no. 787](#)).

In addition, Hungary's heavy energy dependence on Russia and joint projects such as Paks 2 (the power plant being built by the Russian company Rosatom)<sup>1</sup> mean that Hungary has long opposed any sanctions on Russia that would jeopardize the availability of the country's commodities in Central Europe. The Budapest government did, however, reluctantly agree to sanctions on Russia's crude oil exports (with the Százhalombatta refinery receiving a sanction derogation until around 2025) as well as on liquefied natural gas (LNG). On 24 June 2024, another sanctions package was introduced, which restricted the transshipment of Russian natural gas destined for third countries (LNG re-export ban). Additionally, the EU banned financial, material, and technological support for both new and ongoing Russian LNG investment, while imposing import restrictions on LNG through EU terminals not connected to the natural gas system (["IEŚ Commentaries" no. 1155](#)). Without Hungary's acquiescence, these, as well as previous sanctions, would not have eventually been implemented.

Alternative energy partners. Hungary has been cooperating with Azerbaijan for several years, and their mutual relationship spans two key areas; first, Hungarian energy companies are involved in the production of crude oil and

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1 See: D. Héjj, Rozbudowa elektrowni atomowej w Paks – znaczenie i perspektywy, „Prace IEŚ”, 2021, no. 4, <https://ies.lublin.pl/prace/rozbudowa-elektrowni-atomowej-w-paks-znaczenie-i-perspektywy/>.

natural gas in Azerbaijan. Second, Hungary purchases natural gas and receives supplies via the TANAP pipeline, which routes through Bulgaria and Serbia. In the first area, cooperation was initiated in 2019 when the Hungarian company MOL acquired a 9.57% stake in the Azeri-Chirag-Gunashli (ACG) crude oil field from US-based Chevron Global Ventures. This agreement with Chevron also included purchasing a stake in the Baku-Tbilisi-Ceyhan pipeline, which transports crude oil extracted from the ACG field. This was followed by a decision in June 2024 in which the Hungarian state-owned company MVM, responsible for electricity generation (including ownership of the Paks nuclear power plant), purchased a 5% stake in the Shah Deniz natural gas field. Concurrently, MVM agreed to buy a 4% stake in the Azerbaijan Gas Supply Company, which sells natural gas from the Shah Deniz field. In the second area, the authorities in Budapest are counting on increased natural gas supplies from Azerbaijan. However, as of 2024, the volume of supplies remains low, at around 50 mcm.

With regard to cooperation with Kazakhstan, it is worth noting that the presence of Hungarian companies in the country is minimal. Currently, MOL is primarily involved in the development of the Rozhkovskoye natural gas and gas condensate field, which has a maximum natural gas production capacity of 1 bcm per year. This project is managed by the international joint venture company Ural Oil and Gas LLP, comprising three entities: KazMunayGas of Kazakhstan (50%), MOL Group of Hungary (27.5%), and FIOC of China (22.5%). In addition to the Hungarian presence in the upstream sector, areas of Hungarian-Kazakh cooperation include crude oil trading, the supply of crude oil from Kazakhstan to the Százhalombatta refinery, and the potential export of gas condensate from the Rozhkovskoye field.

#### Conclusions

- For many years, the Russian Federation has remained Hungary's key energy partner, and the war in Ukraine has not significantly altered the direction of energy supplies. In the context of crude oil, Hungary does have an alternative, and the current situation remains financially and technologically favourable for the country. Shifting to alternative sources would require MOL to concentrate imports from Croatia, which could independently set transmission rates. This potential cost increase is one of the reasons the Budapest government prefers to maintain crude oil supplies from Russia.
- In terms of natural gas supply, Hungary is gradually taking steps to diversify its sources and supply routes. In 2023, Hungary's natural gas consumption was approximately 8.3 bcm. However, the 15-year agreement signed in 2021 between MVM and Gazprom, which ensures an annual supply of 4.5 bcm from Russia, is still in effect. Additionally, recent agreements for an additional 1-1.5 bcm per year mean that Russia continues to account for about 65% of Hungary's natural gas supply.
- Acquisition of a stake in the Azeri-Chirag-Gunashli field in Azerbaijan does not result in an increase in the volume of crude oil supplies to the Százhalombatta refinery. However, the situation may be different concerning the agreement to purchase a stake in the Shah Deniz field. It is expected that MVM's 5% stake will enable the company to manage and potentially export about 1.5 bcm of natural gas per year, including to Hungary. This volume would account for approximately 18% of Hungary's domestic needs. A few months ago, the Hungarian side expressed a desire to purchase about 1 bcm of natural gas per year from Azerbaijan, raising questions about whether increasing imports from this direction is still being considered alongside the purchase of shares in the Shah Deniz field.
- The purchase of natural gas from Azerbaijan, along with small supplies from Turkey and Croatia, as well as domestic production, will undoubtedly play a crucial role in Hungary's efforts to diversify its natural gas supply structure. Imports from non-Russian sources will enhance Hungary's bargaining position in negotiations with Russia and reduce the risk of commodity shortages if supplies from Russia are disrupted.
- Cooperation with Kazakhstan in the energy sector is primarily political and does not significantly diversify Hungary's energy supply sources. Despite this, Hungary must seek other sources in the event of a potential cessation of crude oil supplies from Russia, whether due to the ongoing war or the end of the sanctions derogation period. Under these circumstances, cooperation with Kazakhstan offers only a theoretical alternative for Hungary, as the crude oil available on the international market from Kazakhstan partially originates from Russia (["IEŚ Commentaries", no. 1000](#)).

