

Hungarian-Russian energy cooperation is getting closer

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On 31 January, at the invitation of Russian President Vladimir Putin, the Hungarian Prime Minister Viktor Orbán paid a working visit to Moscow, where he focused primarily on energy issues (specifically the development of the Paks nuclear power plant in Hungary, an extension of the contract for the supply of Russian gas, and the construction of the South Stream pipeline). The meeting was attended by several ministers from Hungary, the CEO of the Hungarian state energy company MVM, and the managements of Gazprom, Rosatom and Vneshnekonombank. During the visit, Orbán suggested that Russia would be a natural partner to expand the Hungarian nuclear power plant in Paks, and Putin confirmed that Russian companies were ready to participate. The Hungarian media have speculated that one of the issues discussed was Russia's purchase of Hungarian low-interest bonds worth US\$4.6 billion.

Orbán announced in Moscow that Hungary is finalising the purchase from the German company E.ON of two gas companies: E.ON Földgáz Trade (the main importer of Russian gas to Hungary) and E.ON Földgáz Storage (which owns 4.2 of the total 6.2 bcm of gas storage capacity in Hungary). The Hungarian media have estimated the cost of the purchase at €800 million.

Commentary

- During the first Orbán government (1998-2002), relations with Moscow were almost completely frozen. Then, while in opposition, Fidesz sharply criticised the ruling leftist government for its rapprochement with Russia, describing the government's support for the South Stream gas pipeline as 'treasonous'. However since taking power in 2010, Orbán has tried to maintain a pragmatic relationship with Russia, which is Hungary's second largest trading partner. This approach is part of the government's concept of 'opening up to the East', which implies a search for business partners outside the EU during the economic slowdown in the euro-zone. Currently, the Hungarian Prime Minister has been openly asserting that the South Stream project is more likely to be implemented than the Nabucco project which he previously favoured. Closer economic cooperation with Russia, especially in the energy sector, is a continuation of the socialist government's policy. At the same time, the Fidesz government has maintained its predecessor's involvement in projects for diversification (including the construction of gas interconnectors) which are intended to reduce Hungary's dependence on Russian raw materials.

- The Hungarian government's statements and Rosatom's activities in Hungary show that it is the Russian company which is most likely to expand the nuclear power plant in Paks. In the opinion of the Hungarian government, the current use of Russian technology and nuclear fuel in Paks is the best justification for this. The Russian company was the first to declare its readiness to take part in the project, and it has opened an office in Hungary. Nuclear power was the main topic of conversation during both Orbán's current visit to the Kremlin and his previous one (which took place in November 2010). The Hungarian Ministry of National Economy has announced a tender in the coming months to construct two new reactors; the winners will be announced in 2014 or 2015.
- The acquisition by the state-owned MVM from E.ON of the gas companies (which were privatised in 2006) is part of a consistent strategy to increase the Hungarian state's role in the energy sector. If the transaction is successful, the negotiation of a new gas contract with Gazprom (which currently expires in 2015) will be conducted by MVM, which owns the nuclear power plant in Paks and 50% of the shares in the company responsible for constructing the Hungarian section of the South Stream pipeline. It is possible that these issues will be the subject of a Hungarian-Russian agreement package.