

The Hungarian government's struggle against foreign energy companies

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In Hungary the conflict between the Viktor Orban cabinet and energy companies is growing. The government forced the companies to reduce energy prices for households at the beginning of 2013. This striving for a reduction in energy bills fits in with the government's fundamental dispute with the private sector over the scope of the state's interventionism in the energy sector. The government's concept is that the profits of the agents between the producers and the consumers should be reduced to an absolute minimum. A reduction in the cost of energy will help the ruling party, Fidesz, consolidate voter support ahead of the parliamentary election in spring 2014. By taking on the corporations Orban hopes to increase his chances of gaining re-election. However, it is adversely affecting investor confidence – which has already been undermined – and is impairing political relations with Germany.

The dispute over energy price cuts

A ten per cent reduction in natural gas, electricity and central heating prices in retail trade was introduced at the beginning of 2013 in Hungary. The new tariffs were set by the Hungarian Energy Office (HEO), thus putting into practice the intentions of the Hungarian Ministry of National Development. The government reached the conclusion that energy bills had become an excessive burden on the budgets of Hungarian households so far. Gas and energy prices in Hungary are slightly below the EU average. However, allowing for the low incomes in Hungary, these costs make up as much as 20% of their budget (for comparison, this is 6% in Germany). 76% of Hungarian households use natural gas for heating, which makes its prices a socially sensitive issue.

The energy price cuts have affected primarily foreign corporations, which control almost the entire electricity and gas distribution market in Hungary. The largest shares in this market segment are held by Germany's RWE, E.ON and EnBW, and by France's EDF and GDF Suez. Gas companies, and later also electricity companies, have contested the HEO's decision at court. The court of first instance ruled in their favour on 8 March and 26 March, respectively. The court deemed the price cuts illegal, because the regulator did not take into account the additional fiscal levies imposed on energy companies starting from 1 January when setting the tariff. Orban branded the court's decision a 'scandal', and at an extraordinary session parliament imposed a ban on suppliers transferring the burden of additional fiscal levies

onto the consumer and strengthened the powers of the regulating authority. As a consequence, it will only be possible to contest the HEO's decisions at the Constitutional Court. The president of the office will be elected for a 7-year term by a two thirds majority in parliament. The government has promised further price cuts in July, regardless of the resistance from corporations.

The government's attitude towards foreign investors

In the government's opinion, unlike energy production, energy distribution should be based on non-profit principles and does not have to generate income. This fits in with the general approach to corporations demonstrated by the governing Fidesz party, which has a selective attitude towards the presence of foreign capital in Hungary. Since Orban took power in 2010, additional fiscal levies have been imposed on firms operating in the services sector (banks, insurance companies, telecommunication companies, energy distributors and retail chains). Orban insists that Hungarian businesses should be playing a greater role in the banking and energy sectors, and that only those foreign companies which are involved in production and create new jobs may count on privileges. The government has signed a number of strategic co-operation agreements with such companies. Given the frequent level of changes in regulation, these agreements are aimed at strengthening the sense of security among these firms and to encourage them to make more investments. Agreements of this type have been concluded with sixteen companies so far (the prime minister himself signed, for example, the agreements with Audi, Daimler, Coca-Cola and Suzuki). The number of the agreements is planned to reach forty by the end of the government's term in office.

Fidesz embarks on its election campaign

One year ahead of the parliamentary election, which has been scheduled for spring 2014, the issue of energy price cuts has become the key element of Fidesz's election strategy. While the economy remains stagnant, lower bills for gas and electricity will lift some of the burden off Hungarian households (in the opinion of politicians from Fidesz, they will translate into savings of approximately 250 euros annually). In 2012, Hungary fell back into recession (-1.7% GDP), and no major growth is to be expected in 2013. The forecasts for growth range between -0.1% of GDP (European Commission) and 0.9% of GDP (the government). Fidesz cannot afford excessive spending or to adopt an 'election budget' (which was standard in Hungary until 2006). The Excessive Deficit Procedure is still pending with regard to Hungary. As a consequence of this, Hungary risked losing part of the money from the Cohesion Fund in 2012. The government has announced that budget discipline will ensue and the deficit level will be sustained below 3% of GDP, which will allow the European Commission to close this procedure in 2013. Consequently, reducing bills is the only way to temporarily improve the condition of Hungarian households without the need to spend more money from the state budget.

The government has presented the price cuts as proof of its efficiency. On 25 March, the government took out whole-page advertisements in several daily newspapers, informing the public that Hungary is the only EU country to have cut energy prices by 10%. The struggle with corporations is also strengthening the image which Orban has been building up of a strong government which acts in the interests of its citizens. He announced that “energy corporations have united their forces against Hungarian families” and therefore the government needed public support in order to take them on. This mobilisation of the electorate is to be triggered by a nationwide collection of signatures under a petition calling upon parliament not to yield to “foreign and domestic pressure” in the struggle for lower energy prices which has been initiated by Fidesz. The government party has also skilfully used the issue of energy price cuts to neutralise the recent wave of criticism aimed at the new package of constitutional changes, suggesting the existence of a connection between resistance to political system changes and defending the interests of foreign capital.

The reactions of the corporations and international implications

Cutting energy prices is another step demonstrating the government’s increasing interference with the energy market. The imposition of further burdens on energy companies may result in a reduction of investments in the infrastructure of energy distribution. RWE has already announced it is cutting its investment plans in Hungary by half. Given the strict tariff regulations, the fact that energy consumption has been falling over the past few years, and additional fiscal levies, foreign companies may choose to sell their loss-generating assets in Hungary. E.ON is already finalising the sale of its two companies involved in gas trade and storage to the Hungarian state-owned company, MVM. These companies are of strategic significance for the state, in part because of the need to negotiate gas supplies from Russia when the present contract expires in 2015. However, it is very unlikely at this moment that the state will buy shares in more companies due to insufficient funds. Although Hungary has a relatively well-developed distribution network, a decrease in investments will over time generate increasing costs due to infrastructural shortcomings.

The deteriorating conflict with foreign energy companies will exacerbate the image of Hungary as a country with a worsening investment climate. The rate of Foreign Direct Investments is still much lower than before 2008. In 2012, the FDI rate fell by 5.2% in comparison to the preceding year. Since German corporations predominate in the Hungarian energy sector, the dispute with them may bring about a deterioration in relations with Germany. When Hungary’s president last visited Berlin, Chancellor Angela Merkel, criticised the constitutional changes in Hungary and appealed to Hungary to create “more predictable” conditions for businesses. For the first time, political changes in Hungary were also publicly criticised in Bavaria (the reception of the speaker of the Hungarian parliament at the Landtag was ostentatiously cancelled at the last moment). Bavaria, being Germany’s largest federal state, is an important economic partner for Hungary. Furthermore, close relations with Munich (also as part of Danube co-operation) have traditionally been used as a model example of co-operation by the Hungarian government.