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Russian-Hungarian nuclear agreement

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On 14 January, in the presence of Hungarian Prime Minister Viktor Orbán and Russian President Vladimir Putin, an intergovernmental agreement on cooperation in the field of nuclear energy was signed in Moscow. Under the agreement, the Russian state company Rosatom will participate in the development of the nuclear power plant in the Hungarian town of Paks, and Russia will provide loans to finance the investment. By entrusting this strategic investment to Rosatom, Hungary is strengthening its energy cooperation with Russia, a move which is being accompanied by a political rapprochement between the two countries. The agreement demonstrates Russia's determination to strengthen its position on foreign energy markets. In addition, during his visit to Moscow, President Orban reaffirmed Hungary's commitment to the Russian South Stream gas pipeline project, and his statement will strengthen Russia's negotiating position in its talks with the European Commission on the legal issues related to the project's implementation.

The terms of the agreement

The content of the intergovernmental agreement has not been made public, and its terms are only known from statements made by the representatives of Russia and Hungary. They announced that the Russian state company Rosatom will build two new reactors with a capacity of 1200 MW each at the nuclear power plant in Paks. 80% of the project, whose value is estimated at €10-12 billion, is to be financed from a Russian loan of maximum €10 billion. Its repayment is to be spread out over 30 years, and the specific terms of the loan will be subject to further negotiations. Hungary is to give a state guarantee to the government company MVM for the Russian loan. The first reactor could come online in 2023. The Paks nuclear power plant will remain wholly owned by the Hungarian state. According to the announcements, 40% of the reactors' construction will be carried out by the Hungarian companies. This intergovernmental agreement is the first step in the process of expanding the Hungarian nuclear power plant. Contracts specifying the terms and conditions of the investment will be signed within the next six months. The agreement also states that the Russian side will provide fuel, dispose of the spent fuel and service the new units.

The importance of the investment for Hungary

The construction of new units, which is the largest investment in Hungary since 1989, will maintain the continuity of energy production, and even increase it considerably if the

construction of the new units proceeds according to plan and they operate in parallel with the old ones. The Paks power plant is responsible for about 40% of electricity production in Hungary. It consists of four reactors with a total capacity of 2000 MW; the deadline for their shutdown falls in the period between 2032 and 2037.

The Hungarian government decided to choose the contractor without holding a tender, contrary to initial announcements. This may accelerate the conclusion of the agreement to construct the new units. Preliminary interest in the investment had been expressed by the French company Areva, the Japanese-American Westinghouse and South Korea's Kepco. However, the absence of a tender may raise doubt as to whether the offer proposed by Rosatom is the most favourable. It may also be challenged by the European Commission, although Hungary claims that the agreement with Russia had initially been approved by the Commission.

In Hungary, there has so far been a political consensus on developing nuclear energy. In 2009, still in its previous term, the Hungarian Parliament decided almost unanimously to expand the Paks plant. Now, however, the opposition parties have accused the government of a lack of transparency in the process of preparing the project, as well as of not cooperating with the opposition on a project that will shape the Hungarian power industry for decades. The agreement was signed three months before upcoming parliamentary elections, and the visit to Russia and the signing of the contract were kept under wraps until the last minute. The government has stressed that the development of the nuclear plant will provide Hungary with affordable energy for many years. This is part of the election campaign being conducted by the ruling Fidesz party, the main feature of which is the reduction in energy prices introduced in 2013. Despite the growing political differences, we should not expect any problems with the Hungarian parliament approving the agreement, as the ruling Fidesz party has a two-thirds majority of votes.

Signing the agreement to expand the Paks power plant further deepens Hungarian-Russian energy cooperation. Russia is Hungary's main supplier of natural gas and crude oil. During Orbán's time in government, the state-owned MVM, which so far has operated in the electrical power sector, has now expanded its activities into gas. This is why the most important issues concerning cooperation with Russia, namely the construction of a 229-kilometre section of the South Stream gas pipeline in Hungary and the gas contract negotiations with Gazprom (the current contract expires at the end of 2015), have been taken over by the company which owns the nuclear power plant in Paks. It cannot be ruled out that the decision to choose Rosatom is part of a strategy for a comprehensive energy alignment with Russia.

The Russian context

The agreements signed in Moscow are part of Rosatom's strategy of a broad expansion into foreign markets. The Russian company has signed new contracts with its foreign partners to construct 20 units (including the construction of the Hanhikivi-1 power plant in Finland, signed on 21 December 2013 with the Finnish company Fennovoima), and is negotiating for the chance to build 40 more (contracts for 20 of which are planned to be signed). The financial attractiveness of the Russian offers to build new power plants increases the Russian state's guarantees for investments and financial support from the state budget

(such as loans for Rosatom or subcontractors, and direct financial subsidies for the Russian company).

The closer cooperation between Russia and Hungary also fits into the model desired by the Kremlin for its energy relations with the EU (in which priority is given to bilateral relations, an approach which could weaken Brussels' position in the EU's talks with Russia). Russia will take advantage of Hungary's determination to help implement the South Stream project to strengthen its negotiating position during the talks scheduled for 17 January in Moscow with the European Commissioner for Energy Günther Oettinger. The subject of the talks is the EC's demand for a renegotiation of the intergovernmental agreements concluded by Russia with the countries participating in the South Stream project.

By demonstrating Russia's warm political relations with Budapest and offering it favourable conditions for economic cooperation, Moscow is presenting itself as an attractive partner that could support those EU countries, especially in central and eastern Europe, which are in conflict with the European Commission and certain other EU member states. Hungary's willingness to strengthen its relations with Russia has made it easier for Moscow to conduct a policy based on breaking the unity of the EU countries. Another factor which brings them together is the commitment to conservative values demonstrated by the leaders of both countries, which is an element of the Kremlin's domestic and foreign policy course.

Cooperation: *Mateusz Gniazdowski*