

Hungary is starting to import gas from Turkey

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In early April, Turkey started supplying natural gas to Hungary. This follows an agreement signed in August 2023 between the Hungarian state-owned energy company MVM and the Turkish BOTAŞ. The contract, which was formally signed during President Recep Tayyip Erdoğan's visit to Budapest, envisages the delivery of 275 mcm of gas in the second and third quarters of this year.

In 2023, gas consumption in Hungary fell by 11% year-on-year, to around 8.5 bcm. The country produced less than 20% of the gas it consumed. The vast majority of gas for domestic use was imported, with Russia being the most important external source, providing around 5.5 bcm. Hungary additionally imports gas via Croatia (the LNG terminal on the island of Krk), which reached around 1 bcm last year, and in 2023, it began importing small quantities of natural gas from Azerbaijan (100 mcm by the end of the year, but the volume is expected to increase to around 1 bcm in 2024).

Hungary is one of the EU countries with the highest share of gas in its national energy mix, which makes it particularly vulnerable to the effects of the gas crises. This situation is exacerbated by its practice of subsidising domestic gas prices (since the crisis began only up to a certain consumption level). Moreover, Hungary is the only EU member state not to have cut gas imports from Russia since the outbreak of the Russian war against Ukraine; in fact it has even increased them. Budapest is also a staunch opponent of imposing further energy sanctions on Russia (including sanctions on gas imports), and maintains regular political and diplomatic contacts with Moscow.

In 2023, Russian gas was supplied to Hungary under a 15-year contract with Gazprom (for 4.5 bcm per year), which is valid at least until 2036, as well as additional agreements allowing for increased deliveries (by around 1–1.5 bcm last year). The gas has reached Hungary via two routes: the vast majority via the European branch of TurkStream, and around 1 bcm via Ukraine.

Commentary

- The gas imports from Turkey, which started on 1 April, will satisfy only a negligible portion (c. 3%) of Hungary's total annual gas demand, and are also low compared to the volume of supplies from Russia. However, Turkey is a crucial transit country for the vast majority of the gas Hungary imports – both from Russia and Azerbaijan. On 25 March, during an energy summit in Sochi, the Hungarian minister of foreign affairs and trade Péter Szijjártó branded the start of gas imports as a "historic day" that would strengthen Budapest's relations with Ankara. Hungary undoubtedly values its good relations with

Turkey, as they fit in with its strategy of 'opening to the East'; Budapest has pursued this approach since 2011, which is aimed at creating a counterbalance to the political and economic dominance of Western countries through intensified cooperation with Beijing, Moscow and Ankara. By strengthening ties with Turkey, Budapest is also emphasising its independence from EU foreign policy (the Hungarian government opposes sanctioning Turkey's moves, such as its intervention in Syria in 2019) and demonstrating an alternative partnership at a time when the country is set to be marginalised in Europe due to Viktor Orbán's policies.

- At the same time, the Turkish gas supplies are expected to contribute to increasing the diversity of Hungary's import basket. Despite maintaining, and even deepening its dependence on Russian gas, Budapest is still seeking to diversify its sources of supply. These efforts include the commencement of gas imports from Azerbaijan; negotiations with Qatar on LNG deliveries; years of talks with Romania regarding gas from its offshore fields; and finally, the deal with Turkey and the recently launched imports from that country. If these initiatives succeed (and the existing sources of supply, including via Croatia, are maintained), the volume of non-Russian gas entering the country could more than double this year compared to 2023.
- The diversification efforts, including the agreement with Turkey, probably stem from Hungary's desire to improve its bargaining position with Russia (the ability to negotiate favourable terms of supply) as well as from the current difficult (geo)political situation and the challenges that may ensue for the gas market, especially for Russian supplies. Firstly, Gazprom's contract for gas transit through Ukrainian pipelines, which are still used to supply a (smaller) portion of fuel to Hungary, will expire at the end of 2024. Although redirecting these volumes to TurkStream seems technically feasible, Budapest may have to begin possibly challenging negotiations with the Russians. In addition, this will certainly limit the diversification of import routes to Hungary. Secondly, as the war continues, the security of the critical energy infrastructure (especially the offshore one) has been increasingly jeopardised – as seen in incidents on the Nord Stream 1 and 2 pipelines and the Balticconnector. Hungary must take this into account, given its significant dependence on Russian supplies via the Black Sea. Finally, problems with supplying gas from Russia to the EU cannot be excluded, for example if the sanctions on Russian gas imports by the EU (currently unlikely) or by other actors are implemented due to possible acts of sabotage in Russia or transit countries.
- The commencement of actual gas exports to Hungary is also important to Ankara. Along with several other agreements signed in the past year – including with Bulgaria for long-term access to Turkish import capacities, and with Romania & Moldova for gas deliveries – this is an important step towards fulfilling Turkey's long-standing ambitions to become a gas hub. Moreover these moves, along with its key role in gas transit from Azerbaijan (and Russia), allow Turkey to enhance its engagement and influence in Southeastern Europe. The increased importance of Turkey in securing stable and reliable gas supplies to the EU & its neighbourhood amid challenging market and international conditions also strengthens Ankara's position in its relations with Brussels.
- Meanwhile, there are doubts about the actual origin of the natural gas flowing from Turkey to Hungary and other countries in the region. It is possible that at least some of

the gas transmitted is of Russian origin. Despite commencing its own gas extraction in 2023, Turkey itself remains largely dependent on imports, around 40% of which come from Russia. Ankara's current gas strategy is based on sourcing fuel from various directions, increasing domestic production and subsequently re-exporting some of the gas as 'Turkish blend'. This has raised questions within the EU as to whether these deliveries truly represent diversification away from Russian sources, and whether Ankara is effectively allowing Moscow to increase exports to the EU market 'through the back door'. At the same time, Brussels has not yet decided to impose any restrictions on gas or LNG imports from Russia; the noticeable sharp decline in Russian supplies to Europe primarily results from actions Moscow itself has taken.