BRIEFING PAPER MARCH 2017

ENERGY-SYSTEM TRANSFORMATION IN CENTRAL AND EASTERN EUROPE

COUNTRY BRIEFING: HUNGARY

E3G

Hungary's stance on EU climate and energy policy

Hungary has comparatively little influence at the EU level, but it generally throws its weight behind efforts to slow down the low-carbon transition. Most of the time, Hungary is aligned with Poland, the strongest and most vocal opponent of an ambitious EU climate and energy framework.

As a country strongly relying on nuclear power, with low emissions both per capita and per unit of GDP and few energy-intensive industries, Hungary should in principle be able support strong European climate action. Yet the country typically attempts to rein in EU climate policy. The Hungarian government tends to be very critical towards the EU, although the Hungarian public is generally pro-European.[1] Prime Minister Orbán is very vocal about opposing further European integration, and any obligations imposed on Hungary by the EU. He supports a 'Europe of Nations', which became especially clear during the refugee crisis in 2015-16, where he strongly opposed the EU quota plans for migrants and instituted a referendum on this issue in Hungary.

Although climate and energy issues are not a priority for Hungary, it supports Poland in order to receive backing on other issues, such as migration. In 2015, for instance, Hungary voted together with Poland against the EU ETS Market Stability Reserve (MSR) regardless of the increase in revenues it would have created for Hungary.[2] Despite challenging many EU policies and initiatives, Hungary was the first EU Member State to ratify the Paris Agreement. This step was attributed to Hungary's president János Áder, who is trying to push the debate on this issue.

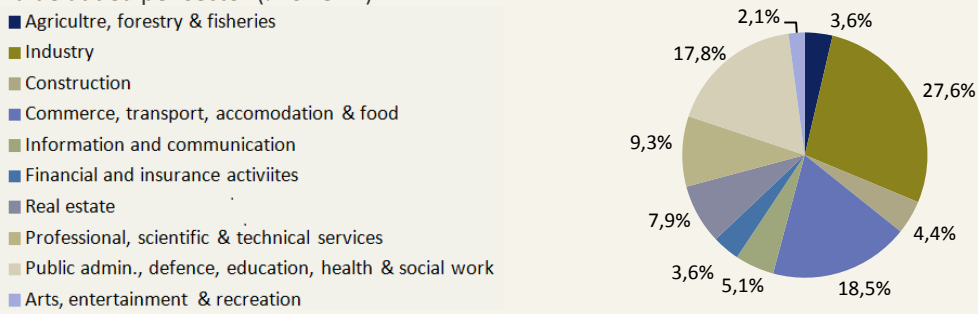
[1] **http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/QUALITATIVE/surveyKy/2050**

[2] Lewis/Twidale (13 May 2015) **EU diplomats approve proposal to start CO2 market reform in 2019**

General data

Population (2015)	9.8 million
GDP per capita (2015, current prices)	€11,100
Corruption Index (0= highly corrupt, 100= very clean)	48 in 2016, 51 in 2015
Democracy Index (ranking of 167 countries)	56 in 2016, 54 in 2015

Value added per sector (% of GDP)

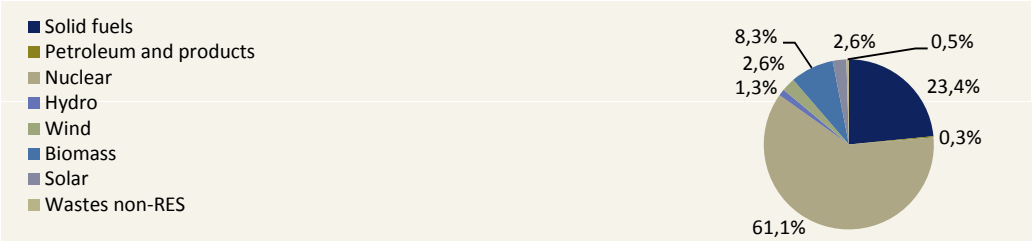


Allocation and use of EU Funds (2014-2020)

Total allocation of European Structural Investment Funds	€25 billion
Planned investments in energy efficiency	€1.16 billion
Planned investments renewables	€875 million
EU Cohesion Policy Investments as share of public investment (2007-2013)	57%

Energy statistics

Gross inland energy consumption (2015, ktoe)	24,166
Electricity generation (2015, TWh)	29.37



Energy intensity (2015, kgoe/1000€)	224
Energy poverty (inability to keep home adequately warm)	33.9%
Employment in coal sector (2015)	1,655 in lignite mining
Renewable energy capacity of individuals, collectives, public entities and small enterprises (2015)	1,530 MW wind 92 MW solar
Renewable energy potential	99MW wind, 1,400MW solar PV, 1,175MW biomass, 67MW geothermal

Sources: Eurostat **(2016)**, TI **Corruption Perception Index** 2016, EIU **Democracy Index 2016**, European Commission **(2013**, **2014, 2016)**, **Bankwatch (2016)**, BPIE **(2015)**, Euracoal **(2017)**, CE Delft **(2016)**, UNDP **(2014)**

Key political economy insights on Hungary

Hungary does not see itself as a high-carbon economy and feels little need to act on mitigation. This perception is correct when comparing Hungary to the rest of the Visegrád countries: at 224 kgoe per €1000 (2015), its energy intensity is the lowest among them. But in comparison to the EU average of 120.4 kgoe per €1000, Hungary is underperforming. This is mainly due to the poor energy efficiency performance in the residential buildings sector, where the government is not prioritising investments.

In the past decade, efficiency measures were mainly funneled to public buildings, with some small grants, financed via ETS revenues, available for private apartments and household energy efficiency measures. After years of delay and civil society advocacy against reshuffling EU funds for energy efficiency from residential to public buildings, on 24 February 2017, a new zero-interest loan program was launched under the auspices of the Hungarian Development Bank (MFB).[3] These consist of a combination of EU funding and loans to be used for retrofitting of residential buildings and renewable energy installations. The pool of money is very limited, however. The MFB energy efficiency loan program will be able to cover 25,000 households at most, and not all the energy poor, ca. 20% of the Hungarian population, will have access to it.

Hungary's energy strategy and its decarbonisation plans rely heavily on nuclear power. In 2015, nuclear covered over 60% of electricity generation. Hungary is planning to further increase its use of nuclear power with the expansion of the PAKS nuclear power plant, thereby strengthening its ties to Russia which is financing the new plant and supplying all of Hungary's nuclear fuel. The Hungarian government frames nuclear power as a guarantee for energy independence, despite the exclusive reliance on Russia. The government is expecting energy use to increase in the future – although it is actually decreasing – and Hungary's nuclear policy is based on this assumption. The government is considering re-opening some long-closed lignite and brown coal mines in the Borsod-Abaúj-Zemplén (BAZ) county, ostensibly to increase energy security, although the real reason is likely to generate political support. The main source of renewable energy in Hungary is biomass, which is however mostly unsustainable due to the amount of land required, the low efficiency of large biomass plants and the heavy use of fertilisers.

Although mitigation is not a prominent issue in the Hungarian public debate, Hungary's population is becoming increasingly aware of climate change as a significant risk to their homes and livelihoods. Hungary is by far the most climate-vulnerable country of the Visegrád Group. Around 80% of the population feels the effects of climate change in their daily lives and is concerned about climate change, according to polls. Especially,

[3] **http://bbj.hu/economy/mfb-to-provide-huf-115-bln-in-credit-for-energy-efficiency-upgrades_117208**

heat waves (52% of area at risk) and inland floods (23% of area at risk) are increasingly posing a threat to the public. [4]

The national government is actively obstructing progress on low-carbon development. It has repeatedly hindered the introduction and roll-out of renewables, for example by introducing a new levy on solar power and constraining installations of wind turbines around settlements, making new installations practically impossible. Another burden, an electricity grid usage fee for household RES power plants over 4kW, entered into force on 1 March 2017. Moreover, the government keeps energy prices artificially low through the state-controlled electricity sector, which discourages investments in energy efficiency in buildings or other measures to decrease energy consumption.[5] Local authorities are more open-minded and supportive of low-carbon action, but lack the financial capacity.

Large parts of the country's business sector are led by people close to the Fidesz-KDNP government. Corruption is widespread: Almost 90% of the Hungarian population perceives corruption as a very serious problem in the country. [6] Civil society organisations, especially those publicly criticising the government's actions and policies, are increasingly being silenced by the government. Since Orbán regained power in 2010, most channels of communication between the government and civil society have been closed. NGOs are allowed into participative/public consultation processes (p.eg. in Monitoring Committees of EU Funds) but these processes are still formal and NGO proposals are usually not adopted by high level government decision-makers. There is an increasing number of "national/economic priority (infrastructure) projects" in which public consultation is practically non-existent. Independent media sources, which sometimes do report on climate and energy issues, are also under attack by the government, with most media outlets progressively being taken over by the government or figures close to it. The news content on these outlets is strictly controlled and climate or low-carbon issues are rarely discussed.

Due to these difficult conditions, EU influence is particularly important in shifting Hungary's position. While Hungary is not doing more than absolutely necessary, it is developing its energy and climate legislation in accordance with EU framework legislation. The EU is also a significant source of funding. Hungary is a net beneficiary of EU funding and was allocated €25 billion for the period 2014-2020.[7] EU funds covered almost 57% of all government public investment in the last funding period (2007-2013). This was the highest share among all EU member states.

[4] Energiaklub (2015) **Press release: Seven out of ten Hungarians feel defenceless against the effects of climate change**

[5] CEE Bankwatch Network (2016) **CLIMATE'S ENFANTS TERRIBLES HOW NEW MEMBER STATES' MISGUIDED USE OF EU FUNDS IS HOLDING BACK EUROPE'S CLEAN ENERGY TRANSITION**

[6] Eurobarometer

[7] European Commission (2014) **Cohesion Policy and Hungary**

Political recommendations

> **Support progressive conservative actors:** The most important progressive conservative actor in Hungary is President János Áder. His term is about to end in May 2017, but he will be nominated for another term. While he does not have real power in the Hungarian political system, he influence on the public debate. If he is reelected, he would be the best person to approach in terms of climate action within the Fidesz party. Another potential actor is the newly elected Ombudsman for Future Generations, Gyula Bandi.

> **Engage and support local authorities:** The reluctance of the Hungarian government to engage actively on low-carbon development makes local governments increasingly important. Municipalities also have to deal with climate impacts, such as flooding along the Danube and Tisza River. Strengthening their expertise and capacity when developing local programmes and proposals for EU Funds on renewables and energy efficiency is therefore crucial.

> **Emphasise co-benefits of climate action:** Although the Hungarian population is becoming more aware of climate impacts and perceives them as a threat, social and health issues (e.g. air pollution, fuel poverty, etc.) are more dominant in the public debate. Moreover, the positive employment effects that renewables and energy efficiency measures can create in rural areas should be emphasised when engaging both decision-makers and the public.

> **Low-carbon as economic strength:** Hungary has very few energy-intensive industries and would therefore likely do well in a low-carbon economy with stricter climate policies or carbon pricing. Other benefits of climate action, such as the creation of jobs in rural areas, should also be emphasised with decision-makers.

> **Energy cooperatives:** There is significant interest in energy cooperatives in Hungary, in particular on the regulatory challenges and the nature and level of public support. Thus, an exchange of experiences with German community energy experts could be helpful.

> **Effective use of EU funds:** EU funds have significant potential for leveraging transformational change in the economy. However, conditionality and monitoring on the use of EU funds is very weak. Frequently, they are being used to modernise and subsidise fossil and high-carbon projects, rather than drive a low-carbon transition. Another problem is the slow disbursement of EU funds. Within the next two years, almost 98% of the overall allocation has to be committed to projects. This urgency when spending the money might lead to ineffective projects. The use of EU Structural Funds should be subject to stricter lending criteria that make it impossible to finance high-carbon projects. The goal of a low-carbon economy has to be mainstreamed throughout all EU funds and its implementation monitored more effectively. Germany could increase pressure on EU institutions to scrutinise ESIF spending more closely.

About CEE Bankwatch

CEE Bankwatch was founded in 1995. It is one of the largest networks of civil society organisations in Central and Eastern Europe. Bankwatch is currently active in 12 countries in the CEE and beyond. Bankwatch analyses and observes international development finance and the activities of international financial institutions. The organisation advises decision makers on sustainable development, environmental policy, transparency and social justice. Bankwatch is one of the leading organisations working on climate policy in CEE, and has excellent networks among decision makers, as well as industry, academia and civil society stakeholders.

More information is available at **http://bankwatch.org/**

About E3G

E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

More information is available at **www.e3g.org**

Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety

Umwelt Bundesamt

This project was funded by the German Federal Environment Ministry's Advisory Assistance Programme (AAP) for environmental protection in the countries of Central and Eastern Europe, the Caucasus and Central Asia and other countries neighbouring the European Union. It was supervised by the German Federal Environment Ministry and the German Environment Agency (UBA). The responsibility for the content of this publication lies with the authors.

Copyright