Fossil-Fueled Politics: The Multidimensional Energy Dependency of Orbán's Hungary

* MÁRTON SCHLANGER

Green development is a topic covered extensively in literature as it has been of utmost importance in the past decades[1]. The European Union (EU) has mostly agreed that sustainability is a key value of the EU and that the effects of climate change require cooperation on an international scale[2]. Carbon emissions must be reduced, and non-renewable energy sources (such as fossil fuels) must be gradually replaced by more sustainable alternatives.

The EU Green Deal was a bold policy proposal that set the stage for an EU-wide joint effort to become carbon-neutral, while allowing some leeway for countries with high carbon-dependency. However, Russia's invasion of Ukraine, and the economic turmoil that followed, threw a wrench in the works on the reform package, and some of what was imagined about green development in the EU must be unlearned.

Several countries – including Hungary – depend heavily on Russian energy, and it could take quite a while to diversify and reimagine their energy mix, even though time is a very limited resource, should the conflict with Russia escalate to complete isolation. In this paper, let us explore the case of Hungary, as it shall provide much needed insight into how current events may force a country to return to the drawing board.

Hungarian energy dependency has several distinct dimensions. Hungary is heavily reliant on fossil fuels, as they make up almost

> HUNGARY IS HEAVILY RELIANT ON FOSSIL FUELS, AS THEY MAKE UP ALMOST 70% OF THE COUNTRY'S ENERGY CONSUMPTION

70% of the country's energy consumption[3]. The rest of the consumption is split between nuclear and renewable sources. Hungary is not just reliant on fossil fuels, but primarily on imported fossil fuels. The country's general import dependency is 54%, with oil import dependency being close to 90% and gas import dependency at 67%[4]. Specifically, the imported energy comes in large part from Russia, with gas imports being less diversified than oil imports. This vulnerability was already formulated during the Soviet era[5], but this does not explain why the country is still so dependent on Russian imports.

[1] Gan, L., Eskeland G., and H. Kolhus (2007) "Green Electricity Market Development: Lessons from Europe and the US", [in]: *Energy Policy,* Vol. 35(1), January, p. 145.

[2] European Commission (2019) *The European Green Deal*, p. 1.

[3] Hungarian Energy and Public Utility Regulatory Authority (2021) *Annual Report*, p. 3.

[4] Ibid., p. 2.

[5] Szegő, I. M. (2022) "Orosz energiafüggőség: mit tehet Magyarország, az EU egyik legkiszolgáltatottabb állama?", [in]: *24.hu.* Available [online]: https://24.hu/fn/gazdasag/2022/04/18/orosz-energiafuggoseg-foldgaz-koolaj-magyarorszag-legkiszolgaltatottabb-allam/ [in Hungarian]

> IT WOULD CLEARLY BE IN THE INTEREST OF HUNGARIAN SOCIETY TO REIMAGINE HUNGARIAN ENERGY POLICY AND SAY GOODBYE TO THE BAND-AID PHILOSOPHY OF THE OVERHEAD REDUCTION LAW IN FAVOR OF LONG-TERM SOLUTIONS

Beyond these forms of dependency, the Fidesz government, under the leadership of Prime Minister Viktor Orbán, also depends politically on energy policy – so much so that they have built two general election campaigns on energy policy in the last decade, both netting them a 2/3 supermajority in Hungarian parliament. Their "overhead reduction" policy – which is essentially a price cap for residential energy consumption – has been the flagship of Fidesz's and Viktor Orbán's political agenda since 2012, and a major contribution to their election victories. This strategy comes with a high price, literally: the overhead reduction can cost a lot of money to the government, and these costs have skyrocketed since Russia's invasion of Ukraine, to the point where the Hungarian government had to find extra funds to maintain the overhead reduction policy.

In the face of Russia's invasion of Ukraine, and the ongoing green development debate in the European Union, one can discover a conflict of interest within Hungarian energy policy. On the one hand, it would clearly be in the interest of Hungarian society to reimagine Hungarian energy policy and say goodbye to the band-aid philosophy of the overhead reduction law in favor of long-term solutions. On the other hand, the interest of the governing party is to hold on to their golden goose–overhead reduction–and to maintain their good relationship with Russia, and, therefore, to keep up an energy structure that, in turn, keeps them in power. There was no apparent escape from this stalemate until this year, when Russia's aggression forced the hand of the Hungarian government to try and adapt to the new circumstances. How did this affect Hungary's energy policy and our uneasy relationship with the idea of green development? That's what I explore in this article.

To demonstrate the significance of the current events, during the writing of this article, PM Orbán's government had to change their overhead reduction policy, limiting the number of beneficiaries, and essentially break their very recent campaign promise to keep the policy intact. This gives analysts the perfect chance to compare the policy as it was a month ago and as it is in its current form, and through the case of Hungary, explore the opportunities and challenges of implementing the Green Deal policy in the face of a global crisis.

IN THE LOVING EMBRACE OF PIPELINES

In hindsight, it may seem strange that not so long ago there were times when Hungary could extract enough oil and gas domestically to cover the country's consumption. Then again, oil reserves were running low[6], and both oil and gas consumption were much lower in the 1960s, only to increase drastically by 1970 and onward. Whether it would have been possible to avoid dependency on Soviet import or not will never be known, as Hungary, being part of the Soviet bloc, had no issues with dependence on the 'motherland' for energy. In fact, János Kádár (the head of Hungary's communist-socialist government between 1956-1988) initiated talks with the Soviets regarding oil imports in the late 1950s[7].

As a result, starting from 1962, the 'Friendship I' pipeline imported crude oil to Hungary, where it would be refined and used[8]. Hungarian industry (mainly the chemical industry) saw exponential growth in the 1960s and 1970s, which created a demand for more energy that was going to be imported from the Soviet Union[9]. In 1972, the 'Friendship II' pipeline was built for oil imports, and in 1975, the 'Brotherhood' gas pipeline followed, which marked the start of Hungary's dependency on Soviet gas[10]. All the above was followed by Hungary's first (and to this day only) nuclear power plant in 1987, which also relies on Russian nuclear fuel. This is the basis for the Hungarian Russian energy dependency that is still felt to this day.

> THE PRICE CAP SET BY THE OVERHEAD REDUCTION POLICY (ORP) WAS ADJUSTED BASED ON MARKET PRICES EVERY FEW MONTHS, DECREASING ALONG GLOBAL PRICE TRENDS

All of this transpired in Hungary's communist era, which ended with the regime change in 1989. While all of the aforementioned investments tied Hungary to Russia, it does not automatically mean that there were no chances to be set free or to diversify in the past decades. Fossil fuel consumption steadily decreased with the dismantling of the Soviet-era Hungarian industry[11], which was one of the main causes of Russian dependency. In fact, during the leftist-liberal governments in the 2000s (and even in Orbán's first term that followed between 2010-2014), renewable energy sources have gained ground

[6] Feitl, I. (2016) *Talányos játszmák – Magyarország a KGST erőterében 1949-1974*, Budapest: Napvilág, p. 22. [in Hungarian]

[7] Ibid.

[8] Ibid.

[9] Pető, I. and S. Szakács (1985) *A hazai gazdaság négy évtizedének története*, Budapest: Közgazdasági és Jogi Könyvkiadó, p. 10. [in Hungarian]

[10] Pető, I. and S. Szakács (1985) *A hazai gazdaság négy évtizedének története*, Budapest: Közgazdasági és Jogi Könyvkiadó, p. 8. [in Hungarian]

[11] EUROSTAT (2022) Energy Statistics – Energy Data 1990-2020.

in Hungary, and natural gas consumption also decreased.

What is more, gross inland energy consumption was steadily decreasing between 2007 and 2014[12]. Only from 2014 (or, more precisely, since the election campaign prior to the 2014 spring election, which marked Orbán's Russian turn), the agreement with Russia on a second nuclear plant, and the initiation of the Fidesz government's famous overhead reduction policy, led to wasteful household energy consumption. Only then did Hungary's natural gas and overall energy consumption increase again[13]. Between 2014 and 2018, primary energy consumption in Hungary increased by 12%, residential energy consumption by 6% and industrial energy consumption by 20% – the latter in no small part because overhead reduction also applied to small and medium-sized businesses. This development was paired with a steadily decreasing inland natural gas production, which continues to dwindle to this day. At the same time, renewable energy production, which increased vastly in the 2000s, has been stagnating since 2014. Now let us examine the overhead reduction policy in its original form.

THE BEGINNING OF FOSSIL-FUELED POLITICS

The idea for the overhead reduction policy came about during Viktor Orbán's 2010-2014 term in office. The effects of the 2008-2009 economic crisis were still felt by Hungarian households, especially in energy prices[14]. Because of this, the topic of overhead prices was no stranger to mainstream politics. With the upcoming elections in mind, the governing party clearly needed a measure the effect of which would be felt immediately by voters. So, out of a political rationale, they decided to set official energy prices.

> AS HUNGARY DOES NOT LEAD BY EXAMPLE IN TERMS OF TRANSPARENCY, THE PRICE AT WHICH THE GOVERNMENT ACQUIRES GAS IS CLASSIFIED

At the time of implementation, this was a price cap set at about 90% of the market price of electricity and gas, based on November 2013 energy prices[15]. In practice, this meant that households paid up to 25% less in overheads than before[16]. This was partly made possible because energy prices decreased globally starting from

[12] Ibid.

[13] Ibid.

[14] Csaba Weiner; Tekla Szép (2020): Mire mentünk a rezsicsökkentéssel? KRTK Available [Online]. https://www.portfolio.hu/krtk/20201013/mire-mentunk-a-rezsicsokkentessel-451630 [in Hungarian]

[15] Act LIV of 2013 on the Implementation of the Reduction of Overheads (2013) Hungary

[16] Csaba W. and T. Szép (2020) *Mire mentünk a rezsicsökkentéssel? KRTK*. Available [online]: https://www.portfolio.hu/krtk/20201013/mire-mentunk-a-rezsicsokkentessel-451630 [in Hungarian]

> THE OVERHEAD REDUCTION POLICY WAS A PRODUCT OF RELATIVE GLOBAL ECONOMIC PROSPERITY AND AS SUCH COULD NOT HAVE BEEN MAINTAINED IN TIMES OF HARDSHIP

2014[17]. The price cap set by the overhead reduction policy (ORP) was adjusted based on market prices every few months, decreasing along global price trends.

Eventually, because of decreasing world energy prices, by 2016, Hungarian energy prices actually ended up being higher than world energy prices[18]. This, however, was not the only issue with the ORP.

First of all, the costs of this policy are unpredictable in the long term. One must factor in the price at which the Hungarian government purchases gas from Russia. As Hungary does not lead by example in terms of transparency, the price at which the government acquires gas is classified.

It is known, however, that, at times, the government makes a profit on gas trade. For example, in 2018, while Hungary boasted the lowest gas consumer prices in the EU, the government still made HUF 3.5 billion (or EUR 9 million in today's rates) on selling gas to Hungarians. The opposite can be said about 2022. Because of the energy crisis, the overhead reduction policy in its original form would have cost the government at least EUR 3.26 billion over the course of one year[19]. The overhead reduction policy was a product of relative global economic prosperity and as such could not have been maintained in times of hardship.

Moreover, pretty much every household and a large portion of small businesses paid overhead based on the same rates[20]. There was no proportionality to speak of, so, naturally, the higher one's consumption, the more they saved on overhead. For someone who can barely afford EUR 30 per month to cover overhead costs, a 5-euro discount helps very little. Not to mention that the most deprived households in Hungary often use wood or coal for heating, which was not included in the ORP. On the other hand, wealthier consumers, who might live in large houses with jacuzzies and saunas, were potentially saving over EUR 100 every month on overhead reduction alone.

The lack of proportionality ties into the third and perhaps the biggest problem with the original overhead reduction policy: it *de facto* encourages wasteful energy consumption. It mimics the psychology of a summer sale (the more you spend, the more you save), and every month, when the gas bill comes in the mail, it says in

[17] MEKSZ (2018) energy data

[18] Ibid.

[19] Government of Hungary (2022) *Government Info*. Available [online]: https://youtu.be/GRPV0w9Bwbc [in Hungarian]

[20] Act LIV of 2013 on the Implementation of the Reduction of Overheads (2013) Hungary

> WEALTHIER CONSUMERS, WHO MIGHT LIVE IN LARGE HOUSES WITH JACUZZIES AND SAUNAS, WERE POTENTIALLY SAVING OVER EUR 100 EVERY MONTH ON OVERHEAD REDUCTION ALONE

bold letters how many forints you saved this month thanks to the ORP (this was part of the original regulation and is still part of its new iteration). This way, voters are constantly reminded of the generosity of their government. Knowing this, it is easy to understand how 2014 turned the trend of steadily decreasing energy consumption on its head, resulting in increasing consumption once more[21].

The overhead reduction policy helped Viktor Orbán's government to stay in power and win three more elections, all with 2/3 supermajorities in the parliament. While cheap energy was not nearly the sole reason for these victories, it was certainly an important contributor, as the ORP was part of all three election campaigns since then. For almost 10 years, the government had no reason to change this policy, as it was steadily netting them votes. For some years, they even profited on it due to cheap Russian gas[22].

As long as there were not any disturbances in the energy supply from Russia, the Hungarian government could keep this wasteful policy afloat. In fact, there was no direct communication that implied that the Fidesz government would accommodate green development goals by changing the ORP.

For example, who could have wholeheartedly believed a year ago that Orbán would not try to veto energy taxation as described in the 'Fit for 55' plan? The revision of the Energy Taxation Directive (ETD) requires unanimity in the European Council, and, in all likelihood, Orbán would veto this unless, somehow, Hungary gets a pass, or–best-case scenario–accepts the new ETD with minor changes and spends more on the ORP without burdening households, and the waste continues. In 2022, however, a set of different circumstances forced PM Orbán's hand.

A SERIES OF UNFORTUNATE EVENTS

In July 2022, Viktor Orbán's government revamped their golden goose, the overhead reduction policy, after almost 10 years of it being in effect. This contradicted their very recent campaign promise to 'defend' overhead reduction[23]. While there was

[21] EUROSTAT energy statistics – energy data 1990-2020 (updated April 2022)

[22] Regional Energy Economics Research Centre (2020) *Gas Market Analysis for the Hungarian Hydrocarbon Stockpiling Association.*

[23] Viktor Orbán: "We implemented overhead reduction and we will protect it!" (January 20, 2022) Available [online]: https://www.facebook.com/photo.php?fbid=477833123714291&set=a.347694613394810&type=3
Also: "We will protect overhead reduction, we will protect Hungarian families!" (May 26, 2022) Available [online]: https://www.facebook.com/photo.php?fbid=559382782225991&set=a.347694613394810&type=3

news even before the general elections on April 3, 2022, which implied that the Fidesz government is bleeding money through overhead payments[24], nobody could have known for sure if the policy would be revised. What could have led to this situation?

To say that Russia's invasion of Ukraine put PM Orbán's government in a tough spot would be correct, but there were a few other factors that led to the revision of the government's trump-card policy. Even before February 2022, or the further escalation of the invasion, the Hungarian economy was in a vulnerable state. The country's economy was still suffering from a sort of 'post-COVID-19 illness', inflation was alarming even before the war broke out, the EU funds were frozen due to PM Orbán not accepting the rule of law criteria, and the general elections were coming up.

Viktor Orbán and his party, Fidesz, employed their usual tactic of severely overspending and 'buying votes' prior to the elections, which included tax exemption for all Hungarians under 25, and an extra payment equal to a full month of pensions to all pensioners[25]. Due to overspending, the government reached over 80% of the annual budget deficit target by April–the month of the election[26].

On top of all of this, the invasion of Ukraine brought even more inflation, a food supply crisis, and an energy crisis. As the maintenance cost of the overhead reduction

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policy grew significantly every month, PM Orbán and his government had to pull the plug. They had foreshadowed the urgent need to change this policy as early as March 2022[27], but waited until after the elections to announce that the overhead reduction policy was unsustainable in its then form.

At first, they were looking for extra funding, which led to the 'extra profit tax', which was implemented as an attempt to pay for the ORP. This tax was imposed on eight industries (including telecommunication and airlines), carefully avoiding any industry in which Fidesz-friendly entrepreneurs had interests (such as construction and

[24] Government of Hungary (2022) *Government Info*. Available [online]: https://youtu.be/GRPV0w9Bwbc [in Hungarian]

[25] Government Decree 684/2021 (XII. 7.) on the full restoration of the thirteenth month pension and the thirteenth month benefit in 2022. Available [online]: https://net.jogtar.hu/jogszabaly?docid=A2100684.KOR [In Hungarian].

[26] Hungarian Ministry of Finance (2022) *Monthly Report April 2022*.

[27] Járdi, R.(2022) "Overhead Reduction Will Be Even More Expensive", [in]: világgazdaság.hu. Available [Online]: https://www.vg.hu/vilaggazdasag-magyar-gazdasag/2022/03/meg-dragabb-lesz-a-rezsicsokkentes [in Hungarian]

casinos)[28]. Eventually, however, the ORP needed to be tightened. So, what changed?

OVERHEAD REDUCTION-REDUCTION

On July 21, 2022, the Hungarian government announced the new overhead regulation. As they have been ruling by decree since the beginning of the COVID-19 pandemic (with short breaks), there were no votes in the parliament (not that it would matter with Fidesz's 2/3 majority). The changes to the ORP would come into effect on August 1, 2022, less than two weeks after the full announcement.

Essentially, households are only entitled to discounted electricity and gas until they reach the level of average consumption associated with either energy carrier[29]. Once consumption surpasses the national average for either gas or electricity, the rates increase for that energy carrier. Thus, the consumer pays a reduced price for energy equal to the average consumption and a higher price for any additional energy usage.

It is important to note that this 'average' level is set specifically in the text of the regulation and will not change unless the government increases or decreases it; therefore, if this revision of the ORP results in lower household energy consumption, it will not lower the amount of discounted energy available for citizens. The average level is set at 210 kWh/month for electricity, and at 144 m3/month for gas. Above the limit, electricity prices increase by about 100% and gas prices increase by around 700%. It is also important to mention that the number of businesses entitled to overhead reduction also decreased drastically – now only 'micro-businesses' employing 10 or fewer employees are entitled to discounted energy under the set average consumption levels.

> TO SAY THAT RUSSIA'S INVASION OF UKRAINE PUT PM ORBÁN'S GOVERNMENT IN A TOUGH SPOT WOULD BE CORRECT, BUT THERE WERE A FEW OTHER FACTORS THAT LED TO THE REVISION OF THE GOVERNMENT'S TRUMP-CARD POLICY

This change came suddenly, and given that for many this means a significant increase in monthly expenses (not to mention that it goes against Orbán's recent promise), naturally, the reception of this new policy was mixed, to say the least[30]. Of course, pro-government media outlets were quick

[28] Government Decree 197/2022 (4.VI.) on extra-profit taxes (June 04, 2022).

[29] 259/2022.(VII. 21.) Government Decree on the determination of certain universal service tariffs (July 21, 2022).

[30] Pénzcentrum (2022) *New Details on the Cuts: It Will Be Cruel, Here's How the Government Will Calculate*. Available [online]: https://www.penzcentrum.hu/othon/20220715/uj-reszletek-a-rezsicsokkentes-megvagasarol-ez-kegyetlen-lesz-igy-fog-szamolni-a-kormany-1127001 [in Hungarian].

to spin the story and defend the revised policy, and anti-government media were just as ready to call out Orbán's government for breaking its promise.

Interestingly enough, this measure was not met with immense resistance in the form of protests, which could either be because the unsustainability of the current ORP was known and opposition voters anticipated a revision, or because there were already protests happening as a consequence of another measure – the revision of the KATA employment status[31]. Either way, it was acknowledged that the overhead reduction policy changed. What voters think is one thing, but policy evaluation is another. What is there to praise or to critique? Since the main concern regarding the former ORP was its unsustainability, the question becomes: Is the new ORP more sustainable than its predecessor?

To start off, a few words regarding implementation, as Viktor Orbán's government is used to an unchallenged, lightning-speed legislative process[32]. It is not the first time that high-impact policies and legislation have been implemented within days of an announcement. One of the recent examples of this phenomenon is the modification of the gasoline price cap regulation that came into effect the same day as it was announced[33].

> AS THE MAINTENANCE COST OF THE OVERHEAD REDUCTION POLICY GREW SIGNIFICANTLY EVERY MONTH, PM ORBÁN AND HIS GOVERNMENT HAD TO PULL THE PLUG

Still, changing the overhead law (with what was basically a one-week notice) put a massive strain on smaller businesses and households and made adaptation to the increasing expenses borderline impossible. One possible explanation would be that the government was quickly running out of money and another month of unmodified ORP would have rocked the national treasury.

Either way, the abruptness of Fidesz's governance is nothing new. As always, Hungarians are left to catch up by their own efforts, if it is even possible for them to do so. This is the legislative context in which the new policy was implemented. What is even more important though, are the contents of the regulation and how it compares to its predecessor.

The original policy was unproportional, since it benefited high-consumption households while it did very little for more deprived households. One could argue

[31] KATA is an abbreviation for the Hungarian 'Itemized tax for Small Taxable Enterprises'.

[32] Policy Solutions (2015) *Az Orbán-kormány ötödik évének mérlege – A harmadik Orbán-kormány jogalkotása számokban*, Budapest: Policy Solutions. [in Hungarian]

[33] Government of Hungary (2022*) Government Info*. Available [online]: https://youtu.be/x0EZ9VNomQE [in Hungarian]

that the new policy solves only half of this problem. The more a household surpasses average consumption, the less its members save on utilities. While previously, high-consumption households could save 25% (or more, since gas prices skyrocketed) on overhead costs, now they will save a significantly smaller percentage of the full cost, depending on how much they surpass the set levels, while those with low consumption may still get fully discounted energy. Therefore, those struggling to pay even the discounted prices, especially during winter months, as well as those living in homes with outdated energy solutions (or using wood or coal for heating), still do not receive the support they need. As such, basic security is still not ensured.

> HOUSEHOLDS ARE ONLY ENTITLED TO DISCOUNTED ELECTRICITY AND GAS UNTIL THEY REACH THE LEVEL OF AVERAGE CONSUMPTION ASSOCIATED WITH EITHER ENERGY CARRIER

Wastefulness is closely related to the matter of proportionality, because with a proportional measure overconsumption is discouraged and, in this regard, the reimagined ORP is a significant advancement compared to its predecessor. The thought of a sevenfold increase in overhead costs is sure to incentivize a more mindful energy consumption. While threatening the existence of citizens by defunding the ORP should not be considered a good incentive or even good policymaking, it is a certainly effective way to quickly reduce consumption. It will be easier to comment on the effectiveness of this measure once the July energy consumption data is available. In the long run, a more energy-efficient society will make it easier for Hungary and the government to participate in green development and to accommodate sustainability measures more easily.

The third piece of critique is related to the cost of these policies. Gas prices dictate the true cost of the ORP, and it is nearly impossible to estimate while planning the annual budget – even with whatever classified deal exists between Hungary and Russia. Earlier this year, the Hungarian government admitted that the ORP became almost unsustainably costly in 2022 and projected that keeping it up until the end of the year would cost the government about EUR 3.26 billion[34]. Clearly, even after the revision, the ORP must cost a significant amount of money, but how much is it? Now, this is rather tricky to estimate due to the lack of transparency in the energy sector, but let us attempt it anyway.

The Hungarian government forecasted that the ORP would have costed them HUF

[34] Government of Hungary (2022) *Government Info*. Available[online]: https://youtu.be/GRPV0w9Bwbc [in Hungarian]

> PRO-GOVERNMENT MEDIA OUTLETS WERE QUICK TO SPIN THE STORY AND DEFEND THE REVISED POLICY, AND ANTI-GOVERNMENT MEDIA WERE JUST AS READY TO CALL OUT ORBÁN'S GOVERNMENT FOR BREAKING ITS PROMISE

1,300 billion (EUR 3.26 billion) in 2022[35]. This amount is made up of the margin between the market price paid for energy by the state and the reduced price paid by consumers – mostly for gas, since electricity can be fully covered by the Paks nuclear plant in Hungary[36]. This was the official estimate, though Viktor Orbán admitted in his speech at the Tusványos festival this summer, after the measure was already in effect, that the ORP could even have costed them as much as HUF 2,05 billion (approximately EUR 5.15 billion) in 2022, as opposed to just HUF 296 billion (EUR 743,000) in 2021[37].

Previously, overhead reduction was fully available to all Hungarian households, of which approximately 4.1 million are based on the data of the Central Statistical Office[38]. This means that the ORP would have costed EUR 795 per household (EUR 3.26 billion/4.1 million households) to the Hungarian government in 2022 alone. Now, with the modified overhead reduction policy, every household is entitled to cheap electricity and gas until 210 kWh/month and 144 m3/month consumption respectively. The discounted price for electricity is EUR 0.09/kWh, and the market price is EUR 0.18/kWh; for gas, the discounted price is EUR 0.25/m3, while the market price is EUR 1.87/m3 [39].

To reiterate, the government must pay the margin between the market price and the reduced price for every kWh of electricity and every m3 of gas used for every household up to 210 kWh electricity and 144m3 gas consumed every month. This margin is EUR 0.085/kWh for electricity and EUR 1.61/m3 for gas.

So, if all households consume energy exactly equal to or higher than the level set in the new ORP, it will cost the government approximately EUR 250/household/month (or EUR 3,000 EUR/household/year to pay

[35] Ibid.

[36] Weinhard, A. (2022) "Paks Would Cover Consumption", [in]: *RTL News*, July 14. Available [online]: https://embed.rtl.hu/embed/1923768 [in Hungarian]

[37] Viktor Orbán's Tusványos speech (July 23, 2022). Available [online]: https://youtu.be/qwDgIYXR2v4 [in Hungarian]

[38] Hungarian Central Statistical Office (KSH)(2020): 2.2.1.1 Number of households and persons by income deciles

[39] 259/2022.(VII. 21.) Government Decree on the determination of certain universal service tariffs.

> THE ABRUPTNESS OF FIDESZ'S GOVERNANCE IS NOTHING NEW

for the margin). Multiply that by the number of households (over 4 million households) and you get the maximum amount that this policy could cost the government if all households reached the set level of consumption and the government paid market price for gas and electricity: approximately EUR 12.3 billion.

Of course, not all households reach a consumption of 210kWh electricity and 144m3 gas in a month. Based on the data of the Central Statistical Office, around 2 million households exceed the monthly electricity consumption of 210kWh, and around 1.1 million exceed a monthly gas consumption of 144m3 [40]. Still, these households alone will cost the government over EUR 3.5 billion over one year (EUR 3.1 billion for gas and EUR 430.7 million for electricity) at the market price set by the new ORP – and this number is completely excluding around 1 million households whose overhead is lower than average, but the overhead reduction fully applies to their consumption.

This may sound like a lot, but there is a catch: The Hungarian government does not pay the market price for these energy carriers – they actually pay significantly less than homeowners who exceed the limit set in the new ORP. The market price of energy carriers is set by the government based on the government's costs associated with acquiring, producing, and distributing energy carriers. And it is the price the households pay for it, but not what the government is paying for it. While the details of the Hungarian-Russian gas deal are classified, we know that 1m3 of gas costs approximately HUF 400-450 (EUR 1-1.1) for the government, as opposed to the set market price of HUF 747 (EUR 1.87) meaning that the 'market price' paid by homeowners is almost twice as high[41].

It is also known that the Paks nuclear plant can produce all the electricity Hungarian households could need, and the net production cost of 1 kWh of electricity costs about HUF 11-12 (EUR 0.028), which translates into 1/7th of the market price set in the new ORP[42]. So, finally, a more realistic estimate would be that the new ORP will cost the government between EUR 2.5-3 billion over one year. If that is the case, the government saves half a billion euros on the new ORP compared to their official 3.26 billion estimate with the original ORP (or around EUR 2.5 billion compared to the more realistic estimate given by Viktor Orbán in his Tusványos speech). As it is already difficult to give a rough estimate of the costs associated with this policy, one can only imagine how challenging it is to estimate these costs when planning the annual budget of a country, while Hungary's main importer is waging a war on the international community.

[40] Habitat for Humanity Hungary, KSH Household Budget and Living Conditions Survey 2020 data

[41] KSH; Népszava (2022): Putin favours Orbán only in words: in February, the Russians even asked us for 30 percent more than the market price for "cheap" gas. 2022.05.04.

[42] Weinhard, A. (2022) "Paks Would Cover Consumption", [in]: *RTL News*, July 15. Available [online]: https://embed.rtl.hu/embed/1923768 [in Hungarian]

Therefore, let us assume that the Hungarian government saves between EUR 0.5-2.5 billion on the changed ORP compared to the original policy. Still, in contrast to last year, when the ORP 'only' cost EUR 743,000, this year's expenses will be at least EUR 1.5-2 billion higher – even after the revision of the ORP. And let us not forget that the remaining millions or billions will be paid by consumers, and they will pay a higher price than the government would for the same energy. Most households will need to tighten their belts to pay for more expensive energy and other goods.

All in all, there are three main problems with the overhead reduction policy in Hungary, and, after examining the new, revised version of the policy, it becomes clear that two of three problems were dealt with to some extent, while one was not addressed. The new ORP will likely be less wasteful, and energy will cost more when it is to be used for heating water in a jacuzzi than it will be for those trying to maintain livable temperatures in their homes, which improves proportionality.

In terms of costs associated with this policy, they are just as unpredictable as they were previously. As such, maintaining the modified policy will still likely cost the government billions of euros more than it did last year.

HUNGARIAN GREEN DEVELOPMENT IN THE FACE OF A GLOBAL CRISIS

Before 2022, Hungary's relationship with green development felt like forced marriage. Neither the government nor the citizens took sustainability to heart, and Hungary remained as it was, in the loving embrace of Russian pipelines, and showed no sign of getting tired of the Russian dependency illness it had developed over the past sixty years. Looking at the goals of the EU Green Deal, and imagining the

> THE MORE A HOUSEHOLD SURPASSES AVERAGE CONSUMPTION, THE LESS ITS MEMBERS SAVE ON UTILITIES

Hungarian government accommodate these goals, cynicism was the first instinctive reaction. The CO2 emission of Hungary is not as alarming as one might expect from what has been described above, which might be partly a result of the fact that the Hungarian industry was dismantled over the past thirty years, reducing emission[43]. The bigger problem is (Russian) non-renewable energy dependency and not utilizing renewable energy systems.

The ideas of diversification or energy-efficiency all went against the Orbán-government's fossil-fueled politics, which was built on Russian gas and the overhead reduction. The Orbán government's governance, including its European policy, has been determined by the principle of vote maximization. Both the government and the Hungarian society reinforced each other in regarding green development as

[43] https://www.worldometers.info/co2-emissions/hungary-co2-emissions/

> IN THE LONG RUN, A MORE ENERGY-EFFICIENT SOCIETY WILL MAKE IT EASIER FOR HUNGARY AND THE GOVERNMENT TO PARTICIPATE IN GREEN DEVELOPMENT AND TO ACCOMMODATE SUSTAINABILITY MEASURES MORE EASILY

unimportant. As a result, almost every time Hungarians have been[44].

In 2022, however, after a series of unfortunate events (especially due to Russia's invasion of Ukraine and the energy crisis), Viktor Orbán and his government were forced to return to the drawing board and reimagine the energy policy, which was at the core of their governance strategy. Could the crisis have been the nudge needed to set Hungary on the rocky path of green development and sustainability? Certainly, the energy situation forced PM Orbán to contradict recent promises and change the overhead reduction policy. Not only that, but the prime minister finally acknowledged the need for diversification of Hungary's energy mix.

What is more, he made room for the principle of energy diversification in his ten-point agenda, where it was accompanied by such noble principles as family-based society, nationalistic ambitions, or border defense[45]. The fact that diversification could stand in as a black sheep with the pillars of the Fidesz government's identity-politics shows how much of a turning point we have arrived to.

The changed overhead reduction policy is highly likely to reduce energy consumption, and high gas prices could turn people towards electricity, which can be produced in more sustainable ways. This also applies when planning household energy solutions or travel, resulting in modernizing energy use or reduction in car use – at least with petrol cars, since most of Hungarian oil also comes from Russia. Just like Hungarian households, companies are also forced to innovate or go bankrupt, and, unfortunately, the latter is a more likely outcome.

The energy crisis puts all governments of the European Union under pressure from different sides – some more than others, depending on the level of dependency. In the case of Hungary, there is pressure from the EU in an effort to try and escalate green development, brought about by Russia's invasion. There is also pressure from Russia, whose pipelines now hold Hungary in a suffocating grasp. For the

[44] Republikon Institute (2017) *Health, Social Security, and Immigration*, Budapest: Republikon Institute, p.3.

[45] Infostart (2022): Viktor Orbán sets out 10 points on how Hungary could be an exception in a global recession. 2022.07.27.

> THE CHANGED OVERHEAD REDUCTION POLICY IS HIGHLY LIKELY TO REDUCE ENERGY CONSUMPTION, AND HIGH GAS PRICES COULD TURN PEOPLE TOWARDS ELECTRICITY, WHICH CAN BE PRODUCED IN MORE SUSTAINABLE WAYS

first time, Hungary is forced on the path of sustainable energy, not even by the European Union, but by its own economic and energy situation. This will take a long time and plenty of resources, but the EU could help with this process significantly (in both the short and long term) – for example, by providing Hungary with nuclear fuel for the Paks nuclear plant, which could reduce dependency on Russia for electricity.

There is also a third kind of pressure, from voters, who were just denied their overhead reduction, and whose hardships could easily backfire on Orbán's government. This third kind of pressure feels the least significant as the government has caused much hardship for many people over the years and yet it was never enough to break the faith of Fidesz voters[46]. PM Orbán's government is still backed by a media empire and strong instruments of power, including the power to change or implement any law including changing the constitution. Also, the next general elections are in four years, and much can change by then.

Will any of this pressure jumpstart green development in an otherwise unwilling country? Will this make it easier for the European Union to cooperate with Hungary and for Hungary to cooperate with the EU? Will this pressure help free Hungarians from decades of Russian dependency? Seeing how quickly fundamental changes are brought about, it is safe to say that Hungary is at a crossroads, and whichever way the country is headed, after almost ten years of dominance, fossil-fueled politics, the politics of abundancy, has met its worthy competitor: the politics of scarcity.

[46] Election results – General elections in Hungary 2022. Available [online]: https://vtr.valasztas.hu/ogy2022/orszagos-listak?tab=parties [in Hungarian]

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MÁRTON SCHLANGER

Researcher at the Republikon Institute