

Energy & Natural Resources - Hungary

Controversial strategy plots Hungary's energy future

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On the government's recommendation, Parliament adopted the National Energy Strategy in October 2011. The strategy was created for the long term and is intended to run until 2030; however, it also defines general guidelines that will apply until 2050.

The strategy is not a binding legal instrument. Rather, it sets out aims, proposals for action, scenarios and expectations in relation to the government's approach to energy policy for the next 20 years, and calls on the government to implement its principles.

Aims

The strategy identifies three key issues for national energy policy.

Security of supply

The underlying rationale behind securing supply is that Hungary's location and lack of conventional resources make it dependent on energy imports (mainly in the form of natural gas) and defenceless against pressure from countries that are rich in traditional, carbon-based resources. Therefore, the strategy advocates economising on national energy consumption while diversifying the means of supply (eg, by improving regional infrastructure). The strategy also indicates the need to:

- improve Hungary's nuclear reactor (at the Paks nuclear power plant), which accounts for over 40% of national electricity production; and
- keep Hungary's unused carbon and lignite resources in strategic reserve.

Competitiveness

The strategy emphasises the need to:

- integrate into the internal energy market of the European Union (most importantly with regard to price);
- expand the use of renewable resources; and
- manage and use Hungary's resources effectively.

Sustainability

On the issue of sustainability, the strategy seeks to establish a connection between the various aspects of sustainability, ensuring that energy use is environmental (ie, efficient and climate-friendly), social (ie, secure, accessible and safe) and economic (ie, cost-effective).

For the purpose of achieving these partly conflicting aims, the strategy indicates eight action guidelines and five general instruments.

Action guidelines

The action guidelines can be summarised as:

- economising on energy consumption;
- increasing production of renewable energy;
- modernising power plants;
- modernising individual heating systems;
- increasing energy self-sufficiency in the transport sector;

- encouraging environmentally sustainable agriculture;
- using waste materials for energy generation; and
- reinforcing the role of the state in the energy sector.

Key instruments

The strategy proposes five specific approaches to realising its aims.

Paradigm shift to reduce consumption

The strategy forecasts an increase in national energy demand. It states that without an overall paradigm shift in the public's approach to energy use, its aims are unlikely to be achieved. As to energy efficiency and reduced consumption, it identifies the need for a suitable programme - including subsidies - for upgrading the energy efficiency of homes and public buildings.

Renewable resources

The strategy acknowledges that in terms of developing its renewable energy sector, Hungary has much work to do. However, the country has great potential in terms of biomass, biogas and geothermic and solar energy, as well as in hydroelectric power and energy from waste. The provision of investment incentives and the implementation of a predictable and well-founded regulatory environment are identified as significant steps.

Nuclear energy

Regardless of the global resistance to nuclear energy, the strategy emphasises its advantages, particularly in view of Hungary's reliance on imported energy, and envisages the expansion of Hungary's nuclear reactor.

Regional infrastructure platform

The strategy describes the advantages of integrating regional natural gas, oil and electricity systems and supporting the evolution of regional competition on a higher level. Moreover, the strategy underlines the need to implement regional infrastructural investments in order to reduce dependence on imports.

New institutional and regulatory framework

On institutional and regulatory matters, the strategy follows a twofold approach. It acknowledges that the lack of investment in the sector is the consequence of a poorly adapted and unpredictable regulatory environment. Thus, the aim is to establish a simple, effective regulatory system - including the process for authorisations - which gives investors the certainty that they need and is consistent with EU legislation. Furthermore, the strategy maintains that development requires a suitable system of direct and indirect incentives.

However, some experts consider that such a regulatory environment may be less acceptable from the point of view of the public good and the national interest. For this reason, and in order to retain the power to check negative market developments, the strategy recommends that the government acquire a participation in strategic energy enterprises in order to increase the national role of exclusively state-owned companies and to reinforce state control over geological resources.

Future scenarios

After identifying the country's energy aims and the instruments for achieving them, the strategy presents three scenarios that may be followed. Each scenario contemplates different energy mixes (with a range of energy sources used in varying proportions). These projections vary according to:

- the volume of renewable and nuclear energy in the mix;
- the rate at which Hungary increases or reduces its dependence on natural gas imports; and
- various other general and country-specific factors.

The consequences, advantages and disadvantages of each scenario are then evaluated.

Long-term expectations

The final chapters of the strategy examine long-term aims and expectations and the role of the government.

The parliamentary opposition and a number of press commentators have severely criticised the plan. In general, its detractors argue three main points:

- The strategy provides no new input in comparison with the previous energy strategy, adopted by the former administration in 2008.
- The strategy supports nuclear energy gratuitously at a time when nuclear power is being criticised and scaled down throughout the world.

- Most significantly, the strategy runs counter to trends in the European Union in not preferring renewable resources to others.

However, Parliament has called on the government to take the necessary measures to implement the strategy, and the first steps are already underway. In particular, stakeholders have been closely following the new system of mandatory uptake of electricity produced from renewable resources and certain infrastructure investments, such as the Slovak-Hungarian gas pipeline. However, as yet there has been no public indication that plans to reform the institutional and regulatory environment are on the agenda.

For further information on this topic please contact [Tamás Pásztor](#) at Nagy és Trócsányi by telephone (+36 1 487 8700) or by fax (+36 1 487 8701) or by email (pasztor.tamas@nt.hu).

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