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COMMENT

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Viktor Orbán walks a tightrope between Brussels and Moscow > Hungary's strategic dilemma about Russia has not been resolved

The European Commission is investigating whether Hungary's nuclear power plant deal with Rosatom breaches EU regulations. In the event that the Commission rules against Paks, Budapest will face a hard choice: should it comply with Brussels and scrap the project, thus seriously affronting Moscow, or vice versa?

On 17 February 2016, Hungarian Prime Minister Viktor Orbán paid a working visit to Russian President Vladimir Putin. This was their fourth bilateral meeting in four years. The most recent visit took place exactly one year after Putin's trip to Budapest in February 2015.

The day before Orbán's arrival in Moscow, an influential Russian newspaper, *Gazeta.ru*, commented on the visit under the headline "European Putinist Goes to Kremlin". The article, together with many other reports in the Russian media, described Orbán's frequent conflicts with the European Union in detail and pointed out that Hungary has been strongly opposed to EU sanctions against Russia.

Despite this generally positive reception by the Russian media, certain signs before the meeting pointed in a different direction. The visit was initiated by the Russian side, whereas the Hungarian pro-governmental media have consistently tried to downplay its significance. Moreover, the Hungarian public was first informed about the visit by *Magyar Nemzet*, a daily owned by Orbán's former ally, but now most vehement opponent, the oligarch Lajos Simicska.

The most important issue on the agenda of the present Moscow

meeting was Hungary's nuclear power plant project in Paks, set to be built by Rosatom according to a contract signed in January 2014. The problems here are twofold. From the Russian perspective, the main question is whether Moscow is able to provide the agreed €10 billion loan under the current worsening economic conditions.

Concerning Hungary, the situation is more complex. The European Commission is running two parallel investigations into the Paks project. The first focuses on whether contracting Rosatom without any tender was an infringement of EU competition rules. The second investigation relates to whether the project involves any state aid, and whether this is in line with EU regulations. In addition to these, in early February 2016 Austria announced that it had filed a complaint to the Commission, objecting to the planned upgrade of the Paks facility and claiming the involvement of state financing.

Hence, Hungary is facing a serious strategic dilemma. On the one hand, Budapest had already become strongly committed to Russia, mainly by signing the contract with Rosatom, and partly by receiving a very favourable gas supply deal. During Putin's February 2015 visit to Budapest, the parties agreed that

Hungary would not have to pay for gas it had contracted to buy but did not use in the framework of the gas contract that was due to expire in late 2015, despite the "take or pay" clause in the document. Instead, Budapest would be allowed to use the remaining gas under the contract until 2019 and pay at the time when it drew on the gas.

On the other hand, the Commission's inquiries into the overall compliance of the Paks project with EU regulations are serious, and thus far Budapest has been unable to address them properly.

In the event that the Commission rules against Paks, Budapest will face a hard choice: to comply with Brussels and scrap the project, thus seriously affronting Moscow, or vice versa. The Hungarian government is naturally aware of the problem, and for this reason little progress has been made in the construction to date. Russian dissatisfaction with the lack of progress was reportedly one of the reasons behind Orbán's invitation to Moscow.

Following the meeting, Vladimir Putin re-affirmed that Russia would build the two reactors in Paks. In return, Prime Minister Orbán called Russia "not an enemy, but an important partner" and declared that the EU sanctions against Moscow

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could not be automatically extended again in summer this year. Regarding Paks, besides calling it the “deal of the century”, Orbán said that Hungary would draw on the first tranche of the loan as early as 2016. Further, it was announced that the possibility of using the as yet unused natural gas had been extended until 2019. Stable energy supplies are important for Orbán while preparing for the 2018 parliamentary elections in Hungary.

However, apart from the mutual praising of bilateral relations, the concrete results published after the long confidential discussion are negligible and hardly justify the need for a meeting at the highest level. Neither the extension of the gas contract, nor the several investment- and education-related announcements would require the personal involvement of the two leaders. What is clear, however, is that Hungary once again helped the Russian President demonstrate that he still has allies in the European Union.

On the Hungarian side, there is no sign of the aforementioned strategic dilemma having been resolved. Instead, Budapest has just dug itself in even deeper. Re-confirming the commitment to build the two new reactors in Paks as well as dipping

into the loan seem to point to a strategy of creating a situation whereby the Commission would already find it hard to block the project taking into account its highly developed stage. However, this pre-emptive strategy is something of a *va banque* in the sense that it gives Budapest little wiggle room should the Commission still decide against the power plant. For Russia, the risks are considerably lower as, according to the terms of the contract, Hungary issued a state guarantee for the repayment of the loan.

Instead of solving its main dilemma, Budapest only distanced itself even further from the EU mainstream. Calling Russia “not an enemy, but a partner” is unlikely to do Hungary’s regional positions any favours either, regarding both the relations with Ukraine and the ties with the conservative Polish government, which has a firm, principled anti-Russia stance. And the trend doesn’t stop there: one day after the visit, it was announced that Hungary may also contract Russia to refurbish its Mi-17 military helicopters. The tender is already out.