

REPORT

RUSSIAN INFLUENCE IN HUNGARY: THE CASE OF PAKS 2 AND THE KREMLIN'S INFLUENCE- SEEKING EFFORTS THROUGH NUCLEAR ENERGY



EVROPSKÉ HODNOTY

Chráníme svobodu

2021

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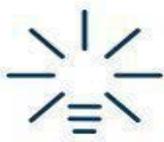
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This initiative was made possible by the Global Engagement Center at the U.S. Department of State, through the Information Access Fund (IAF) administered by the DT Institute. The opinions, conclusions, or recommendations contained herein are those of the authors and do not necessarily represent the view of the U.S. government or the IAF.

While many Central and Eastern European countries are trying to cut or at least reduce their energy dependence on Russia, Hungary, in 2014, entered into a nuclear energy deal with the Kremlin that will not only reshape Hungary's economic and energy policies for decades to come, but serves as a quasi-justification for continuously maintaining political ties at the highest level - even at the expense of Budapest's Euro-Atlantic orientation.

HUNGARY'S EASTERN OPENING

Relations with Russia have always been a defining part of both Hungarian public discourse and the foreign policy of any Hungarian government since 1998. Bilateral diplomatic relations turned heavily conflictual after Viktor Orbán's first government (1998-2002) - known for its moderate conservative policies and strong Euro-Atlantic orientation - refused to allow a Russian convoy - heading to Serbia - to cross Hungarian borders since it carried defense products that fell under a UN embargo. The successive governments of the then Hungarian Socialist Party (MSZP), in power between 2002 and 2010, focused on building strong relations with the Kremlin (supporting Russian-backed gas pipeline projects over EU ones) while slowly reacting to Russian aggression in Georgia in 2008. What's more, the Ferenc Gyurcsány-led government (2006-2009) was [allegedly responsible for](#) allowing officials from Russia's FSB to perform polygraph tests on staff members of the Hungarian National Security Bureau. Simultaneously, Viktor Orbán and his conservative Fidesz party, which had become Hungary's leading political party by 2009, maintained a heavily anti-Russian political stance, most notably by [arguing](#) that "oil may come from the East but freedom comes from the West." In 2009, this strong anti-Russian standpoint was replaced by a call to build relations "on 21st-century foundations" after Viktor Orbán met Vladimir Putin in St Petersburg as Russia eyed relations with Hungary's future ruling party.

Shortly after Orbán came (back) to power in 2010, he argued that the East is developing rapidly while the West is losing its advantages, indicating that pragmatic economic considerations will be more important in foreign relations than ideological issues. In 2011, his declaration became official government policy with the adoption of the so-called [Eastern Opening Policy \(EOP\)](#), aimed at geographically diversifying Hungary's exports and enhancing economic cooperation between Hungary and the Eastern countries. Russia has long been one of the primary targets of the EOP, especially when Budapest started looking for international partners to balance its politically weakening position in the West. However, maintaining and strengthening economic cooperation was initially based on Hungary's energy dependence on Russia given that Budapest is covering the majority of its energy needs via Moscow. **Thus, the Kremlin became uniquely important for Budapest once Orbán's second government (2010-2014) [made](#) "utility cost cuts" its signature policy and began nationalising gas infrastructure and service provisions.**

Having almost complete control over household utility prices, the government pushed down the price of Russian gas imports to maintain low utility prices, made possible either by forcing Russian energy giant Gazprom to compete in the free market or by aligning with the Kremlin's foreign policy. Since successive Hungarian governments failed to achieve the former, the government had to make numerous political and economic concessions to Russia to maintain low utility prices. These concessions are projected to have far-reaching consequences for Hungarian energy security, the country's dependence on incumbent Kremlin leadership and Budapest's relations with its own Western allies.

“THE NUCLEAR GESTURE”

By the early 2000s, the Hungarian energy market clearly had the attention of all major nuclear energy companies. The country’s first (and only) nuclear power plant (NPP) at the city of Paks was constructed with Soviet technology and started operating in 1982. At present, it accounts for almost half of Hungary’s domestic energy use. The fact that the tenure grant of the Paks NPP will expire in 25-35 years was common knowledge in the late 2000s, hence several companies from both the Western community (France, Japan, South Korea and the US) and beyond eyed economic opportunities should the Hungarian government decide to extend it or construct new facilities. **The need to renew (or replace) Hungary’s nuclear capacities was clear to country’s previous Socialist government** which committed itself to extend the Paks NPP after brief internal disputes. Shortly afterward, in 2009, **the Hungarian parliament almost unanimously - with subsequent support of Orbán’s party - [adopted](#) a resolution on “giving principal consent” to building new nuclear blocks**, however, no further steps were taken by the previous government.

On January 14, 2014, the Hungarian public was taken aback by news of the Hungarian PM and Russian President Vladimir Putin [signing](#) an agreement on the construction of two new nuclear blocks - an addition to Hungary’s sole nuclear power plant - making the Russian energy giant (Rosatom) the primary contractor for this project. The initial financial agreement announced in Moscow included a **Russian loan worth €10 billion, covering 80% of the project’s costs**, to be repaid over 21 years from 2026. While the project received subsequent praise from both the Russian government and Hungarian ruling parties, **it sparked outrage within the Hungarian society for two reasons:** the project came out of the blue and nuclear energy lacked political consensus (climate change was becoming more and more present among the key topics of Hungarian politics). Orbán was also criticized for making Hungary a “Russian colony.”

The decision to build the two new blocks - most commonly referred to as Paks 2 after the name of its project company - is also largely seen as one lacking democratic legitimacy and transparency. As for concerns over its legitimacy, Orbán [treated](#) the project as if it were supported by **parliamentary consensus, however no consultations were held with Hungary’s parliament** and MPs were only briefed about an upcoming agreement (mere weeks before Orbán’s announcement in Moscow). Announcing the deal to Hungarian MPs during a parliamentary session in early 2014, the Hungarian PM said that the government concluded an agreement with Russia “in accordance with the decisions of the Hungarian National Assembly in 2005, 2009 and 2011.” In reality, these “decisions” greenlit a future decision rather than allowing for the government to decide in a largely secretive process. From the time of the announcement, all major opposition parties have been against the Russian deal. **Transparency issues were also raised almost immediately since there were no public procurement calls concerning Paks 2’s construction despite earlier promises** made by MVM (Hungary’s national electricity company) while the Hungarian energy industry had prepared for an open tender for years and actively looked at numerous potential contractors, including companies from the West. In the government’s own response to failing this earlier promise, Rosatom’s so-called VVER-1200 blocks were chosen based on professional criteria (e.g. size); their ability to penetrate Hungary’s nuclear network; nuclear safety requirements; and experience in permit acquisition. However, concurrent with Hungarian energy officials insisting on Rosatom’s professionalism, the Russian energy giant’s unwillingness to participate in open tenders was a key technical reason for being specifically chosen – **a Rosatom official reportedly told the Hungarian press that “tenders only force applicants to make irresponsible promises.”**

Also on transparency, **Orbán’s government made the contracts confidential for 30 years**, hiding details on why the administration decided to build the new nuclear blocks; how it would spend the €12.5 million; and who can partake in the project’s implementation. **The confidentiality period was cut from 30 to 10 years** after an investigation from the National Authority for Data Protection and Freedom of Information (NAIH) found that it was not justified to make the whole contract confidential. The government made

most of the contracts public after this investigation, but upheld the confidentiality of certain clauses such as the one concerning the terms under which the Hungarian state could back away from the project. In September, 2017, numerous contracts between MVM and its subcontractors were published, [revealing](#) that **pro-government oligarchs and institutions earned considerable money from the project, raising alarming corruption concerns. In March, 2019, it was also [revealed](#) that the general contract - parts of which are banned from the public - included only a three-year guarantee from the Russian side for a project set to define Hungary's economy, energy investments and bilateral relations (with Russia) for decades.**

On why Orbán's government eventually chose Moscow for the project's implementation, the official government explanation mainly focused on Rosatom's experience and familiarity with the Hungarian energy sector. According to sources close to the government, practical considerations were important factors in closing the deal: the fact that the original Paks nuclear blocks were built with Russian technology; Hungarian nuclear experts are familiar with Russian technologies; and Russia offered a detailed financial agreement and a strategy to implement the project. Nonetheless, circumstances suggest that **international politics turned out to be the decisive factor.** According to Direkt36 (Hungarian investigative journalism specializing in uncovering corruption), **Hungarian-Russian relations - previously constrained by unfinished deals and unsettled business claims** in the transport and gas sectors between the Kremlin and Orbán's predecessors - **normalized just as the Hungarian PM found himself in "irreconcilable conflict" with the Western allies' main leaders between 2012-2013 over issues such as democracy and press freedom. "This was rather a gesture towards the Russians,"** - a source close to the government [infamously told](#) Direkt36 - **indicating that Orbán's disappointment in the West eventually led him into the Kremlin's arms: he was reportedly furious over the allegedly condescending tone from Western political and business leaders; he also perceived that Russia's leaders treat him and his government better than Hungary's Western allies.**

Unsurprisingly, **Russia was similarly interested in winning the Hungarian contract for Rosatom.** Russian secret service agents [reportedly told](#) Rosatom that a **French company (Areva) made an offer to "an EU government" that looked to renew its nuclear energy capacity.** Although French reports never mentioned Hungary by name, its details only matched Hungary's contract with Russia). **As soon as the Russians learned about the offer, they reportedly "summoned" Orbán to Moscow to make their own offer in January, 2014. The assumption that Russian intelligence services could win the contract for Rosatom reveals that the deal was prioritized by the Kremlin to support its political agenda.**

In addition to personal motives, the Hungarian PM is perceived to be more interested in international than domestic politics, intent on putting Hungary on the world's political map: there is reason to believe that Orbán chose Moscow to increase his authoritarian government's negotiating position in the West, even if this comes at a high political and economic price that Hungary will pay to Russia for decades.

Political involvement in the decision about Paks 2 is also supported by **the hastiness surrounding it, as well as the fervent criticism it received from [the expert community](#).** Shortly after the decision was made in the summer of 2013, the government set up an expert group to prepare the project's financial scheme and credit construction. This group was also due to conduct talks with the Russians on the latter's financing. They conducted a few rounds of talks, however, they were reportedly stymied after **"[things got political](#)."** What's more, several mid-ranking officials in the Hungarian government - responsible for the country's energy relations with Brussels - reportedly learned about the deal from the press, suggesting that it was politicians, not energy professionals, who played the larger part in the process. In addition, Imre Mártha - former head of MVM (Hungary's state-owned electricity company) - [also pointed](#) to the possibility of political reasons behind the contract.

EVERGROWING INFLUENCE

Preparations for the project's implementation revealed that it faces hurdles on all fronts. Hungary's then divided opposition rejected Russian investment which they considered to be a major blow to the country's European orientation, while environmental and transparency watchdogs were furious over the potential consequences. In addition, the pertinent EU authorities - including those in the European Commission - conducted a careful review of the proposed contracts and raised concerns when applicable. **Following years of political and economic struggle, the Hungarian government received all necessary environmental, technical and nuclear permits to lay the groundwork for construction. Orbán scored a major win in 2017** after the European Commission approved the final project. At the same time as the Hungarian government fought for the success of its highly controversial project, its leadership promoted what it described as a successful economic partnership with Moscow. In reality, **cooperation with the Kremlin regarding the project was sometimes constrained even if strong political ties were exhibited on the surface. Trouble loomed for two reasons.** First, the project was already 22 months behind schedule over unsuccessful tenders when the government appointed its first "Paks minister" (János Süli) in 2017 to supervise its implementation. Second, the project's costs are overrun and the Hungarian industry lacks technical capacities to do its share of the work.

Nevertheless, Russian President Vladimir Putin is pushing for the project's implementation, showing Russian intent that economic damage to Hungary could be even higher if the latter withdrew from its deal with the Kremlin. The level of Russian influence-seeking activities is also shown in the Kremlin's moves to gradually expand its involvement in the project, ensuring its move forward in "the Russian way."

- As Hungary battled the coronavirus crisis, the government [modified](#) one of its previous decrees in May, paving the way for Russia's action plan by allowing earthwork to begin before the project could receive its final approval from Hungary's nuclear authority. This change put Rosatom at an advantage since it was initially the Russian side that faced pressure about meeting all of the requirements, given that they desperately wanted to start it, whereas now it is Hungary that bears contractual responsibility for this phase of the project. Since the Hungarian government almost immediately conflicted with its Atomic Energy Authority (responsible for granting the final permit) over the decision, **there is reason to believe that the decision was made after Russian influence that turned out to be successful.**
- **Russian businesses were also active in pushing Hungarian businesses and/or businesspeople out of companies that were associated with the project.** In 2017, Süli, as Paks minister, also admitted that the project is an enormous task for the Hungarian industry and praised Ganz EEG in particular for taking part in the project. Süli regarded Ganz as a Hungarian enterprise, however this already was not the case at that time. The engineering company started as a joint Russian-Hungarian venture in 2008 but its Hungarian leadership came into managerial conflict with their Russian counterparts, according to Hungarian investigative journalists. Although the Hungarian owners won a lawsuit in this dispute in 2015, they reportedly realized that this would result in eternal struggles concerning the future of the business and their business interests, leading them to sell their 49% stake in the company to Rosatom. What's more, Attila Szitár-Csanádi - longtime manager at the company who reportedly sided with the Russians - was instrumental in granting Vladimir Putin with honorary citizenship at the University of Debrecen in 2017. Ganz EEG's case bears considerable importance since it is widely seen as the only Hungarian energy engineering company with experience needed for the Paks 2 project. A smaller but similar case is that of Sberbank's (Russian) [influence](#) over Mercarius. The latter is a Hungarian car rental company that held negotiations with Rosatom and won major public tenders to provide the company on Paks 2's project with a car fleet.

“MR. RUSSIA” AND THE GERMAN CONNECTION

In retrospect (seven years in fact), it is now believed that Orbán committed himself and his government to a Russian-built extension of the Paks NPP **during a meeting with then-Rosatom head (Sergey Kiriyenko) in August, 2013. Sources close to the government confirmed that this was also the case when the Hungarian leader [decided](#) to hand over the project to the Russian company without announcing a public tender.** While most of the negotiations were shrouded in secrecy, **German businessman Klaus Mangold was [instrumental](#) in preparing the negotiations and bringing the two sides closer for a potential deal.** Nicknamed “Mr. Russia” in his home country, Mangold is known for his decades-long experience with Russian politics and expertise on bringing European and Russian political and business elites closer.

Hungarian investigative journalists - together with Benedek Jávor (former Hungarian opposition, MEP and one of the most vocal opponents of the Russian deal) - also highlighted that Mangold was around the project just as the German financial giant Rothschild & Co. was brought in to assist Orbán in having the deal approved by the European Commission. In order to economically justify the project, the Hungarian government commissioned the internationally respected German banking house to conduct studies emphasizing the investment’s worth. Direkt36 also reported that Rothschild & Co. became Mangold’s client while the latter had a contract with the Hungarian government for “providing advice on energy.” Mangold **(German businessman) was also a key player in connecting the Hungarian government with Günther Oettinger (then-Energy Commissioner of the European Commission).** The two German figures held close relations most visible after investigative reports from 444.hu [revealed](#) that Oettinger - while serving as EU commissioner for budgetary affairs - travelled to Budapest, at the Hungarian government’s invitation on Mangold’s private jet, to participate in a conference and meet Orbán. Oettinger, accused of violating EU ethics rules, is believed to have provided the Hungarian PM with either insider information or advice to advance the Paks extension project.

Lobbying efforts [proved](#) successful: the European Commission previously launched infringement procedures over the lack of public tendering and forbidden state aid for the project - both ended in favour of the Hungarian government. In 2017, Brussels gave its final approval to the project. Its success was also due to Mangold’s efforts to involve Western companies in the construction of the new nuclear blocks. The Hungarian PM knew that the project’s political approval in the EU would be much higher if European energy firms also benefited from the business. Mangold also had ties to General Electric (GE) whose chairman travelled to Brussels for talks with Orbán, Paks reportedly being a key topic of discussion. In 2017, Rosatom announced an open call for building the turbines of the future nuclear blocks to which GE’s Hungarian subsidiary submitted an application. In early 2018, GE won the tender against a smaller Russian bidder. “[Orbán] needs a concept in which Russian, German, French, EU and Hungarian interests are satisfied in the highest possible way,” Benedek Jávor [said](#), criticizing the Hungarian government’s play to legitimize the Russian-dominated project. **Besides GE, other Western companies are also involved in the project: Germany’s Bauer will be responsible for the earthwork; a French-German consortium involving Siemens is tasked with control engineering of future blocks. The latter is a crucial element in any nuclear power plant operation, coming with a high-value contract that the Russian side also wanted to secure, however, subsequently failed as the Hungarian government [reportedly wanted](#) a Western bidder to win.**

ECONOMIC AGENDA, POLITICAL MOTIVES

Following the Hungarian-Russian governmental agreement about the Paks nuclear power plant in early 2014, Orbán and Putin agreed to hold annual negotiations thereafter to monitor the progress made in economic relations. Since their decision to advance bilateral ties, consultations have been held between the Hungarian PM and the Russian president (in Budapest or Moscow), as well as lower-ranking members of the two governments. The similarities between Orbán's and Putin's political agendas, as well as the worrying level of Russian economic influence, allowed them to maintain high-level political dialogue with Hungary even when EU-Russia relations strained. After undercover Russian troops annexed Crimea - taking control over the Ukrainian region - and the Kremlin showed political support to pro-Russian separatists in Donbas, the EU immediately suspended all political ties with Moscow. Although Kremlin critics in Europe followed suit, the Hungarian PM decided to continue cooperation with Russia, **marking a new high in bilateral relations justified by Paks 2.**

- **The 2015 summit** (seen as controversial) [saw](#) **the first subsequent meeting of the two leaders in Budapest** a year after Russia started fueling the crisis in Ukraine. The Budapest meeting allowed the Russian President to express his views on the war in eastern Ukraine in front of a NATO member state and while standing next to an EU leader. Putin subsequently endorsed Russian extension of the Paks NPP, while Orbán argued that there is no European energy security without Russia - mere days before the Donbas conflict escalated and led to the Minsk II Agreement.
- **The 2016 summit between the two** [boosted](#) political findings of the previous one: Putin summoned Orbán to Moscow to garner political support on the rejection of the EU's economic sanctions regime against the Kremlin over its actions in Ukraine. At the time, a major drop in oil prices combined with Western sanctions caused an economic headache for Moscow. Paks 2, called the "deal of the century" by Orbán (stood next to Putin), not only gave the two leaders a basis to discuss the project but also to reinforce political ties during a politically and economically crucial period for Moscow.
- **During the 2017 summit**, the Hungarian PM [made](#) an iconic remark on the EU's sanctions on Russia. He said that "non-economic problems cannot be solved with economic solutions" and that Russia's counter-sanctions are detrimental to the Hungarian economy. Responding to Orbán's words, Putin addressed Ukraine from an EU member state accusing Kyiv of disregarding the Minsk Accords agreed in 2015. These statements were given as Orbán defended his government's credit agreement with Russia (on the Paks 2 project) just as the contract signed with the Kremlin came under scrutiny over potential economic disadvantages for Budapest.
- During **his visit to Moscow (2018)**, the Hungarian PM stressed that there should be a new form of cooperation between Russia and the West since "Hungarians are doing fine when there is no tension with Moscow." He [continued](#) by praising the Russian extension to the Paks NPP, adding that such a high-scale project, from scratch, on EU/NATO territory was "a courageous step from the perspective of East-West cooperation." The summit gave reason for concern among the Transatlantic community since it took place in light of the Skripal poisoning, in the UK, for which Russian secret service is believed to be responsible.
- Taking the ongoing Donbas War into account, **the latest bilateral summit of the two leaders (2019)** came as a blow to Kyiv and the West. Discussing the Hungarian government's decision to block Ukraine's integration talks with NATO, Orbán confirmed that the Hungarian veto will apply until Ukrainian authorities do not take the necessary steps toward ensuring the educational and language rights of Hungarians in Ukraine's Zakarpattia region. While the Hungarian PM claimed that his Ukraine policy is not associated with Russia, the credibility of this statement was criticized given

that he made the announcement standing next to the Russian President. On Paks 2, Putin pointed out that the shares of Hungary's domestic electricity production from the nuclear plant will rise to 80%, while Orbán said that Hungary was "fixated on sovereignty" in its energy policy.

- **Although 2020 saw no bilateral summit between Putin and Orbán**, the lack of a high-level meeting is not the result of cooling bilateral relations between Budapest and Moscow, rather a consequence of the ongoing COVID-19 pandemic. In early October, Hungarian Foreign Minister Péter Szijjártó expressed hope that a bilateral summit could be held at the end of the year - the summit was originally planned for the second half of the year and the Russian side preferred that it be during the last months of 2020. Although it did not occur, bilateral relations continued at a ministerial level, cooperation in energy being a central element. In March, 2020, Szijjártó flew to Moscow to discuss future gas deals with Sergey Lavrov, his Russian counterpart, as well as other members of the Russian government. The meeting of the two FMs secured Russian gas supplies for Hungary for 2020 and 2021: Russia will export 1.5 billion cubic metres of natural gas in 2021 and talks expanded this to 4.2 billion cubic metres. In June, the Hungarian FM visited Moscow once again when this deal was finalized. While the Paks NPP's extension was not on the two foreign ministers' agenda, the issue remained a key item on the bilateral agenda. In early December, a Russian governmental delegation – including Alexey Likhachev (Rosatom's general director) and Nikolai Shulginov (Russia's newly appointed energy minister) – [travelled to](#) Budapest to negotiate with the Hungarians and evaluate the state of the project. During the meeting, Orbán reportedly stressed that the Paks NPP's extension - which will help the country produce cheaper energy from domestic sources - is vital to maintain the Hungarian economy's competitiveness. What's more, its government communications strategy about the investment project shifted: according to Orbán, Hungary has to and will rely on two legs of the energy sector to contribute to the European Union's climate goals (renewable and nuclear energy). This is likely to stay an integral part of government communications to justify the project.
- **The Russian President and the Hungarian PM are expected to renew their political ties** with the assistance of a bilateral summit in Budapest or Moscow as soon as the coronavirus pandemic subsides. The Hungarian government [expects](#) that it could happen in the second half of 2021. As significant steps were made toward the Paks NPP's extension since the last summit (2019), the project will continue to provide an economic-minded platform for bilateral political discussions in the wake of new tensions between the West and Russia: poisoning and imprisoning Russian opposition figure Alexei Navalny; Russia's continual aggression in Ukraine; the Kremlin's support for disputed Belarusian strongman Alexander Lukashenko; among others. Should a new bilateral summit be organized, the Hungarian government is likely to be scrutinized by the West as Budapest opposes Ukraine's Euro-Atlantic integration over the Ukrainian government's handling of Hungarians' rights in western Ukraine.

TANGIBLE IMPACT

Close to seven years after the deal was announced in Moscow and despite delays, **the Paks 2 project continues toward full implementation**, although remaining largely controversial. However, the project already impacted not just the Hungarian economy, but also the country's political life and the population's views on Russian-Hungarian relations.

- **The electorate approved Orbán's Russia-focused energy policy.** Although no publicly conducted expert consultations took place prior to the Hungarian PM's decision to choose Russia in mid-2013 and the announcement in early 2014, the de facto legitimacy of the project was indirectly reinforced

by electoral victories of Orbán's Fidesz party. Despite slightly losing the popular vote, Fidesz gained a supermajority during the 2014 parliamentary elections three months after his controversial announcement in Moscow. Although these elections could also be interpreted as a quasi referendum on the Russian deal, its significance during the campaign was lower compared with other domestic issues. What's more, Hungarian opposition parties - critical of both the investment's economic and environmental impacts, as well as its national security implications - submitted questions for a referendum, which were [rejected](#) by Hungary's Fidesz-dominated National Election Bureau, with the issue fading away from its previously high position in Hungarian public discourse. In the run-up to the 2018 parliamentary elections, also ending with a Fidesz supermajority in the Hungarian National Assembly, all major opposition parties publicly stood against the Rosatom deal. However, once again, the issue did not manage to catch the public eye: opposition's messaging ahead of the 2018 elections focused on corruption and democratic backsliding.

- **The deal contributed to the transformation of the Fidesz voter base.** Under Orbán, ideology has become the second most important pillar of Russian-Hungarian relations. The previously predominantly pro-West Fidesz electorate was transformed by pro-Russian rhetoric and policies of Orbán's regime into a group favouring cooperation with Moscow rather than Washington in the past eight years. A poll from early 2018 [found](#) that, while Hungarians continue to favour the West, Russia was the most positively viewed foreign partner among Fidesz voters. Other polls confirmed a contrast between Hungary's overall society, its opposition voters and government supporters. Consequently, the government's emphasis on the common Christian foundation of the two nations ; statements on Hungarians' Turkic origins (matching far-right theories) ; symbolic gestures toward Russia; increased cultural cooperation on the two nations' shared origins all serve to strengthen the pro-East, pro-Russian Fidesz electorate. Latest polls confirm that while the majority of opposition voters perceives Russia as a threat, [only 14%](#) of Fidesz voters agree with this sentence. Arguably, Paks 2 - cited as one of the largest investment projects in Hungary's modern economic history - was a contributing factor, as well as the basis for deepening political and ideological ties between Orbán's regime and the Kremlin.
- **Hungarians overstate the importance of economic ties with Russia.** The Orbán government's rhetoric on the need for economic cooperation and exaggerations about Russia's role in Hungarian trade have also impacted public opinion. According to Political Capital Institute's recent [research](#), Russia is seen by Hungarians as a more important trade partner what it really is, and Russia's economy is perceived to be bigger than in reality. For instance, almost 40% of Hungarians think that Russia's economy is bigger than Germany's and the same applies to the United Kingdom. This exaggeration exists despite the fact that Hungary's trade ties with Russia became less significant following the EU's sanctions against Moscow over the latter's involvement in the Ukraine crisis. This continued even after Russia introduced counter-sanctions against the European bloc. Bilateral trade with Russia did increase by 2019, however, the increase does not represent long-term economic gains and earlier expectations from government policy. Overstating Russia's economic power also seems unjustified given the lack of results in Hungary's Eastern Opening Policy. At present, the EOP is viewed as an economic failure since the government did not significantly increase its exports toward the East. In 2018, 18.2% of the country's exports were to Eastern countries, marking the lowest share since Orbán took power in 2010. In addition, even Orbán expressed frustration over the two countries' inability to strengthen economic cooperation despite political background being provided. The EOP's failure was also indirectly acknowledged by the government when it decided to redefine the official policy, now aiming to attract Eastern investment into Hungary without increasing trade ties with Eastern countries.

- **In contrast to the government's claim, dependence on Russia is likely to increase.** As the investment project remains high on the agenda of Russian-Hungarian relations, the Hungarian government consistently [argued](#) that the Paks NPP's Russian extension is needed to ensure Hungary's energy security after the old reactor blocks expire and achieve energy independence (production will be domestic). While the government considers energy independence solely from this viewpoint, **it disregards concerns that the investment project will increase Hungary's dependence on Moscow.** As of 2018, 75% of Hungary's oil needs and at least 60% of its natural gas use were covered by Russia, while gas imports almost exclusively came from Russia. **Dependence is also exposed by the tough conditions that the Hungarian government accepted,** including the financing agreement and repayment scheme, due to begin in 2026 regardless of whether construction work has even begun. The Russian side agreed to renegotiate the contract, but amendments would come at a high political price for Hungary, tying the hands of Hungarian foreign policy to a greater extent.

CONCLUSION

The Hungarian government's gradual turn toward a semi-authoritarian system allowed Russian influence to grow to unprecedented levels, reflected in strong political ties between Hungarian and Russian leadership. To maintain political relations, economic cooperation ultimately justified Russian involvement in Hungarian national interests by assuring Russian gas supplies to Hungary and developing the Paks 2 project. At present, the latter appears reinforced, reflected in the latest meeting between Russian and Hungarian government officials in December. This comes after crucial regulatory contributions [were made](#) toward the project, seen as important developments since the latest Orbán-Putin summit. First, the Hungarian government submitted a request to the Hungarian Atomic Energy Authority (OAH) for new nuclear power blocks. Second, another key regulatory body (Hungarian Energy and Public Utility Regulatory Authority - MEKH) greenlighted the project's implementation: an OAH permit is needed to ensure project safety, while MEKH's permission focused on supply security. **However, more than 6000 permits - technical, economic, environmental and energy - are needed to execute the project, meanwhile the Hungarian government only [secured](#) around 450.** The OAH approval is **by far the most significant since construction of the new nuclear blocks can only start if the authority says so.** The OAH is due to decide by July, 2021, however, it recently became more difficult for the regulatory body to give its final verdict as it reportedly suffers from labour shortages due to the current economic crisis. Speculation emerged after [a recent OAH report](#) about the Paks 2 investment's state of play was published in January, claiming that the Hungarian government might be stalling to overplay its position regarding the price. Behind the speculation was the interest rate (4-5%) stipulated in the original contract, deemed unfavorable for Hungary. **At present, the OAH is expected to make a decision by September, 2021, however, the process can be further stalled if the authority requests additional documents or clarification. During his last meeting with Russian officials in December, Orbán told Rosatom representatives that the construction could finally start in November 2021 if the project is greenlighted by the [Hungarian](#) authority. Nevertheless, given the delays in other, smaller-level permissions which the Paks 2 project company has not yet submitted, starting the construction in 2022 is a more likely scenario.**

While the OAH [highlighted](#) that current legislation prohibits the renewal of existing nuclear power blocks, it also dedicated part of its January report to the question, signalling that this could be possible moving forward.

As of December, 2020, a €320 million drawdown was made by the Hungarian government from

the €10 billion credit agreement with Russia, of which €248 million were prepaid to the latter. The Hungarian government's [financial support](#) towards the project was reinforced in mid-March when more than €122 million was added the subscribed capital of the project company, the largest increase to date.

While 2021 could be the project's defining year in light of the aforementioned OAH approval, controversies remain over the investments's benefits. Although parts of the Russian contract were published in 2019, the most important terms and conditions – price, payment scheme, scenarios in which the Hungarian side could be forced to pay an increased set of payments – are unknown. In 2015, NGOs and a group of opposition MPs turned to Hungary's Constitutional Court (CC), demanding constitutional supervision of a 2015 law that made most parts of the contract confidential for 30 years. Six years after the start of the inquiry, the CC [moved to dismiss](#) both petitions in late January, ruling that the government's Paks 2 agreement violates neither the Hungarian constitution nor the country's international obligations and that Hungary's national security interests justify the contract's classification. Recent experience [suggests](#) that the Hungarian government, its agencies and the project's company are secretive about media inquiries and requests for data. In 2018, the government [introduced](#) draft legislation to impede data requests. With the project's economic dimension under secrecy, the final project's price remains a key concern: it is assumed that a theoretical price increase of the investment would be covered by the Hungarian side rather than the Russian. The parts of the contract revealed in 2019 [envisage](#) Rosatom's guarantee for the project as three years, that is also unfavourable in a decade-long business project. In addition, according to former opposition MEP Benedek Jávor - [whose court struggle in 2019](#) made parts of the deal public, the contract does not protect the Hungarian side, indicating that Russia could heighten project costs due to delays or unforeseen expenditures from the Hungarian side. Another concern remains on future energy prices: if 2020 pushes green energy prices lower, Paks 2 could be a loss-making enterprise by 2030. Fears emerge that the project would need further aid as the green transition will be top of the agenda in the coming years.

As the project continues to be a priority for the Orbán government - the latter maintaining its lead in Hungarian politics - **there are two baseline scenarios about what to expect from the Hungarian side.** (1) **Should Fidesz remain in power after parliamentary elections in 2022, the project will continue , ensuring that Russia's influence over [Hungary](#) will provide opportunities for deepening bilateral relations. Under this scenario, the new nuclear power reactors could be operational around 2030, while the used VVER-1200 reactor technology also remains a key concern as the same reactor type, used for the Astravets NPP in Belarus, continues to be disputed by the European Parliament over safety concerns.**

In the case of continued support, lack of transparency will remain a key concern , recently evidenced by the contracts won by companies associated with Lőrinc Mészáros - gasfitter-turned-billionaire and one of Hungary's richest businessmen whose wealth is seen as an accomplishment of his decades-long relationship with the Hungarian PM. Among others, companies belonging to Mészáros's family also [won](#) public tenders for works related to Paks 2 **concurrent with [public scrutiny](#) of the Hungarian oligarch for winning overpriced contracts. A recent contract won by a Mészáros-affiliated company was also criticized for developing technical solutions for the project without an open public procurement call, while another company belonging to his business circle [was](#) the sole applicant as Paks 2's insurance broker.** (2) **However, should Orbán's party lose the 2022 elections, the Hungarian opposition - forming a more united front against Fidesz - is expected to revisit the government's contract since most opposition parties were against either extending the nuclear power plant or implementing the nuclear extension project with Russian assistance.**

Nonetheless, said revision (by the opposition) will meet obstacles both in economic terms and on the foreign policy front: the opposition could choose to opt out of the contract, resulting in economic

consequences and - most likely - an international lawsuit from the Russian government.