

General Discussion of the Country

Hungary is located in the eastern part of Central Europe. It has 10,2 million inhabitants living on 93 000 km². Its surface is rather flat as around half of the country's territory is a plain, while there are no mountains higher than 1000 m. From a natural resources point of view, Hungary is very poor. The only significant industrial mineral it has is bauxite. From an agricultural point of view, Hungary has excellent natural circumstances. From a regional development point of view, it is important to notice that ¼ of the population is living in the capital (Budapest), which in itself reaches the EU's average development level, while the rest of the country is far under it.

From the late 40s till 1988/89, Hungary was part of the Eastern, socialist block both from economic and political point of views and had a centrally planned economy with a one-party political system. Hungary was a member of the Warsaw Pact and of the Council for Mutual Economic Aid (COMECOM). After Hungary changed to a functioning market economy and a democratic political system, it became a member of NATO and of the OECD. Hungary applied for EU membership in 1994 and the long accession negotiations will shortly result in her full membership.

Due to the structural changes and rationalisation of the economy, the artificially significant heavy industry almost disappeared (causing long-lasting regional problems), the role of service sector rapidly increased. A significant proportion of the country's export is produced by some multinationals operating within the country.

► Other Energy-Related Developments

Hungary has decreasing natural reserves from non-renewable energy sources. The import dependency for energy is 70%. Within the total energy consumption, solid fuels accounts for around 15 %, oil around 30%, nuclear power for 13% and the majority of the rest is satisfied by natural gas.

Hungary's total primary energy supply (TPES) fell back to 1042 PJ/year by 1994 from the 1357 PJ/year peak of 1987, and has been stable at around 1050 PJ/year since then. It is important to note that despite the sharp decrease of industrial energy consumption, the residential sector's total energy consumption has been increasing, just like the total electricity consumption since 1995 (34 000 GWH/year)¹.

After structural changes, the huge energy efficiency potential of the industry started to be utilised under market pressure (e.g. between 1992-2000 70% industrial growth was achieved with 10% additional energy consumption decrease!²)

Between 1992 and 1997 a great part of the Hungarian energy sector was privatised. Many studies³ argue that the rapid privatisation was not managed and planned well. However there is an official energy policy, this is not updated and the legislation of energy sector is not necessarily in accordance with its principles, especially as far as

¹ Villamos Energia Statisztikai évkönyv 2000 (Yearbook of Electricity Statistics 2000), MEH, Budapest, 2001

² EU Enlargement Watch: The Role of Natural Gas in Europe, 2000, www.energiaklub.hu

³ Járosi,M- Pecz,E: EU csatlakozás és privatizáció (EU accession and privatisation), Püski, Budapest 2000,

environmental protection, security of supply and priorities issues are concerned. Due to the level of privatisation and the preparation for market liberalisation, the Hungarian legislation on gas⁴ ⁵, electricity⁶ and district heating⁷ were in place quite early (we do not analyse them here). Later these acts were changed⁸⁹. To regulate the market, an independent regulatory authority, the Hungarian Energy Office (MEH)¹⁰ was created. This is the most proactive and most developed regulatory authority in the region. The main problem with its operation is that the final pricing authority is the Ministry of Economic Affairs, which makes political decisions.

Quite controversial in the field of climate change, the MEH is the most proactive and we can say the most environmentally-friendly governmental body.

The main issue of energy sector regulation nowadays is the elaboration of operational rules for the electricity and natural gas sector in harmony with the EU and Hungarian market liberalisation plans. It is also crucial for RES promotion.

The EU accession process is quite controversial for the energy sector as well. It requires market opening, elimination of cross subsidies, free market on one hand, RES promotion¹¹ on the other hand. The 12% share of RES is not an easy task to achieve for Hungary. The mine – power plant integration (power plants have purchasing obligations for domestic solid fuel production), and the postponed shutdown of polluting solid fossil fuel combusting power plants hinder the changes in the energy sector towards a more secure and more sustainable one.

The Paks Nuclear Power Plant (the only one in Hungary producing 40% of the electricity) is heavily lobbying for its lifetime extension and capacity increase. It would of course decrease the level of energy security due to very limited diversification and would increase the risk level of nuclear catastrophe. Waste management costs and the cost of final shutdown would also increase, while hindering the sustainable energy system development.

The district heating sector, effecting ¼ of the population of Hungary, is the biggest problem that no government has touched effectively, yet. It also will happen sometimes before the predicted EU accession.

⁴ 1994 XLI Törvény a gázszolgáltatásról (XLI Act on Gas Distribution of 1994)

⁵ 1997 XX Törvény az 1994 XLI Törvény módosításáról (XX Act of 1997 on Changes of the XLI Act of 1994)

⁶ 1994 XLVIII Törvény a villamosenergia termeléséről, szállításáról és szolgáltatásáról (XLVIII Act of 1994 on Electricity Production, Transportation and Distribution)

⁷ 1990 évi LXXXVII törvény az árak megállapításáról (LXXXVII of 1990 Act on Pricing)

⁸ 2001 évi CX törvény a villamosenergiáról (CX Act of 2001 on Electricity)

⁹ 1998 évi XVIII törvény a távhőszolgáltatásról (XVIII Act of 1998 on District Heating)

¹⁰ The homepage of the Hungarian Energy Office www.eh.gov.hu

¹¹ 2001/77/EC directive of the European Council on Renewables