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From A(ngela) to V(ladimir)-

High-level visits in Budapest

by Edit Inotai and András Rácz

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Viktor Orbán and the Hungarian government have no reason to complain. 2015 begins with two high-class political visits to Hungary, dissolving the notion that Hungary has completely shut herself off from the world. Yet the two visits, German Chancellor Angela Merkel's in the beginning of February and Russian President Vladimir Putin's two weeks later, can bring the rather inexperienced Hungarian diplomacy into a delicate situation.

Short check-in from Berlin

The visit of Chancellor Merkel is a long overdue. She has not visited Hungary in the last five years, although the country was ruled by her political allies, the conservative Fidesz. This is rather unusual among political friends. She did not come last year for the 25th anniversary of the Pan-European Picnic, the historic opening of the border of Hungary, which is seen by many analysts as a sign of rather cold relations. Just to compare: during the last 5 years she has been to Poland at last 5 times and even found time for a visit in Kosovo in her calendar.

The planned visit on February 2nd will not last longer than 5 hours. She will meet the Prime Minister and the President, but spend the other half of the program at the German-speaking Andrassy University with students (to have an impression of what young people think and feel here) and with Jewish leaders at the Synagogue. Since the visit is basically organized by the German Chancellery and the German Embassy in Budapest, this is not a celebration of the Fidesz-government but a clear sign that Berlin is wary of the negative trends, e.g. the growing anti-Semitism in Hungary.

There are already a lot of theories and expectations concerning the visit. One strong view is that Chancellor Merkel is coming in the beginning of February to secure Viktor Orbán's support for prolonging the sanctions against Russia in the EU-Summit mid-March. She is aware that Hungary has become rather isolated lately, which is even aggravated by the tensions with the long-time ally and friend, Poland due to the Ukraine crisis. It is not difficult to notice the charm-offensive Hungary has started last year in Germany, trying to emphasize how important European values are.

Yet German politics has become cautious about Hungary, has learnt its lessons about double speech. Merkel has warned openly about the responsibility of the two-thirds majority, but she will not bring up the issue here, unless specifically asked by someone. The expectations of the Hungarian opposition that she will openly criticize the government are unfounded.

On the other hand, she expects Viktor Orbán to take important steps, and prove that the current Hungarian government really belongs to the European family: Merkel will bring up the question of the Ukraine and the



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special Hungarian-Russian relations. She will not be openly critical – Berlin has important interests in Russia and a very long tradition of political and economic cooperation – but she will point out that when a decision is made on a European level, all member states have to accept it.

Looking at the visit from the Hungarian side, Germany is basically the only partner we can still talk to. Hungarian government officials never get tired of pointing out that Germany is basically grateful to Hungary for being a good student in economics, having a prudent fiscal policy, promising (but only promising!) debt reduction. Hungary is also an important business partner, one quarter of our full foreign trade goes to Germany and 24 % of all investment came from Germany. 3000 German companies operate in Hungary, employing more than 300 thousand people. The relationship is very unequal, Germany being the number one trade and investment partner for Hungary, but Hungary ranking only as 19th. We depend more on Germany now than we ever depended on the Soviet Union.

Interestingly enough, German companies struck by the variety of special taxes show very little solidarity with each other. Thus there is no real pressure on the Hungarian government to change its course. The Hungarian government has found a perfect strategy to divide them: those working in the car industry are celebrated and nurtured by the government, all others are suffering (Magyar Telekom seemingly finding a new way of cooperation lately).

Viktor Orbán has also noticed that Germany has often similar interests as Hungary in the Ukrainian conflict: although Berlin voted for the economic sanctions, many businessmen and companies question them, making it clear that Europe has no interest in a weak Russia. Berlin is not very keen on having the Ukraine - 45 million people, living in huge inequality and the majority basically in poverty – in the EU, at least not in the next 10-15 years. One German source pointed out that the Hungarian government (intelligence) may have important information about the Russian intentions and troop movements in East Ukraine. Although many Hungarian government officials try to stress that Hungary can serve as a bridge between Germany and Russia, this was taken almost as a joke by many German officials, claiming that if somebody has a direct line to Moscow or to Putin, it is precisely Angela Merkel. The Hungarian theory of a new Cold War in Europe between the US and Russia was also dismissed by some German partners, making it quite clear, that even if there are disputes between Washington and Berlin, the German allegiance to the Western alliance cannot be questioned.

Unusual experience: a friendly Russian visit?

The forthcoming visit of Russian President Vladimir Putin to Budapest on 17th February is a subject of wild guesses. To understand the interest behind the visit and its possible outcomes we need to analyse the Russian and Hungarian perspectives separately.

From the Russian side, the visit has both symbolic and concrete political importance. Last time Putin visited Europe in the framework of a bilateral visit in summer 2014, when he went to Austria, but since then he has not been received anywhere, due to the radically worsening Russia-EU relations over Ukraine. Hence, he needs to demonstrate that there are still member states of EU and NATO, where he is welcomed.

The main purpose of the visit from the Russian side is probably lobbying for Hungary to veto the extension of the EU sanctions in March 2015. Though officially both Budapest and the Kremlin deny that this topic



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would be on the agenda, the timing of the visit is telling the opposite. In the beginning early March was communicated, but on 20th January it turned out that the Russian President is coming two weeks earlier, on 17th February. The time difference is most probably connected to the fact that the EU will vote on the extension of its sanctions against Russia in March 2015. Hence, if Putin wants to conduct some direct lobbying for a veto against the sanctions, he has to do it before March. Hungary is probably the only country in which he can still trust, since Russia's other regional ally, Bulgaria opted out from the South Stream project.

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In addition to this, Russia has a number of other interests, also of strategic importance. The biggest one is the Paks nuclear power plant project, the financial feasibility of which (namely the 10 billion EUR credit line from Vneshekonombank) may have become endangered due to the financial problems of the Russian budget connected to the fall of oil prices and the already introduced sanctions.

Besides, as the South Stream project is seemingly over, Russia needs to secure the transit of its gas through Ukraine more than ever. Because the Russian-takeover of the Ukrainian gas pipeline system is increasingly unlikely (at least at the present moment), the best Moscow can do is to secure significant gas storage capacities on the Western side of Ukraine, i.e. already inside the European Union. Thus if a supply interruption would take place in Ukraine (due to any reason) Gazprom would still remain able to deliver the contracted amounts of gas to its European partners from the newly acquired storages. Hungary has substantial unused capacity of storages, therefore the county is interested to rent or sell it to external operators, as their maintenance is expensive and built into the gas prices. According to the daily Világgazdaság, from April onwards, Gazprom could start storing up to 1.5 billion cubic metres (bcm) of gas in Hungary. It said this request had been made by Foreign Minister Péter Szijjártó during a visit to Moscow in December last year, where the stability of Hungary's gas supply was also on the agenda.

All in all, it would be surprising if gaining either the ownership or control over some of Hungary's gas storage facilities would not be on the Russian agenda. The fact that in the Hungarian state budget for 2015 there is a mysterious income titled "sale of state property" in the value of 169 billion HUF, about which no public explanation was given so far. Actually it may well be the price of a gas storage facility, though this cannot be verified due to the complete non-transparency of the Russia-policy of the Orbán-government.

What are the concrete Hungarian interests behind receiving the Russian President? With other words, what are cards in the hands of Putin? First and foremost, Hungary will soon need a new gas contract. The price of natural gas is of crucial importance for Orbán, because his main political achievement, the utility price reduction ("rezsicsökkentés") depends on it. Second, allegedly some officials on the highest level of the Hungarian government are profiting from the functioning of the MET as an intermediary in gas import. The profitability of MET – meaning also the incomes of the Hungarian politicians involved - also depends on the price that Russia gives them.

Third, the Paks agreement is a lucrative opportunity for those construction companies that get invited to the project, and there are a number of oligarchs around Orbán who would like to get their shares of this gigantic business (all in all, Paks will costs more than 3200 billion HUF, that is equal approximately to the one-fourth of Hungary's annual budgetary income.)



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Fourth, the reconstruction of the cars of the Budapest subway line is also likely to be on the agenda. Though the public procurement tender is not closed yet, and there are many applicants, Russian company Metrovagonmash – the successor of the original manufacturer of the subway cars used in Budapest, the Mit'ishinsk Machine-building Plant – is a more-than-strong participant. The recent visit of Budapest mayor István Tarlós to Moscow (about which no credible explanation was given) seems to strengthen the argument that finally the Russian company will get the contract. The way how Metrowagonmash is likely to get favoured is probably that Budapest will look not only for a manufacturing company, but also for a parallel credit line covering the price of the work (just like it was done in the case of Paks). While major Russian companies are usually able to provide this through their strong connections to the state, their Western competitors are not.

Concerning the final outcome, it is highly unlikely that Hungary would actually veto the EU sanctions, regardless of how strongly Putin is going to push for it. Such a move would kill all the remaining credibility of Budapest in the West, and would harm the country – and its ruling elite - too much in too many ways. However, in order to compensate Russia about the sanctions, Budapest is likely to give in in the other issues, regarding primarily the gas storage facilities. In exchange, Orbán will probably get a favourable gas price – not because Putin would either like or trust him, but because the gas price means a constant leverage over Budapest and Moscow surely does not want to lose it.

After the visits...

Those who think that Hungary will choose a clear path to follow are probably wrong. The fact that these two meetings happen right after each other already suggests that Hungarian "multivectorial" foreign policy continues.

The Hungarian government is well aware that its position in Brussels mainly depends on Germany's good will, therefore Budapest is very likely fulfil the minimum requirements of Berlin regarding the democratic record, EU sanctions on Russia, and about creating a more predictable business environment.

Ms. Edit Inotai is a journalist and a Senior Fellow at Centre for Euro-Atlantic Integration and Democracy (CEID)

Mr. András Rácz is a Senior Fellow of the Finnish Institute of International Affairs and Board-Member of the Centre for Euro-Atlantic Integration and Democracy (CEID).

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