Island in the Neo-liberal Stream: Energy Security and Soft Re-nationalisation in Hungary

Corresponding Author: Rico Isaacs, Oxford Brookes University, Department of Social Sciences, Gipsy Lane, Oxford, OX3 0BP UK ricoisaacs@brookes.ac.uk

Co-Author: Adam Molnar, Independent Energy Analyst, London, UK adam.mol89@gmail.com

Since 2010, the Hungarian government has increased its stake in the country's energy sector at the expense of foreign-owned energy companies. This 'soft re-nationalisation' is driven by both exogenous and endogenous factors especially the country's external dependence on gas imports, its previous commitment to a European model of energy liberalisation, public dissatisfaction with high energy prices and the emergence of an 'illiberal state'. The case of Hungary's 'soft re-nationalisation' yields two central findings. Firstly, conceptually there is a need to move away from just focusing on the radical re-nationalisation of energy in the form of resource nationalism, and instead understand re-nationalisation as a consisting of a broad spectrum of state interventions into the energy market. Secondly, Hungary's recent 'statist turn' in the energy sector highlights inherent tensions within EU energy policy as it threatens attempts to establish a fully liberalised and marketised energy market across the continent.

Introduction

The literature on the re-nationalisation of energy has tended to focus on the concept of resource nationalism (Vivoda 2009; Stevens 2008; Partlett, 2008; Bremmer and Johnston 2009; Kennedy and Nurmakov, 2010; Domjan and Stone, 2010). Resource nationalism is understood to be the process by which states, through Nationalized Oil Companies (NOCs), pursue 'policies that are intended to increase state control over natural resources vis-à-vis private actors' (Nurmakov, 2009: 20). However, this literature tends to neglect other forms of the re-nationalisation of energy, instead only focusing on how resource-rich states seek to re-nationalise formerly privatised (and foreign-owned) segments of their energy sector, and how this impacts international energy security and the profits of International Oil Companies (IOCs). What is emerging as part of a broader pattern of re-nationalisation are examples where national governments are seeking to increase state-control over their energy sector (whether they are resource-rich states or not) often at the expense of private actors (often partially or wholly foreign-owned), as well as seeking to regulate energy prices. The Argentinian government's take-over of the nation's largest oil company YPF, the return of the power grid in the German City of Hamburg to public ownership, a proposed new public body to buy wholesale energy in New Zealand and caps on energy prices in Spain are examples of this emergent trend of what has been termed soft re-nationalisation (Stagnaro, 2012).

The most prominent case of soft re-nationalisation is occurring in Hungary, and it demonstrates how the European Union now faces a challenge to its commitment to a liberalised and privatised energy sector from one of its member states. Hungary's efforts of deconstructing its domestic energy market and re-asserting the role of the state, however, has to be understood in the context of a broader policy shift. Since returning to power in 2010, at the head of a Fidesz-led coalition, Hungarian Prime Minister Viktor Orbán has pushed forward a populist policy agenda which has seen a fundamental shift in the political economy of the country. The government's policy has been driven towards increasing state control over strategic sectors and resources including finance and banking, land, and water management. This has included a shift in energy policy in which the state has increased its stake in the energy sector while also slashing energy prices for household consumers. The cost is being borne by foreign-owned energy providers by simultaneously regulating prices, thus decreasing their profit, and forcing suppliers to sell shares to the state at a lower price. Hungary, however, is resource poor and reliant on energy from external actors, primarily Russia. Consequently, the government is uprooting the liberalisation and privatisation of the energy sector which occurred in the 1990s. The Hungarian government's view is that only through increased state involvement in the energy sector will the country's energy security be assured and consumers protected from excessive price inflation.

This article makes three fundamental contributions to our understanding of the re-nationalisation of energy. Firstly, in theoretical terms it suggests that we need to understand the re-nationalisation of energy as a broad spectrum. Too often the tendency within the literature has been to focus on the aggressive resource nationalist cases of Russia and Venezuela (Bremmer and Johnston, 2009). This marginalises softer forms of re-nationalisation of energy such as is taking place in Hungary. The resource nationalism literature also assumes that processes of re-nationalisation of the energy industry only takes places in resource-rich states. The case of Hungary, like the cases of Bolivia and Argentina, demonstrates it also occurs in net-energy importing states too (Lewowicz, 2015; Lefebvre and Bonifaz, 2014).[1] By re-conceptualising the re-nationalisation of energy as a broad spectrum we move away from the normative undertones present in the resource nationalism literature as well as allowing for a broader conceptual palette through which to make future cross-national comparisons. Secondly the article proposes we move on from existing models of studying the re-nationalisation of energy, which focus mostly on the international energy market, to a more comprehensive model which still includes international drivers but also takes account of domestic politics and broader geopolitics. In the case of Hungary, the article argues that the soft re-nationalisation of energy has been driven by exogenous factors (dependence on Russian gas and ideological dominance of a European neo-liberal model for the energy sector) and endogenous factors (liberalisation of the energy market in the 1990s and the new statist project against liberalisation from 2010 onwards). . Thirdly, the case of the soft re-nationalisation of energy in Hungary illustrates in empirical terms a wider shift underway in the political economy of the country towards a statist form of capitalism

However, increased state intervention by the Hungarian government challenges the neo-liberal paradigm underpinning the EU.

The article is broken into four sections. Firstly, it puts forward a theoretical and analytical framework for studying soft re-nationalisation of energy. Secondly, it addresses the exogenous and endogenous factors driving greater state intervention in the energy sector in Hungary, especially the development of the so-called 'illiberal state'. Thirdly it discusses the actual process of soft energy re-nationalisation in Hungary. Finally, it analyses the consequences for EU-Hungarian relations and the extent to which the phenomenon of soft re-nationalisation of energy extends beyond the Hungarian case within Europe.

Theorising and Analysing energy re-nationalisation

This section discusses how we can best conceptualise and analyse instances of resource re-nationalisation. Conceptually, often a government's move towards a statist model for the energy sector is inextricability tied to perceived notions of energy security. Understood as

[1] It should be noted that while there has been the emergence of some online analysis related to the soft-renationalisation of energy in non-exporting states in recent years, there has been no discussion in mainstream scholarship. When it comes to the re-nationalisation of energy scholarship focuses on resource nationalism in energy exporting states.

ensuring an available, reliable, affordable and sustainable supply of energy to meet a nation-state's needs, energy security can mean different things for different actors (Pascual and Elkind, 2010: 121; Yergin, 2012: 268; Bordoff, Manasi and Pascal, 2009: 214). Moreover, energy security is not limited to nation-states, despite the implicit realist assumption in much of the literature (Hadfield, 2008; Alhaji, 2008). Rather, energy security is also an issue for IOCs and individuals. Therefore, we can make the distinction between physical energy security tied to a state's need to guarantee effective supply and the personal energy security of individuals in relation to their ability to access and afford their energy needs. Re-nationalisation programmes, therefore, are often linked to the perceived nature of energy security at both the state and the individual level.

Resource nationalism has been the major focus when examining the impact and effects of re-nationalisation within the energy industry. There is, of course, a qualitative difference between incidents of resource nationalism and soft re-nationalisation. Soft re-nationalisation is distinct in that industries and assets are paid for and not re-appropriated, albeit, they are paid for at a depressed price (De Clercq, 2014). In cases of resource nationalism, states can take direct control of energy companies by forcing the renegotiation of contracts, nationalising current or future shares, and expropriating assets, all without recompense for IOCs (Jones-Luong, 2010: 2). Soft re-nationalisation, on the other hand, can often entail an-incomplete take-over of a foreign-owned asset. However, host governments can also place constraints on foreign investors' ability to make profit.

While Bremer and Johnston (2009) provide a disaggregated typology of state-led resource nationalism which reflects different levels of its intensity (revolutionary, economic, legacy and soft), rather than using the broader concept of re-nationalisation, they still employ the term resource nationalism. This is significant because often the term 'resource nationalism' is associated with more 'revolutionary', direct and compensation-free examples of re-nationalisation undertaken by resource-rich states. Consequently, this marginalises exploration of other forms of re-nationalisation which are less direct or obviously harmful to the profits and interests of IOCs, and which can take place in net-energy importing states (Stevens, 2008: 5-6; Mares, 2010; Partlett, 2008; Nurmakov, 2009).

Therefore, this article proposes we re-conceptualise re-nationalisation as a broad spectrum which can range from hostile take-overs of foreign-owned assets at one end of the scale to softer subtle tactics for states to take greater control of the liberalised energy market by seeking price controls and/or through IOCs paying additional royalties and taxes (Mares, 2010: 7). While soft re-nationalisation is qualitatively different from more radical resource nationalist policies, at the same time it exists as part of the same phenomenon – increased state control in the domestic energy sector – and can involve a range of policy prescriptions. At one end the spectrum we have the example of Hungary, whereby the state seeks to re-nationalise key components of the energy sector through to tactics such as price controls, limits on profits and the gradual purchase of shares in private companies. Besides Hungary, the Argentinian government's move towards price controls in the electricity market is a further example (Haselip and Potter, 2010). In the middle of the spectrum states seek to renegotiate or renege on existing contracts with foreign energy companies in order to secure a better share of the profits during periods when the oil price is high. An example of this would be Kazakhstan's efforts to renegotiate with Western oil companies signed up to the development of the Kashagan oil field to the benefit of the state company Kazmunaigaz (Nurmakov, 2009). At the 'hard' end of re-nationalisation a state pursues more direct hostile take-overs of foreign owned energy companies and do so often at below-market prices or offering no compensation at all. Two notable examples of hard re-nationalisation are the Russian state's take-over of Yukos in 2004 and Venezuela's stripping of operational control from foreign companies in the Orinoco Belt in 2007 (Kennedy, 2011: 5). Figure 1 demonstrates the soft to hard re-nationalisation spectrum.

Figure 1 to go here

To conceptualise re-nationalisation as a spectrum in this form overcomes the normative laden term 'resource nationalism'. Resource nationalism tends to get adopted by scholars to depict re-nationalising practices of energy in states which are often viewed as the anathema to 'good' liberal-based capitalist market democracies. By re-conceptualising re-nationalisation as a spectrum we can understand the varied forms of policies and practices and levels of intensity at which state-based interventions into the energy sector can occur.

The case of Hungary demonstrates that re-nationalisation does not just happen in resource-rich states. Again, the literature has tended to assume that re-nationalisation of energy is undertaken by states who are wealthy in natural resources (oil, gas, minerals etc.) such as Russia, Kazakhstan and Venezuela (Stevens, 2008). However, as the example of Hungary illustrates states can seek to re-nationalise their energy market despite not being well-endowed with natural resources. The liberalisation of the energy market in European Union member states from the 1990s onwards opened up the domestic markets to foreign investment and ownership. When energy prices outstrip the ability of domestic consumers to pay, or at the very least place considerable economic pressure on consumers, states will then potentially seek to step in vis-à-vis foreign companies to regulate prices and limit the ability of foreign companies to take profit out of the country.

When it comes to developing an analytical model for explaining what drives the re-nationalisation of energy emphasis is often placed on exogenous price cycles in the global oil market or broader ideological trends (Vivoda 2009; Stevens 2008; Partlett, 2008). Oil prices are perceived to affect the relative bargaining power between host countries and IOCs (Vivoda 2009: 518-519). Market conditions in which prices are high allows states to create more favourable investment conditions for NOCs by re-drawing contracts and extracting higher taxes and royalties (Partlett 2008). On the other hand, in a period when oil prices are low relative bargaining power shifts to IOCs. Termed the Obsolescing Bargaining Mechanism (OBM), initially the 'government in the developing country has neither the capital, technology, nor risk spreading ability to extract resources from the ground', and thus IOCs are in a powerful position vis-à-vis the national government given they possess the investment capacity and technological expertise (Vernon 1971; Partlett, 2008: 3-4). The assumption is that once the initial period of investment is over nation-states will then seek to capitalise on profits pushing out IOCs. However, it is argued that a protracted period of state-led control of resources 'inevitably leads to less investment and a shortage of crude oil' (Stevens 2008: 27). The process of OBM then begins again as national governments require foreign investment in production capacity.

While the OBM model has some analytical utility it possesses three flaws. Firstly, its focus on the international context driving re-nationalisation overlooks the domestic political and economic context. As Domjan and Stone (2010: 36) have noted, greater state involvement in the energy sector in Russia and Kazakhstan has been driven by differing domestic policy concerns and not necessarily by the pirouettes of the international oil market. Secondly, OBM does not differentiate the varying forms of re-nationalisation. As noted above, re-nationalisation can be considered as a spectrum of different policies and actions on the behalf of governments in relation to its energy sector.

Thirdly, the concern within much analysis is the impact increased state control has on IOCs; and the lack of compensation provided to them, rather than how governments understand their actions as a 'public good' to alleviate individual energy security. The squeezing out of IOCs in frontier and emerging markets is noted as being a spectre and threat to foreign investors (Pierce, 2011). While of course there is nothing inextricably false about such claims, indeed re-nationalisation is often a threat to the investment interests and profits of IOCs (especially with harder variants of re-nationalisation); the focus, however, tends to be on one-side of the distributional logic of re-nationalisation; in the adverse effects to foreign investors, companies and IOCs rather the how host governments believe that the liberalised energy market places strain on the personal energy security of its citizens, and therefore re-nationalisation polices are perceived by these governments as a 'public good' (Tertzakian, 2006).

In analytical terms it is necessary to move on from the OBM model. Building on the work of Domjan and Stone (2010) this work proposes an analytical framework which takes into account both exogenous and endogenous factors for explaining the drive towards re-nationalisation of the energy industry and market in Hungary. Both domestic and international factors need to be examined to explore the move away from a neo-liberal model for the energy market to one predicated on a form of state capitalism. A non-importing state's energy security is conditioned by its dependence on exporting states, and this is especially the case with Hungary in which it is tied to long-term gas deals signed with Russian gas providers and existing pipeline infrastructure. At the same time, a state's energy security is constrained by prevailing ideological trends; since the 1990s this has been a commitment in the EU, at least, towards a liberalised and privatised energy sector (Stevens, 2008). In the domestic context, the Hungarian government's perception is that the liberalisation of the energy market places increased pressure on consumer prices and escalates energy poverty. Therefore, governments can respond by: re-interpreting energy as a 'public good'; taking majority stakes in previously privatised companies; regulating private companies; subsidising prices; and introducing trade restrictions (Mares. 2010). In this way state actors seek to re-assert agency over constraining exogenous factors in shaping the state's energy security. However, in the case of Hungary increased state control of the energy market and industry has gone hand in hand with a larger process of state involvement in the economy, leading to a form of state capitalism, and is connected to a broader populist policy shift which centralises power in the state and undermines the European Union ethos of the liberal state. Therefore, the re-nationalisation of energy is part and parcel of a 're-imagining' of the state and its role in Hungarian political and economic life as well as a process of greater centralisation of political and economic power in Viktor Orbán and Fidesz. Drawing on key policy documents and speeches of the Orbán government, and an analysis of Hungarian and international media sources, this article applies this framework (see figure 2) to recent developments of energy re-nationalisation in Hungary.

Figure 2. to go here

Exogenous context - Hungary's geopolitical position

To comprehend Hungary's move towards soft-renationalisation within the energy sector it is important to first understand the country's geopolitical position and how this has affected the Orbán government's drive towards greater centralisation. Hungary imports 75% of its natural gas demand and 87% of its oil demand (IEA, 2012: 2-4 & 17). Over 80% of its gas imports derive from Russia, with smaller amounts coming from other former Soviet states such as Turkmenistan (IEA, 2012: 7; HEO, 2012, 73). Natural gas is significant because the residential sector accounts for roughly 35% of total gas demand; and therefore affordable and reliable supply of energy is of paramount importance to households in the cold winter months (IEA, 2012: 17; Hegedűs, 2013). This dependence has in the past created political and social pressure on the Hungarian government. The Russia-Ukraine supply disruption crises of 2006 and 2009 impacted supply driving up domestic prices in Hungary and contributing to an increase in energy poverty (see below for more detail on energy poverty and prices in

Hungary). Since then, however, the Hungarian government has sought to militate against this energy dependence by increasing and investing in storage capacity and in considering various options to diversify supply routes and develop cross-border connections with neighbouring countries (see below) (IEA, 2011).

The above underlines the precarious nature of Hungary's energy dependence on Russia and its impact on the domestic context, especially household bills. This is why the diversification of gas supply has been a priority for the Hungarian government, but a priority which has not been adequately met. There is a continuing reliance on the Brotherhood pipeline (the connecting pipeline infrastructure between Russia and Hungary), and the alternative pipeline used is the HAG which is via Austria, but the gas is mainly of Russian origin (IEA, 2012: 17; Hegedűs, 2013). Arguably, the diversification of gas supply is a high priority given this dependence on Russia, and for a large part this has underpinned the soft-renationalisation of energy in the country (see below). Despite this, Orbán's government has sought to move closer to Russia in relation to longer-term energy projects and also by using the centralised, authoritarian political system developed by President Putin as an inspiration for a governing model. Much of this shift towards Russia, however, has been driven by a desire for the Orbán government to differentiate it from the other major exogenous agent which has shaped Hungary's energy dependence in the last twenty years: The European Union.

Hungarian energy policy has been shaped by its commitment as an EU member state to the Energy Charter Treaty (ECT). The ECT represents an international regime which prioritises market liberalisation, privatisation and free trade as means to ensure energy security. Principally, the ECT seeks to protect investment in the European energy sector, promote cooperation through open markets, remove barriers to ensure freedom of energy transit across borders (to avoid supply disruption), oversee dispute settlement and ensure energy efficiency and environmental protection (Konoplyanik and Wide, 2000). As an international regime, the ECT was borne from the EU's desire to overcome its energy dependence by establishing a system of rules and norms by which it could restrain both member states and non-members, especially those states whom the EU relies upon for its energy supply (most notably Russia). Additionally, the ECT provided an overarching philosophy that member states' (and those from the post-socialist CEE desiring to join in the 1990s) energy security could be achieved through a commitment to the privatisation of the energy sector and liberalisation of the market.

Endogenous Context: Liberalisation of energy market in the 1990s

The privatisation and market liberalisation of the energy sector in Hungary has been reviewed and discussed extensively (Bakos, 2001). The aim here is only to provide a brief overview of the process to demonstrate how it acts as a driver on domestic decision-making for Hungary's recent re-nationalisation of the energy sector and how it influenced the rise in household energy prices which in turn put pressure on the government to regulate prices

Beginning with the 1995 Privatisation Act, most components of Hungary's energy market from gas production, transport and distribution, to gas fired power plants which produce electricity, were sold off. As part of this process, shares were directly sold to international investors (Takács, 2002). European multi-national companies such as Germany's E-ON and RWE, the Italian ENI and French companies EDF and GDF claimed large stakes in Hungary's domestic energy market. All electricity and gas supplier companies were held in the hands of international investors via majority ownership or management rights. Moreover, through their subsidiaries, many of the foreign-owned companies took large stakes in the operation of power stations and distributional networks (HEO, 2012). Nonetheless, the Hungarian government sought to maintain a 'golden share' in most of the power sector and maintain a small stake in generation, distribution, and transmission companies (World Bank, 1999: 5).

Arguably, privatisation took place in order to quickly reduce the Hungarian budget debt during the economic transition in the 1990s. The supporters of privatisation – led by Gyula Horn, Prime Minister of a Socialist led coalition - advanced the argument that the Hungarian energy provider system was so anachronistic that without investment the country's energy security would have been undermined. Fidesz, under Orbán, emerging as a major political force during this period, believed the sale to be too fast and ill-considered; believing assets were sold at too low a price; and that other sources could have been used for the non-deferrable investments (Zulik and Balogh, 2013).

Attila Chikán summarized the privatisation process in Hungary as producing a clash of ideologies (Zulik and Balogh, 2013). One side urged complete market liberalisation, while the other was lobbying for the retention of a share of state ownership. The result, however, was a mixture of both private and public ownership which clearly impacted on consumer prices. Between 2000 and 2007, Hungary was in the top 3 EU countries for gas (110%) and electricity (75%) price rises (Tirado Herrero and Urge-Vorsatz, 2010). The price rises, however, place Hungarian gas and electricity pricing in line with other European countries. In 2005 domestic users in Hungary had the lowest price for end-user gas in Europe, the rising of the price brought them in line with market levels across Europe. In 2005 Hungarian gas consumers were paying 1.01 pence per kWh of gas compared to 2.04 in the UK, 2.42 in Italy, 1.71 in the Czech Republic and 4.34 in Portugal. By 2009 this had risen to 3.23 for Hungarian domestic end users (Department of Energy and Climate Change, 2013: 70). While other European countries were subject to rises too, they were not as significant as in the Hungarian case because prices in Hungary were already starting from a lower position.

Hungary therefore remains below average in terms of domestic gas prices across Europe, and well below the most expensive countries for end-user gas prices such as in Sweden, Denmark, Italy and Portugal (Vaasa ETT, 2013). There is a similar trend in relation to electricity prices too in that while there was a large jump in prices from 2005-2009 this only brought Hungary more in line with the general trend for domestic users in Europe (Department of Energy and Climate Change, 2013: 64). The impact of these rises, therefore, was driven by a number of domestic factors: the increase in VAT; further investment in storage capacity and earlier subsidies and domestic regulation for energy prices dating back to the 1990s (Tirado Herrero, 2013).

Survey data on the financial and living conditions of Hungarians, however, estimates that the net energy burden on households between 2000 and 2007 was 10%, which suggests that the average household could be defined as fuel poor (Tirado Herrero, 2010: 11-12). Furthermore, as of May 2012, Hungarian households owe 143 billion HUF in unpaid electricity and gas debts (Origo, 2012). This breaks down as: 1.7 Million households owing 46.5 billion HUF for electricity; 986,000 households owing 70.5 billion HUF for gas; 316,000 households owing 26 billion HUF for district heating. This debt also stretches back over a significant period of time. 248, 000 households' debt dates back 91-180 days; 229,000 181-360 days and

506,000 for more than 361 days. Furthermore, large numbers have also seen their energy supply cut off (Origo, 2012). This elucidates the social costs of such an escalation in energy prices, and how this has influenced the Orbán government's decision to develop the regulation of prices.

Therefore, a combination of factors led to prices increases. Hungary's resource dependent geopolitical position is a factor, but the debate over market liberalisation and privatisation within the country demonstrates that domestic factors have a large role to play too; especially around the failure to promote greater energy efficiency in households due to prices initially being held down during the 1990s. Indeed, as will be demonstrated below, whether one-side of the debate is right or not, the Fidesz coalition has clearly sought to lay the blame at the feet of foreign energy companies. Hoping to assuage public anxiety over prices the government has moved to re-assert the state's control over the energy sector believing it can alleviate both high prices for consumers and the country's dependence on external actors at the same time. However, soft re-nationalisation needs to be understood as part of a much larger domestic political project which has sought to completely re-imagine the Hungarian State. This is what Orbán has proclaimed as the development of the 'illiberal state' (Simon, 2014).

The 'illiberal state' in Hungary

The emergence of the 'illiberal state' can be characterised by five main features. First, the 'illiberal state' has been underpinned by an interpretation of history which criticises the 1920 Treaty of Trianon which saw the Kingdom of Hungary secede parts of its territories to neighbouring states. This is important as it envisages a Hungarian state which seeks to protect Hungarians who have historically resided outside of its borders as a consequence of the Treaty (Bozoki, 2012). This ethno-national discourse, partly a response by the Orbán government to the electoral success of the far-right Jobbik party, directly challenges the multi-cultural liberalism of the European Union project and raises the spectre of the state playing a larger role in protecting Hungarians living abroad.

The second element is a discursive narrative which seeks to roll back the perceived liberalism of the post-communist period. The European model of neo-liberal economics and austerity is rejected as the solution to overcome the economic paralysis that affected Hungary as part of the global recession from 2008 onwards (Djankov, 2015). Orbán declared in 2012 that

‘Hungary should decline the European Union’s way of tackling the crisis. If we carried out steps that Brussels bureaucrats recommend us, we would harm the nation…Hungary needs to stick to its own path’ (Gulyas, 2012). The idea of the ‘illiberal state’ concerns rejecting the commitment to individualism which has underpinned the development of liberal states in Europe. Orbán has noted how ‘the Hungarian nation isn’t simply a group of individuals, but a community that must be organised, reinforced and constructed’ (Orbán, 2014). Evidently, it is the state that is to play this role of chief organiser and enforcer.

The third characteristic is the centralisation of power in the ruling Fidesz party. This has included changes to the Foundational Law in 2011 which strengthened the power of the executive, notably in terms of the control it gives the executive over judicial appointments leading to non-Fidesz supporting judges being replaced with more compliant figures (Berend and Clark, 2014: 20; Gostyńska-Jakubowska and Bond, 2014). Steps were also taken to overhaul the electoral system to favour Fidesz and to place greater restrictions on media freedom, both of which have closed down the space for political opposition to Orbán and the Fidesz-led government (Norweigen Helskinki Committee, 2013: 22).

The fourth element pertains to a statist form of capitalism which focuses on increased nationalisation of private (and often foreign-owned) companies and assets, and greater regulation of commodities prices. While the impact of this statist turn on the enegry sector will be discussed in detail below, energy companies are not the only economic institutions to be nationalised or face state regulatory pressure. Since 2010 the Hungarian government has nationalised: mandatory private pension schemes, nominally to cover a reduction in the fiscal deficit to 3%; and the Hungarian credit union Takarekbank. It has also taken greater control of the Central Bank and undertaken a commitment for the state to take a 50% stake in the Hungarian banking sector, of which 13% of private (and mostly foreign) bank assests have already been transferred to state ownership (Djankov, 2015). In regulatory terms a significant tax burden has been placed on foreign owned banks. A bank levy introduced in 2011 at 0.6% of a bank’s total assets is the highest in Europe (although this is due to be reduced to 0.31%) (Portfolio 2012a). Additional taxes were also levied on insurance companies, the retail trade, the food trade, tabacco manufacturing and advertising (Kinga, 2014; Djankov, 2015: 5).

Finally, state intervention has not translated into a committment to an all encompassing welfare state. Rather it is the opposite. The Fidesz-led goverment inherited a debt-to-GDP ratio of 80.2 percent and a very large benefits system, believed to be biggest in the region (Járai, 2011). Reform of welfare through a flat tax, target-based social benefits, and reforms to health insurance and pensions have all been directed towards driving people back into the labour market. It is what Orbán has termed 'the work-based state' taking its cues from successful authoritarian and non-liberal states such as Russia, China and Singapore (Orbán, 2014). However, it is the state which is the principal actor in these reforms, not the private sphere and not foreign companies who are being marginalised and pushed out of the country.

These processes of political and economic centralisation amount to a recasting of the role of the state as an interventionist actor which is in tension with the liberal free market paradigm pursued by the European Union. It is important, therefore, to see the statist turn in Hungarian energy policy as part of a broader policy shift initiated by Orbán's government related to a re-activation of the state in the economy. The remainder of this article will explore how this revitalized role of the state has manifested itself in relation to the soft re-nationalisation of energy.

Re-enter the state: re-defining defining energy security as a 'public good' and the soft re-nationalisation of energy in Hungary

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After their election in 2010, the new Fidesz government moved quickly to conceptualise energy as a 'public good' of primary national interests in the National Energy Strategy 2030 (NES) (Kormany.hu, 2011). This included: guaranteeing the security of supply for residential, business and industrial consumers as a national interest in accordance with the least cost principle and in relation to environmental efficiency; increasing the enforcement of Hungarian energy policy interests over those at the EU level; the integration of Hungary within the Central European energy grid network; and a commitment to increasing energy savings and efficiencies (Kormany.hu, 2013; Bencsik, 2011). These commitments represent a shift in Hungarian policy-making towards a greater role for the state in the energy market in terms of increasing ownership and as regulator of prices and a reclamation of sovereignty over energy policy. Indeed, the motto of NES 2030 is ‘becoming independent of energy dependence’.

Increase in state ownership

In 2011 the state bought back a 21.2% share in the MOL Hungarian Oil and Gas Company Plc (MOL) for 1.88 billion Euros from the Russian company Surgutneftegaz. The government used a loan taken from the IMF by the previous government to fund the purchase. This 21.2 % stake complemented an already existing state share of 2.4% which it acquired through the nationalisation of private pension funds in 2010 (Origo, 2011).

MOL has a central role to play in guaranteeing the government can bring down consumer prices, given it is the owner of the country’s refinery capacity. Additionally, MOL is a shareholder of the Natural Gas Transmission Closed Company (FGSZ Ltd.), the only company with a natural gas transmission and system operation licence, and which has the right to transport gas to Serbia and Bosnia-Herzegovina as well as transfers to Romania and Croatia (Portfolio, 2012). The company’s regional role extends further as it is the majority owner of the Slovakian Slovnaft, Croatian INA and Bosnian Energopetrol oil and gas companies.

The Hungarian state’s increased stake in MOL is the first step towards the creation of a NOC, despite MOL only possessing an insignificant quantity of gas and oil. However, the company is best understood as a hybrid NOC-IOC based on a mixed-market approach of both state and private financing (Vivoda, 2009). Despite the Hungarian state’s increased role, the company remains an open public entity incorporated in the stock exchange, in which the state is only the second largest shareholder alongside many foreign investors (MOL, 2013). Nonetheless, MOL has paid significant dividends to the state of 11.3 billion HUF in 2012 (Portfolio, 2013).

MOL was only the first step in a re-assertion of state sovereignty over the energy market. The Hungarian state already possessed 99% ownership of MVM Hungarian Electricity Ltd (MVM). The MVM Group is: the owner of the only Hungarian nuclear power plant (Paks), which provides 45% of the country’s electricity supply; the dominant electricity wholesale trader (82 percent of the total market); and is heavily invested in the retail market too. The transmission grid in Hungary is owned by MAVIR Ltd., a subsidiary of the MVM Group

(MVM, 2013). In 2011 the government began expanding the company's role into the natural gas wholesale and retail trade. A component of this has been MVM's purchase of E.ON Földgáz Trade, and E.ON gas Storage for 870 million Euros in September (Portfolio, 2012). The contract included the purchase of E.ON's gas storage units, the licenses for the long-term contract which regulates the Russian-Hungarian gas transmission, and an optional purchase of E.ON's share holdings in Panrugáz Zrt, which is Gazprom's trader in Hungary. In 2011 the government delegated 40% of the management of the HAG pipeline's capacity to MVM, thus privileging the company in access to spot-market gas supplies. Moreover, a MVM subsidiary received 50 billion HUF for the construction of the Slovak-Hungarian natural gas interconnector, while MVM also represented the Hungarian state in the now defunct South Stream project, and the AGRI construction project (MOL, 2013).[2] In addition, the country's remaining gas storage facilities were taken over by the state-owned Hungarian Development Bank (MFB) in January 2014 for a reported 140 Billion HUF (Origo, 2013; Index, 2013; Hvg.hu, 2014). MFB bought the remaining storage capacity on behalf of the state because if it had been purchased by MVM it would have contravened EU competition law (Index, 2013b).

The Hungarian state also purchased FŐGÁZ, from German RWE. FŐGÁZ supplies gas for 820,000 households many in the capital, Budapest, and holds 5000km of pipeline network, plus it has a license for gas wholesaling. The 50%+1 vote was in the hands of the capital's municipality, but management rights were controlled by RWE (49.83%). This share was re-nationalized by MVM at the end of 2013 for a price of 41 billion HUF (Napi, 2013).

The taking over of formerly privatised and often foreign-owned companies is emblematic of soft re-nationalisation in Hungary. The government's rationale for such moves is that it is representing the national interest in terms of reducing Hungary's energy dependence and aiding their belief, perhaps misguided[3], that they can turn the country into an important strategic hub for energy in the Central Eastern European region. However, it is also using the

[2] The AGRI is a proposed project to transport gas from Azerbaijan through Georgia to Romania and then further into Central Europe. The project remains in the very early stages, it is potentially very expensive and represents a huge undertaking which could take years to complete if all parties involved eventually agree to terms.
[3] It is perhaps misguided in the sense that currently no construction project exists which can concretely fulfil the Hungarian government's goal in respect of being a regional hub for energy distribution.

increased state involvement to promote the ‘public good’ of energy by reducing the price of gas (Világgazdaság. 2013).

Reduction of energy prices

As mentioned above, the increase in energy prices during the 2000s, combined with the 2008-2009 global recession, created significant social costs which impacted the day-to-day energy security of individuals’ ability to meet higher price demands. In response, since 2011, the Hungarian Fidesz-led government has taken a number of steps to reduce household energy bills. First, the government passed a moratorium for utility costs in 2011 and then reduced the price of gas, district heating and electricity by 10% for residential consumers from 1 January 2012 by law (HEO, 2012). These reductions were then extended in 2013 with a further 10% reduction, making an overall cut of 20% to gas and base prices. Electricity and district heating were also reduced in 2013 by 20% (in relation to December 2012 prices). In the same period prices for tap water, waste management and LPG were also reduced by 10% (Mekh.hu, 2014).

Cost reduction was mostly funded by reducing the legally permitted profit margin for gas suppliers from 10.05% to 4.5% and then to 2.28%. The decrease in prices was underpinned by a Fidesz political campaign in which a petition was launched in support of the price cut legislation. The campaign alleges to have collected 2.5 million signatures, although questions remain over the validity of the signatures (Hir24, 2013). The petition was part of a concerted campaign to put state reduction of energy prices as one of the central planks of the Fidesz election campaign for the 2014 parliamentary elections. After his victory in the election, albeit with a slightly reduced majority, Orbán laid out the Fidesz coalition’s plan for 2014 to be the year of the ‘utility cost fight’. The government defined three further steps to alleviate the cost of utility prices for Hungarians 1) further legislation introducing a third phase of utility cost reductions, including a cut of 6.5% in gas, 5.7% in electricity and district heating by 3.3% 2) a commitment to fight off attempts by the EU to halt the Hungarian government’s price regulation efforts and 3) new legislation to introduce price reductions for the corporate sector too, as well as the establishment of the first non-profit energy supply company (indications are it will be MVM) (Hvg.hu, 2014).

The price reduction and re-nationalisation policy have come under sustained criticism from international bodies (IEA, 2011). There is a belief among experts the cost reduction measures will harm the country's energy security in the long-term (Portfolio, 2014; Index, 2013a). For the IEA, the Hungarian regulation of prices is likely to discourage foreign investors. In 2012, 90 billion HUF worth of investments disappeared from the country's energy market. According to the Hungarian Central Statistical Office data this decline also continued in the first quarter of 2013, and the amount of investment in the energy industry shrank by 30.5% compared to 2012 (Uzletresz.hu, 2013). Additionally, the state receives lower VAT revenues from the reduced consumer prices and it is not yet known how these incomes will be compensated and fed back into investment (REKK, 2013). The government, however, is responding to this decrease in investment by proposing the establishment of a non-profit, monopolised, state-owned utility company whose profit would be spent on improving the standard of service (BNE, 2015).

The utility reduction cost policy is also not necessarily directed at the poorest in Hungarian society given it did not include price reductions on coal and firewood, sources of fuels often used by those on the lowest incomes in the country. Critics also claim that Hungary's energy security would have been better served by promoting energy efficiency, renewable energy investments and introducing a modernisation programme, which could also reduce utility costs and dependence on imports in the long run (Clean Air Action Group, 2014). Most importantly, however, the government's claim that price reduction will enable Hungary to be independent of energy dependence rings hollow given that to settle the 260 billion HUF (€870 million) E.ON transaction, and to further finance MVM's operations, the state signed a €300 million loan contract with the Bank of China, has taken a €66.7 million loan from the ING Bank and a further 84 billion HUF from another bank consortium which includes OTP Bank, UniCredit Bank, Raiffeisen Bank, Volksbank, K&H Bank and MKB Bank. In addition, its already existing credit limit has been increased by 40 billion HUF (Index, 2013a). The government, therefore, is transferring its dependence on foreign energy companies to a dependence on foreign banks to fund its take-over of energy assets. While the state is indebted and is unable to finance the maintenance and development of national companies from its own funds, its economic policy also discourages foreign investment, and thus only deepens the country's dependence on external actors.

Tensions with the European Union

What has been the impact of Hungary's soft re-nationalisation of the energy sector and its relations with the European Union? Hungary's state interventionist approach and closer ties with Russia challenges the European Union's commitment to energy security being achieved through a policy of open competitive markets. Even more problematic for the EU are signs that other countries in Central Eastern Europe are also pursuing a potential shift towards the soft re-nationalisation of energy.

The clearest expression of tension with the EU is in relation to the Third Energy Package TEP) which came into legal force in 2011. TEP presents a revised framework for greater integration of, and competition in, the EU energy market (Rab, Howell and Dahlawi, 2011). It is an attempt to establish a fully liberalised and unified gas market amongst member states, as opposed to 28 national markets. The TEP commits states to the unbundling of the transportation, ownership and system operation of assets and seeks to ensure effective regulation of third party access to energy infrastructure (Yafimava, 2013: 3-4). The TEP also applies to any entity doing business in an EU Member State, regardless of where that entity is established (Rab, Howell and Dahlawi, 2011). Hungary, therefore, is bound as part of the TEP to guarantee the separation of the generation and sales networks from transmission.

TEP is, therefore, in tension with recent anti-competitive deals Hungary has been pursing with Russian energy companies. For instance, Hungary's insistence in going ahead with the South Stream project was a direct challenge to TEP as the project would have given Gazprom rights to both generation and transmission. The EU sought to halt the project because of its perceived anti-competitive nature, but the Hungarian government pushed through legislation which loosened 'regulations on pipeline construction and operation, allowing companies without a license for operating natural-gas transit systems to build a pipeline' (Carney, 2014). Further tension with the EU has been evident in light of the deal agreed between Viktor Orbán and Vladimir Putin in early 2014 which saw the Russian state-owned company Rosatom gain a contract to construct two new reactors at the Paks nuclear power plant. The contract was awarded without a competitive market tender (Korányi, 2015). The European Union has moved to block the deal through the Euroatom Agency which imposes financial and technical requirements on fuel suppliers (Byrne and Oliver, 2015). The EU's interjections into the Hungarian government's efforts of developing an Eastern looking energy security policy has resulted in consternation from Orbán. The Prime Minister declared that the EU's attempts to establish an Energy Union which would oversee and scrutinise energy deals between member states and non-member states is a hindrance to Hungarian national sovereignty (Gotev, 2015).

At the same time, the European Commission has broader concerns regarding Hungary's closer ties with Russia. These concerns took practical expression at the height of the crisis in Ukraine when Gazprom suspended the transmission of gas to the country. The EU resolved to commit member states to revert the transmission of gas that had left Ukraine back, Hungary was the only EU member state which stood with Russia and indefinitely cut off supply to Ukraine (Nolan, 2014). However, the Hungarian government is acutely aware of the delicate diplomatic balancing act it is playing. While it has pursued an 'Eastern Openness' policy seeking to rely on Russia to guarantee aspects of its energy security, which conversely undermines the government's claim to be 'independent of energy dependence', it also committed itself to enforcing the EU sanctions against Russia because of the Ukraine crisis.

The question remains the extent to which Hungary is an isolated case for Europe in terms of the soft re-nationalisation of energy. While it is beyond the scope of this article to offer a full-scale comparison, a review of some other Central and Eastern European countries would suggest that Hungary's statist model for the energy market is also being adopted by other countries. For example, in Lithuania the state has been slowly consolidating parts of the electricity and gas market under its control. After foreign-owned companies sold their shares in the state-run *Lietuvos Energija* the company was then merged with the gas distribution system operator *Lietuvos Dujos*, this is despite the Lithuanian parliament agreeing to the 2011 EU directive on unbundling transmission and end-user supply (Pakalkaite, 2015). In 2013 the Slovakian government bought out the remaining 49% shares in the country's main gas distributor Slovenský plynárenský priemysel (SPP) as foreign investors decided to move out (Holeš, 2013). The Slovakian case of soft-renationalisation, like the Hungarian case, was driven principally by domestic political concerns over domestic prices. Similarly, in 2013 public protests over spiralling energy costs in Bulgaria eventually forced the resignation of Prime Minister Boyko Borissov. The anger of protestors was aimed at foreign-owned distribution companies, ignoring perhaps the inefficiencies of the state-owned energy companies. Nonetheless, as of May 2014 the Bulgarian government was planning to revoke the operating licences of Austria's EVN, Czech firm CEZ and Energo-Pro, and take energy distribution operations back into the state's hands (Krasimirov, 2014). While endogenous factors are crucial in these cases, broader issues of energy security remain a factor. It has been suggested that the reason Hungary, Lithuania and the Slovak Republic all moved towards consolidating the domestic energy market within the state's purview is that it will enable them to get a better deal than foreign owned companies when negotiating new contracts with Gazprom in 2015 when existing contracts are up for renewal (Pakalkaite, 2015).

It is clear that Hungary is not alone in adopting a more statist interventionist approach to energy in Central and Eastern Europe. However, perhaps no other country in the region has gone as far in taking a statist approach to other spheres of the economy in the way Hungary has under Orbán. Nonetheless, the turn towards soft re-nationalisation of energy in the region creates a problematic environment for European and other international investors, and underscores the difficulties the European Union has always had in establishing a coherent unified energy policy. The fact is energy security means different things to different member states who have different energy needs and who will seek competing and often contradictory policies to ensure those energy needs are met.

Concluding Remarks

This article has argued that conceptually we need to broaden out the scope of our study of re-nationalisation and move away from just a focus on the more radical cases of resource nationalism which the literature on energy politics has been fixated on. The value in doing so is that we can observe the re-nationalisation of energy as a broad spectrum from soft to hard variants. Clearly, soft re-nationalisation in Hungary and some of the other Central and Eastern European states is qualitatively different from the hard re-nationalisation and forced appropriation of energy assets by the state in Russia and Venezuela, but it still is representative of the same phenomenon: a statist intervention into previously private and liberal energy markets. By envisaging re-nationalisation as a broad spectrum of policy prescriptions and different methods of statist intervention into energy markets we can make better cross-national comparisons in the future. Moreover, by understanding re-nationalisation as a spectrum we do not lose sight of the subtle forms of re-nationalisation which are now beginning to take place in Europe, which are often marginalised and left unanalysed because of the fetishisation of the resource nationalism concept in the study of international energy politics.

As this article has demonstrated, to analyse re-nationalisation attention needs to be paid to both exogenous and endogenous factors. This is a departure from much of the literature on re-nationalisation which focus on price cycles in the international energy market as a driving explanatory factor. The pincer movement of energy geopolitics and the domestic pressure of rising prices can lead governments to respond with policies which envisage a larger role for the state in the management of the energy sector and in the regulation of energy prices. The re-nationalisation of energy in Hungary is driven by both exogenous concerns – the perceived need for energy security vis-à-vis its dependence as a mostly energy-importing state – and endogenous concerns – domestic frustration over prices, the perceived chaos of the privatisation of the energy market in the 1990s and most importantly, the re-casting of the state since 2010 as a non-liberal entity. Energy re-nationalisation, therefore, has to be understood in the context of a larger domestic political project taking place in Hungary which is centralising political and economic power in the state. Within this project the state is understood as the sovereign guarantor of the country's energy security. Within this discourse it is only the state which can guarantee the regulation of prices for domestic consumers and it is only the state that can ensure that it can get the best deal for consumers when negotiating contracts with external gas suppliers. The conclusion is that a privatised and liberalised energy model cannot guarantee energy security for the country.

Finally, as highlighted in the final section, such an interpretation of how to best deal with energy security undermines and contradicts the EU model which fundamentally believes energy security can only be achieved for member states through liberalised open markets. Given other Central and Eastern European states are also adopting a similar approach to energy security the EU has its work cut out in ensuring compliance to key initiatives such as the TEP. However, the soft re-nationalisation of Hungary's energy sector is likely to prove problematic in the long term. The holding down of prices below market levels will most likely mean limited investment in the sector – either domestic or foreign. Neither will the government have the capital to pay for distant supplies from the Caspian or Central Asia even if such sources become available. Hungary, and other states in the region, will continue to be dependent upon Russia for gas supplies, thus limiting the possibilities of energy security which comes from a diverse portfolio of sources, something a more liberal-economic model would potentially provide.

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Figure 1. Soft to hard re-nationalisation spectrum

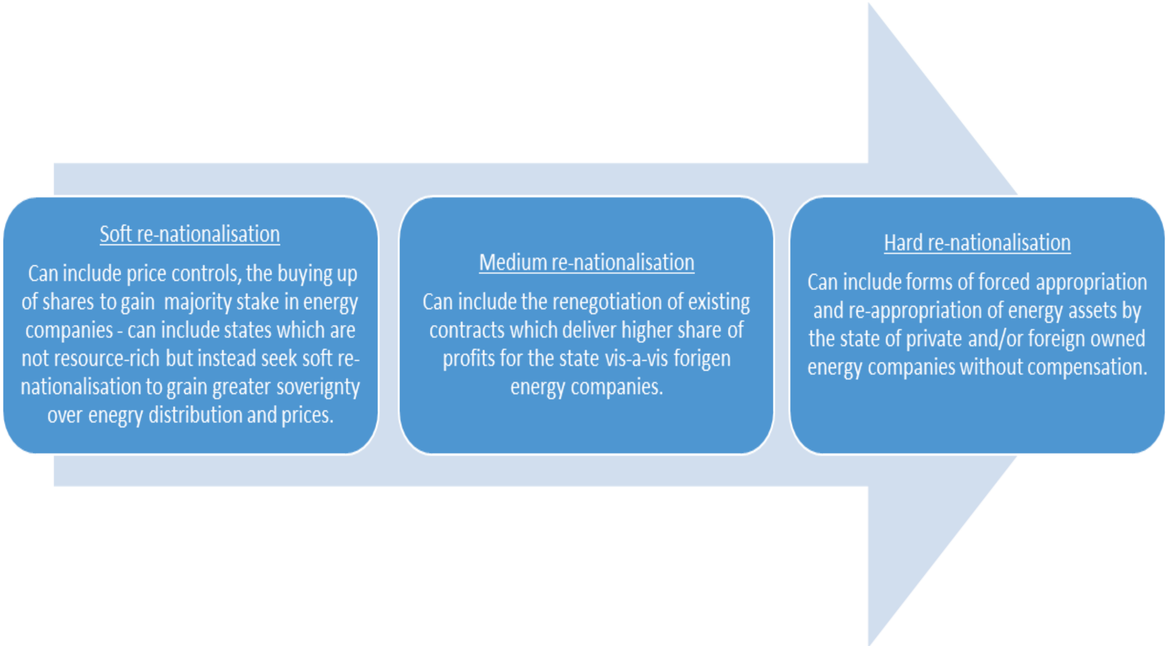

Figure 1. Soft to hard re-nationalisation spectrum

External dependence on exporting states → Liberalisation of energy market (privatisation of the 1990s – global ideological trend) → global energy prices

↓ ↓ ↓

Increased energy poverty because of price rises

↓ ↓

State intervention → Government conceptualises energy as ‘public good’ ← state intervention

↓ ↓

State increases control in energy sector as a policy response - re-nationalise foreign owned energy companies in relation to transport, logistics, distribution etc.

↓ ↓

Feedback into energy security policy and foreign relations