



Hungary's Climate Policy

Veronika Józwiak, Marek Wąsiński

President János Áder announced at the UN climate action summit in September that Hungary will phase out coal by 2030. This is a more ambitious commitment than those contained in government strategies. It might mean readiness to agree on the EU's long-term climate strategy (LTCS). In June, Hungary was among the Member States that blocked the EU strategy of going climate neutral by 2050. But if it flips and supports LTCS, that might hamper Poland's efforts to raise additional funds for energy transformation.

The president's speech was the first time that Hungarian authorities acknowledged the possibility of abandoning the use of coal for energy purposes. Although the government, which is responsible for climate policy, has not officially confirmed the date of 2030, it was previously suggested by both the Hungarian energy market regulator and undersecretary of state for climate policy Barbara Botos. In New York, Áder also declared other goals for 2030. These included 90% CO₂-free electricity production, including a ten-fold increase in solar energy production and the use of only electric buses for public transport in medium and large cities. Among the goals by 2050, he mentioned increasing energy efficiency of buildings by at least 30%, and an increase in forest cover on Hungarian territory by one third. He also announced Hungary's \$6 million contribution to international climate protection initiatives, including \$700,000 for the Green Climate Fund.

Energy Mix and Strategy. Hungary has a low-carbon economy in comparison with other countries in the region. This is due to the low share of coal in the energy mix. The Hungarian economy is also characterised by the lowest level of energy intensity among V4 countries, although still higher than the EU average. Taking into account gross domestic energy consumption, in 2017 the share of coal was only 9% (see Figure 1). On the other hand, the share of coal in electricity generation is about 15%. The Mátrai Hőerőmű power plant is responsible for the majority of this production, fuelled by lignite coming from two nearby mines. Of all Hungary's electricity, 60% is produced without emissions (see Figure 2). Only 68% of electricity consumed in Hungary is generated there, and the rest is imported. Between 1990 and 2017, Hungary reduced its greenhouse gas (GHG) emissions by 32%. However, emissions have been rising since 2013 (see Figure 3). The main source of emissions is the energy industry (28%), mainly through heating (around 80% of which is supplied by natural gas), and transport (26%).

Hungary's current energy strategy to 2030 was adopted in 2011. Its revision, contrary to the government's announcements, was not presented to the public until September. National climate goals are set by the second climate strategy, published in November 2018. Unlike in the United Kingdom or Germany, Hungary's energy and climate strategies have been adopted by parliament as non-binding resolutions. They assume the reduction of GHG emissions by increasing energy efficiency, the share of zero-emission electricity production and encouraging electromobility. To reduce CO₂ emissions from heat production, the authorities promise to limit the use of natural gas for this purpose to 50% by 2030. The government

provides loans and tax relief for the improvement of the energy efficiency of buildings, and for the use of renewable energy (geothermal and biomass) in heating systems.

The reduction of CO₂ emissions in the power sector is to be based to a large extent on nuclear energy. By 2027, the fifth and sixth reactors at the Paks power plant will start operating. Construction, however, has been delayed by at least 22 months, mainly due to the failure of the contractor (Russian Rosatom) to submit construction plans. Investment financing is also problematic due to an intergovernmental agreement with Russia, concluded in 2014, which is less favourable compared to current market conditions. Hungary is seeking to renegotiate this agreement. In the renewable energy sector, the government plans investments mainly in solar energy, while it has legally limited wind farm investments, in order to favour selected entrepreneurs. In June, a Chinese investor began construction of a 100 MW photovoltaic plant in Kaposvár, which will be the largest in Central Europe.

Hungary's Climate and Energy Policy and the EU. Hungary fulfils EU commitments on climate policy. In sectors not covered by the Emissions Trading Scheme (non-ETS), such as transport, agriculture and construction, it has achieved higher GHG reductions than expected (emissions in these sectors could have increased by 10% to 2020, but in fact fell by almost 9%). This allows Hungary to sell these reductions to other countries. In accordance with the EU winter package, the government has prepared a draft national energy and climate plan for the period up to 2030 (NECP), which has fulfilled the formal requirements of the European Commission (EC). At the same time, the EC considered that this project could have been more ambitious and detailed, as Hungary set an increase in the share of RES in the energy mix to only 20% by 2030 (a 5 p.p. increase from 2020). The EC also said that Hungary had submitted overly conservative targets about the increase in energy efficiency, and did not detail plans for non-ETS sectors.

In June, Hungary, Poland, the Czech Republic and Estonia blocked the EU's target to achieve climate neutrality by 2050. This happened despite innovation and technology minister László Palkovics suggesting just before the summit that Hungary might support it. However, Hungary's national climate strategy is expected to reduce GHG emissions by 52% to 85% by 2050 (depending on available technologies). For Hungary, which has a significant share of gas in the energy mix, plans to reduce or block the financing of fossil fuel infrastructure (including gas installations) by the European Investment Bank or in the multiannual financial framework might prove unfavourable. The draft budget for the period 2021 to 2027 assumes a 25% allocation for climate action (an increase from the current 20%), which could limit investment possibilities.

EC plans to raise the emission reduction target by 2030, from 40% to 50%, are not in line with Hungary's conservative climate and energy strategies. However, in the light of Áder's declaration, it cannot be excluded that Hungary could implement a more ambitious emission reduction target. This will depend on the success of the expansion of the Paks nuclear power plant, increasing energy efficiency, and investments in RES. Hungary's reluctance to embrace the EU's 2050 strategy seems to be driven less by energy and climate concerns, and more by political motives and the Hungarian economy's strong dependence on the German automotive industry. In September 2018, Foreign Minister Péter Szijjártó assured the CEOs of German car companies that they would not support EU climate proposals that would be harmful to the industry.

Conclusions. Hungary's energy situation is not the main reason for its sceptical stance on the 2050 climate neutrality target. Hungary's consent to the EU LTCS, and perhaps even its readiness to set higher emission reduction targets by 2030, will primarily be political decisions, depending only to a lesser extent on the Hungarian economy. The biggest challenges in this context will be to achieve the goal set for the share of renewables in the energy mix and the development of a strategic approach to non-ETS sectors.

The Hungarian authorities recognise the inevitable nature and political significance of adopting the EU LTCS, and the increase in climate mainstreaming within the EU budget for the period from 2021 to 2027. By aligning with the EU's prioritisation of climate protection, Hungary will avoid obstacles to the disbursement of the new multiannual financial framework, including cohesion policy funds. Consequently, further reluctance to adopt LTCS may be incompatible with Hungary's interests. It should not be assumed that Hungary, with such a different energy mix, will be a stable partner of the Polish government in the EU's energy and climate policy. The Hungarian authorities could withdraw their opposition to the 2050 strategy, after guaranteeing a satisfactory solution. If this happens, negotiations about a beneficial financial package to compensate Member States for the costs of transition to a low-carbon economy will be more difficult for Poland. The Polish government may find that it is left with the support of only the Czech Republic, which has a rather flexible approach towards votes in the EU Council.

Figure 1. Gross Inland Energy Consumption by Product—%

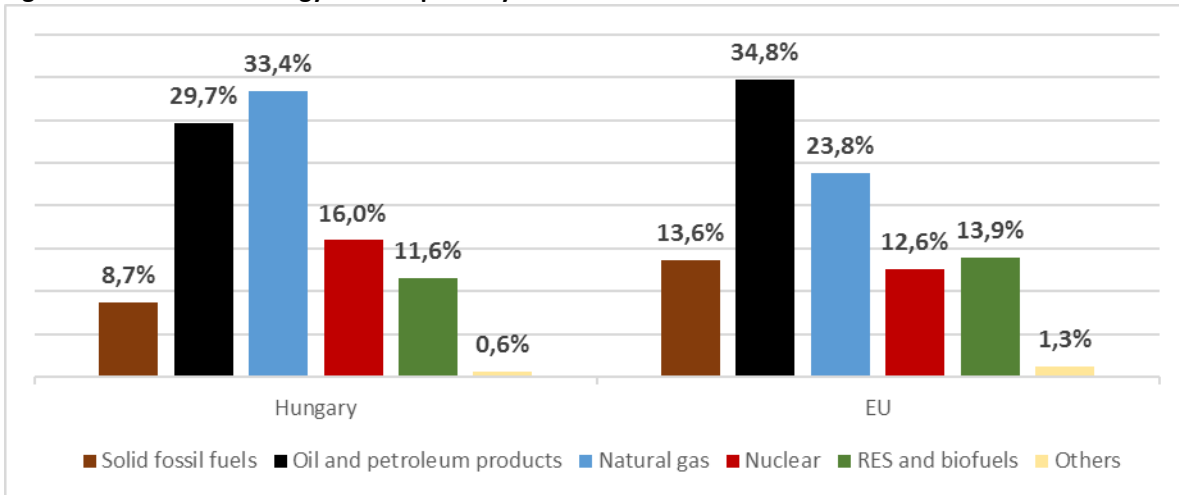


Figure 2. Gross Electricity Generation—%

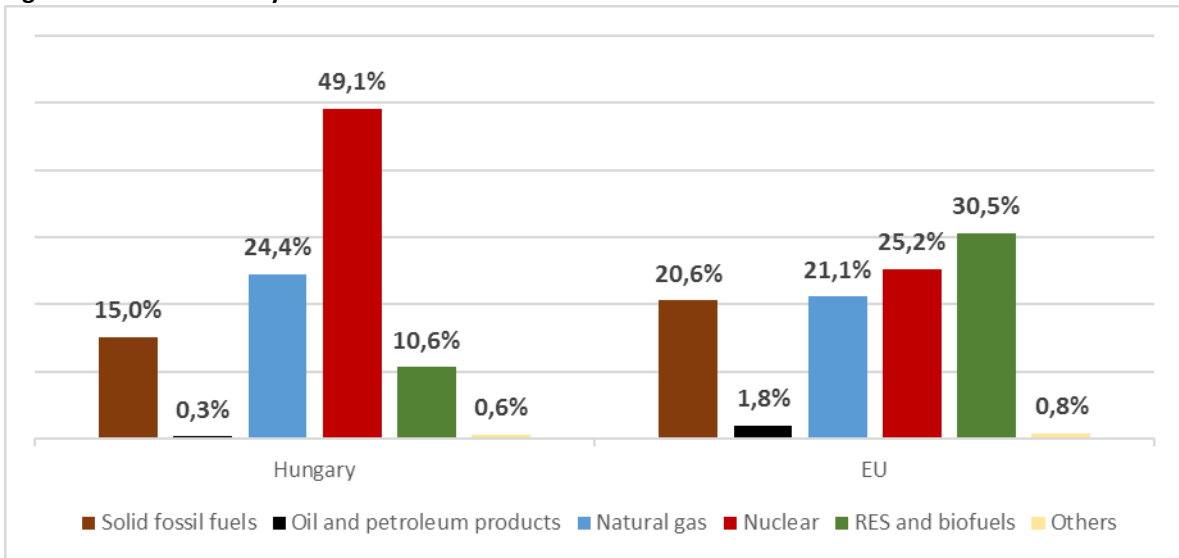
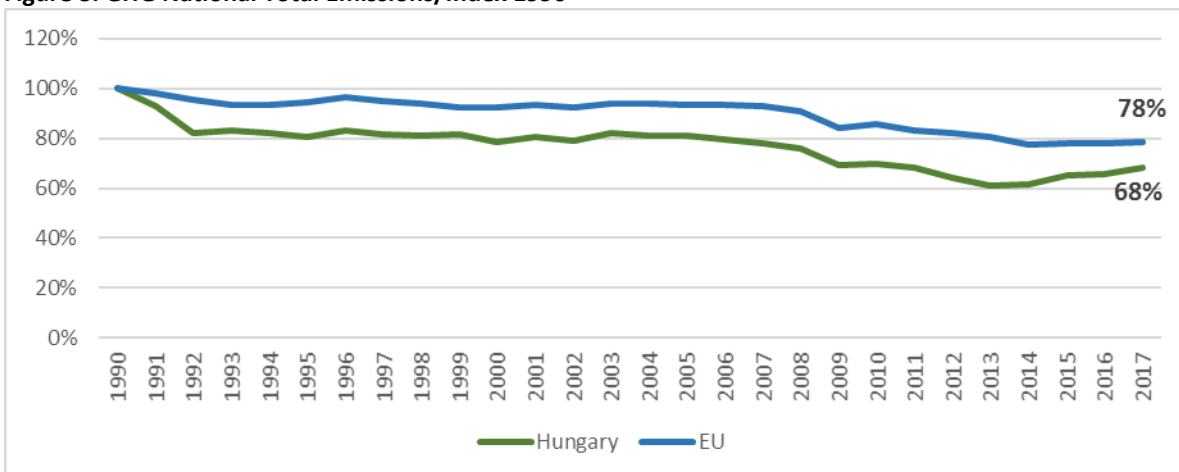


Figure 3. GHG National Total Emissions/Index 1990



Source: EU Commission, DG Energy, Unit A4, Energy datasheets: EU28 countries (8 October 2019)