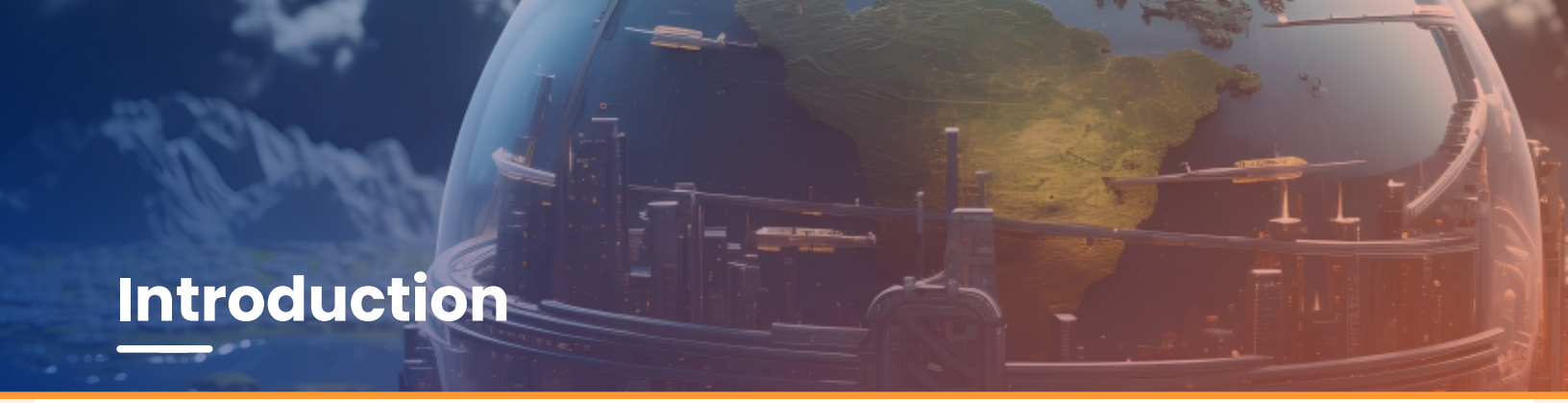
ELECTRICITY LAWYER

HUNGARY ENERGY POLICY DEFIANCE:

ASSESSING THE IMPACT OF ITS STRENGTHENED PACT WITH RUSSIA ON EU ENERGY SECURITY AND GEOPOLITICAL STABILITY



Introduction

Hungary's recent decision to deepen its energy partnership with Russia has sent ripples across the European Union (EU), highlighting the complexities of regional energy security, economic pragmatism, and geopolitical manoeuvring. At a time when the EU is striving to reduce its dependence on Russian energy following the Ukraine crisis, Hungary's move underscores a stark divergence from the collective European approach.

Before the war of aggression of Russia on Ukraine, Hungary was dependent on Russia with regard to natural gas, oil and nuclear fuel. Nearly 90 percent of Hungary's oil and natural gas came from imports, with 64 percent of imported oil and 95 percent of imported gas coming from Russia

The renewed energy pact with Russia signals Budapest's prioritization of economic stability and energy security over EU solidarity, raising critical questions about the bloc's internal cohesion and long-term energy strategy.

This research analysis examines the motivations behind Hungary's energy policy shift, the broader implications for EU energy security, and the geopolitical consequences of this strategic realignment. It also explores the potential economic, political, and security risks that Hungary, the EU, and Russia face in this evolving energy landscape.

Hungary's Energy Strategy and Policy Shift

Hungary has historically relied on Russian energy to sustain its domestic economy, with Moscow providing a significant share of its natural gas and nuclear energy needs. The long-standing energy relationship between the two countries has been cemented by various agreements, including gas supply contracts with Gazprom and nuclear power development projects with Rosatom.

Natural gas has been playing an important role in Hungary's energy mix for decades. Its share in the energy mix was at its maximum in 2003 with around 45 per cent of primary energy consumption, but it is still important today; according to the latest data (2021), it accounts for 34.3 percent of primary energy consumption.

The share of nuclear energy in electricity production was 44 per cent in 2021, the share of natural gas was 27 per cent, solar stood at 11 per cent, coal at 9 per cent and oil was almost non-existent with its 0.2 per cent share.

Despite EU efforts to diversify energy sources and impose sanctions on Russian energy exports, Hungary has maintained and even expanded its ties with Moscow.

EU Energy Security and Policy Framework

Energy security is defined by the International Energy Agency as reliable, affordable access to all fuels and energy sources.

On similar lines, the EU 2014 European energy security strategy emphasises the critical importance of 'a stable and abundant supply of energy' for European prosperity and security.

Reliable and affordable energy supplies are vital for the European economy, but EU countries do not have nearly enough energy resources of their own to cover their needs.

For most of its energy imports, the EU has plenty of options; oil is abundantly available, and can be flexibly traded and transported across the world. Gas is more of a challenge, as it usually has to be imported through pipelines, which take years to build. At present, nearly 40 % of imports come from a single supplier – Russia, a country that has difficult relations with the EU.

EU action to mitigate energy insecurity has both internal and external dimensions. Internally, the EU promotes renewable energy and energy efficiency, and pushes for integrated European gas markets. Externally, energy is central to the EU's relations with third countries. The EU promotes a coordinated approach by its Member States to energy suppliers such as Russia. In keeping with the EU's attachment to a multilateral, rules-based order, it supports international frameworks for energy relations, such as the International Energy Agency and the Energy Charter.

Despite EU efforts, energy security remains a concern. The picture is a mixed one, with both positive and negative trends. On the one hand, the rise of renewable

energy gives the EU an opportunity to develop its own sources of clean energy in the long term; on the other, falling domestic production of oil and gas means that in the short and medium term, Europe will more than ever be dependent on fossil fuel imports.

Hungary's strengthened energy pact with Russia challenges these EU-wide efforts, raising concerns about the effectiveness of collective energy policies. By securing long-term Russian energy contracts, Hungary risks undermining the EU's strategy of reducing dependency on Moscow, potentially weakening the bloc's leverage in negotiations with alternative energy suppliers.

Geopolitical and Economic Implications of Hungary's Strengthened Energy Pact with Russia and its effect on EU Energy Security

Increased EU Fragmentation on Energy Policy

Hungary's alignment with Russia weakens the EU's collective stance on reducing dependence on Russian energy, creating internal divisions within the bloc. This divergence complicates efforts to enforce a unified energy security strategy.

Strengthening Russia's Influence in Europe

By securing long-term energy agreements with Hungary, Russia maintains economic leverage within the EU, undermining broader European efforts to reduce reliance on Russian gas and oil following geopolitical tensions, such as the war in Ukraine.

Challenges to EU's Energy Diversification Goals

The pact contradicts EU initiatives aimed at diversifying energy sources through LNG imports and renewable energy expansion. Hungary's commitment to Russian supplies weakens the overall effectiveness of these diversification strategies.

Potential Energy Price Disparities Across the EU

Hungary's access to Russian energy at possibly more favorable terms may create price imbalances within the EU, where other countries face higher costs due to sanctions and reduced supply from Russia. This could create economic disparities and competitive disadvantages.

Risk of Retaliatory Measures from the EU

The EU may introduce regulatory or financial penalties against Hungary for bypassing collective energy policies, potentially affecting Hungary's access to EU funding and investment programs.

Impact on Regional Energy Infrastructure Investments

Hungary's continued reliance on Russian energy could deter international investments in alternative energy infrastructure projects within the country, slowing down the transition to renewables and affecting long-term energy sustainability efforts.

Higher Energy Prices and Market Volatility

The shift to non-Russian energy sources, coupled with geopolitical instability, may keep European energy prices high in the short-to-medium term, affecting economic growth and industrial competitiveness.

Policy Considerations and Future Outlook of the Hungary-Russia Pact on EU Energy Security

Hungary's strengthened energy ties with Russia presents both challenges and opportunities for EU policymakers. The following considerations could shape the future outlook of this issue:

Enhancing Energy Solidarity and Enforcement Mechanisms

The EU may need to strengthen internal enforcement mechanisms to ensure member states comply with collective energy policies. This could involve stricter financial penalties or conditional funding to discourage unilateral deals that undermine EU-wide energy security.

Accelerating Energy Diversification and Infrastructure Investments

To reduce dependence on Russian energy, the EU must fast-track investments in alternative energy sources, including LNG terminals, renewables, and regional energy interconnections. Expanding supply routes from the U.S., Middle East, and Africa will be critical.

Strengthening Sanctions and Regulatory Oversight on Russian Energy Deals

The EU could introduce tighter controls on member states engaging in separate agreements with Russia. This may include regulatory frameworks that restrict long-term fossil fuel contracts with Moscow, while incentivizing investments in cleaner energy alternatives.

Increasing Support for Green Energy Transition and Energy Independence

The EU should enhance funding for clean energy innovation, storage technologies, and cross-border grid integration to make renewables a more viable alternative. Policy incentives for hydrogen energy and smart grids could accelerate the shift away from fossil fuels.

CONCLUSION

Hungary's decision to deepen its energy partnership with Russia challenges the EU's broader strategy of reducing dependence on Russian energy. While the move offers Hungary economic stability and energy security, it also risks political isolation and increased reliance on Moscow.

For the regional cooperation of the EU, Hungary's defiance exposes internal divisions and raises concerns about the credibility of its energy policies; while Russia benefits from sustained revenue and increased political leverage within Europe.

Nevertheless, energy security remains a concern and the long-term implications of this development will depend on how the EU responds—whether through diplomatic engagement, policy adjustments, or stricter enforcement measures. As global energy dynamics continue to evolve, Hungary's energy choices serve as a critical case study in balancing national interests with regional security and geopolitical stability.

DISCLAIMER

This document of the referenced country is not expected to form the basis of, or be construed as standard legal advice; nor should any of its contents and representations be strictly relied upon for any activities. Electricity Lawyer (EL) will not be liable for decisions whatsoever that are made based on the contents of the document.

ELECTRICITY LAWYER