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Analysis: PAKS DEAL HAS POTENTIAL TO SHAKE UP CAMPAIGN

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TOP 5 NEWS OF THE LAST TWO WEEKS

I. MASSIVE NUCLEAR POWER DEAL WITH RUSSIA SIGNED

The Hungarian government has signed a deal in Russia that commissions the Russian energy giant Rosatom to expand Hungary's only nuclear power plant – situated in the town of Paks – by two reactors which would be completed by 2023. The two new reactors are planned to produce 2,400 megawatts of electricity, 20% more than the current four reactors, which were built in the 70s. The project comes at a hefty price tag, with 3,000 billion HUF in Russian credits, to be repaid over three decades, and 750 billion invested directly by the Hungarian state. In return, Rosatom has apparently pledged that 40% of the costs will be disbursed to Hungarian subcontractors. While Jobbik applauded the move, the left-wing/green opposition fiercely attacked the agreement arguing that it sells out Hungary to Russia and is environmentally harmful to boot. For a detailed analyses see p. 6.

2. MOVEMENT IN THE POLLS, MAYBE

As the election approaches, pollsters' numbers also begin to diverge, with Szonda Ipsos, traditionally viewed as leaning towards MSZP, showing a remarkable movement towards the left-wing alliance, at least among likely voters. At the same time Századvég, generally regarded as close to Fidesz, continues to project a vast Fidesz lead. Last autumn - and as recently as November - Szonda had Fidesz 17-18 points ahead of the MSZP-E14/PM-DK among likely voters. In December, however – in a release Szonda itself titled "Significant Fidesz advantage" – the gap had shrunk to 11 points. Eleven points is still a wide but considerably narrowed lead; the question was whether these numbers were a fluke or whether they would persist. Now that Szonda's January numbers are out, they have affirmed the slight but by no means insignificant progress for the left: with Fidesz and the leftist alliance each gaining a point, their figures of 48 and 37, respectively, continue to be 11% apart. While this is not enough to achieve a hung parliament, not to mention victory, it nevertheless marks progress for the left. Even if it makes no further gains, maintaining such



numbers would mean a doubling of its 2010 results. It would imply that the left is back and thereby especially reinforce MSZP's and Attila Mesterházy's position. There are two key caveats, however. First, thus far none of the other institutes have detected such a narrowing. Medián's and Tárki's most recent December polls showed a 52-32 and 47-31 Fidesz edge, respectively, and Századvég measured a whopping 52-30 Fidesz advantage in January. Second, not even Szonda saw any substantial movement in the other key indicator, which assesses the parties' popularity in the population at large. Even as some uncertainties linger – Fidesz' numbers often seem better in polls, while the left sometimes outperforms projections – a Fidesz victory continues to remain a safe bet, with a hung Parliament still the best-case scenario for the left. Nevertheless, four years ago at this time Tárki had Fidesz 40% ahead among likely voters (66-22), down from a crushing 46% lead in November 2009.

3. JOBBIK WELCOMES THE NEW YEAR WITH GRANDIOSE EVENT

Though Jobbik's numbers are still not budging in the polls, there are no signs of despair on the far right. The party began the new year on a high note, with a massive and professionally organised season opening event. In his speech delivered before 2,000 invited guests, party chair Gábor Vona responded to some analysts who perceived a moderation in Jobbik's tone. Vona denied that there had been a change in the party's approach. But even as he emphasised the party's popular stances on bringing back the death penalty and having sexual offenders chemically castrated, Jobbik's PM candidate tread more carefully in other areas. Concerning the issue that has emerged as the cornerstone of Jobbik's political allure, that of the Roma minority, he said that "decent Gypsies" had nothing to fear from a Jobbik government, only "crooked Gypsies" ought to be afraid, but not on account of their ethnicity, the far-right leader argued, but because of their crooked ways. He also lambasted the main government party, arguing that "Fidesz talks like Jobbik and acts like MSZP." Despite some odd musical features, the event was striking primarily because of its professional design and execution, which reinforces the impression that the far-right party is a deep-pocketed and highly organised force which is very attuned to youths and the needs of a modern campaign.



4. MSZP'S PARTY CONGRESS ENDORSES MESTERHÁZY'S PM BID

This past Saturday MSZP's party congress officially confirmed party chairman Attila Mesterházy as its PM candidate with an impressive 99.7% of the votes cast. With all the leaders of the left-wing alliance in attendance at the subsequent mass rally – according to the organisers some 13,000 people joined the gathering –, some of the prominent participants were visibly strained to hide any ill-feelings that may remain after months of contentious bickering on the left. Even Tibor Szanyi, who had criticised Ferenc Gyurcsány on the left almost as harshly as anyone on the right, could not be baited into making disparaging comments about the former prime minister, who humbly lined up with Gordon Bajnai on the podium behind Mesterházy. Though several prominent left-wing leaders were present at the mass rally, apart from the Croatian Prime Minister Zoran Milanovic the speakers were exclusively MSZP's leading cadres. Mesterházy himself was combative, promising that Orbán would have to go and several key Fidesz policies would be overturned, including the Paks deal, which will be further analysed below.

5. FIDESZ PLANNING A MONUMENT TO COMMEMORATE GERMAN OCCUPATION

Rather than continuing to dominate the agenda with electoral largesse, for now Fidesz appears intent on letting cultural issues carry the day. Most recently, the plans for a memorial of German occupation in Budapest's Szabadság tér (Freedom Square) have aroused considerable ire, foremost on the left, but also on some segments of the right. The statue would display an Archangel Gabriel - a stand-in for Hungary - harassed by an eagle symbolising Germany from above. The aesthetics of the planned monument are not for us to assess, but apart from noting that it has few defenders even on the right, one can add that – as usually with Fidesz' cultural statements – it is visually overly expressive and too didactic. But the major problem is the message, or rather the subtext. Ordinarily, erecting a monument to the fact that in the last year of the World War II Germany did indeed occupy

Hungary to ensure that its ally would not break ranks with the disintegrating Axis Powers, and that this occupation has yielded some atrocious outcomes, could well be uncontroversial. Critics of the government's approach argue that as it stands, the monument is part of a comprehensive effort to rewrite history in such a way as to lay all blame for wartime atrocities and tragedies on the Germans, exempting the Hungarian state and political leadership at the time from responsibility. It is also disconcerting, critics argue, that no democratic consultation took place on the memorial – a fact that the German embassy also complained about – and it is rumoured that even as the plans are just now presented to the public, the monument has actually been completed already. Fidesz' intensifying efforts on the cultural front appear geared towards consolidating and mobilising its support on the far right. At the same time, they may also mobilise parts of the apathetic left-wing, and DK leader Ferenc Gyurcsány has already spoken of the need to engage in the culture war with Fidesz.

ANALYSIS: PAKS DEAL HAS POTENTIAL TO SHAKE UP CAMPAIGN

Fidesz' deal with Russia's Rosatom concerning the expansion of Hungary's nuclear plant in Paks is highly controversial for a variety of reasons: the hefty price tag of 3000-4000 billion forints (~10-13% of GDP); its financing by way of a Russian loan that will increase Hungary's already substantial sovereign debt; its long-term effect on Hungary's energy strategy and in particular its likely crowding out of renewable energy; and the lacking transparency of the deal which seemed to come out of nowhere. All these render the left and green opposition furious, though it probably also welcomes the opportunity to attack the government a few months before the election.

Fidesz has nurtured much better relations with Russia than its statements under the MSZP governments would have suggested. But the massive nuclear deal concluded with Russia a few months before the elections stunned even many experts. Even parts of the right-wing commentariat were left speechless by the audacious deal.

In opposition, Fidesz had been a relentless critic of the 20 billion credit line requested and received from the IMF in 2008, which arguably saved Hungary from the horrid effects of a default, and was also fiercely critical of the previous government's efforts to ingratiate itself with Putin. Now it concluded a 10 billion dollar credit agreement with the Russian state company Rosatom, in the framework of which the latter will expand Hungary's only nuclear power plant by adding two reactors and a capacity of 2400 megawatts to the existing capacity of 2000.



Paks is of course critical in terms of Hungary's energy mix, as it supplies 40% of domestic electricity consumption. But many experts doubt whether its expansion is the best way forward in terms of increasing Hungary's energy production. András Perger, an expert working for the think-tank Energiaklub (Energy Club), argues that based on the current timeline the new reactors would go online roughly a decade before the old ones are theoretically scheduled to be shut off, which could well leave the country with surplus capacities. It is not clear at first glance whether this surplus could be exported at the price it costs to produce. Incidentally, the experts also estimate that electricity from Paks II will cost significantly more than the current price of energy would justify, which means that if the government insists on its pledge of providing citizens with the cheapest energy in Europe, then it will do so at a significant loss to taxpayers.

The move was stunning not only because most experts regard it sceptically, but also because there is little else to recommend it. Though a poll conducted in two dozen countries in 2011 concluded that Hungary was one of the countries with the lowest levels of rejection for nuclear energy, at 60% that level is still plenty high, especially with only 12% expressing strong support. Expanding Hungary's nuclear reactor hardly appears as the best way to draw electoral support.

The left-wing opposition and LMP predictably went ballistic over the deal, and their reaction is at least partly explained by election politics: there were too many juicy details to pass up here. Apart from policy objections, the mere enumeration of the areas in which this marked a reversal over Fidesz' previous positions provided an unusually ideal opportunity to bash the governing party.

First of all was Fidesz' abovementioned critical stance towards Russia, which was expressed in a series of occasionally unusually harsh comments. In 2010 János Lázár, currently the Minister of State for the Prime Minister's Office, warned that a rapprochement with Russia would come at a price for democracy and civil liberties, while in 2007 the then-leader of the opposition, Viktor Orbán, noted ominously that the "spread of Putin's lackeys" is increasingly regarded as a danger all over Europe. Correspondingly, when Ferenc Gyurcsány cosied up to the Russian leader and sought to give preference to Russia's Blue Stream

pipeline over the EU's Nabucco project, Fidesz charged that Gyurcsány was sabotaging community efforts at increasing energy security and "assists the Kremlin in its endeavour to establish a Euroasian Russian energy monopoly."

While the green organisations LMP and PM can legitimately claim to have a longstanding grudge against nuclear energy, there is plenty to oppose for E14 and the Socialists as well, even though the latter had been flirting with the idea of a Paks expansion as well. For one, the government concluded the deal without any prior social consultation or public debate on an issue that commits the country to a long-term energy strategy whose effects would stretch vastly beyond the current government's term, both financially and in terms of how Hungary organises its energy supply. Furthermore, the execution of the project won't be subject to a tender, even though as late as last summer the government had considered calling for bids to expand the reactor in Paks. E14-PM also alleges that the agreement has a secret appendix. In any case, the government's general unwillingness to allow public scrutiny of its major policies understandably provide fodder for suspicions concerning corruption.

So why did the government do it? Well, regardless of one's view of whether nuclear energy is the way to go, the fact is that expanding Paks would reduce Hungarian dependence on energy imports. Some experts expressed doubts as to whether replacing cheap foreign energy by expensive domestic production is the best way to do this, but in a worldview where self-sufficiency is regarded as an overriding principle, expanding Paks makes more sense than energy imports (though LMP and PM argue that renewables would help achieve the same without the hazards of nuclear reactors). Also, even if the new reactors will work in tandem with the old ones for a while, sooner or later the old ones will probably have to be taken offline, and then the benefits of the new reactors might kick in by keeping supply stable.

Another consideration may be the Russian pledge that at least 40% of the mega project will be completed by Hungarian subcontractors. That is an incredible amount of money that may be potentially doled out to government-friendly enterprises. Last year Közgép, the company owned by Fidesz' éminence grise Lajos Simicska, scored around 500 billion forints in public contracts – equivalent to over 4% of the total budget and close to 2% of GDP. Though the

magnitude of Közgép's success is undoubtedly unusual, it is still only one Fidesz-aligned company among many. Ranging between 1200-1600 billion forints, 40% of the Paks deal could supply Fidesz' corporate coterie with contracts financed by Russian credits and taxpayers for years to come.

The only political force that greeted the news of Paks' expansion with enthusiasm was Jobbik, which is generally enamoured with the notion of energy self-sufficiency. In its statement welcoming the announcement, the party merely urged Fidesz to go further and build water dams for energy production. Jobbik's statement simultaneously bemoaned the fact that water dams had been a taboo subject since regime transition (the protests against a water-dam in Bős-Nagymaros by environmentalists in 1986 is regarded as one of the key events in the growth of the anti-communist opposition movement). However, Jobbik's glee might in part also stem from its conviction that foreign debts are not something Hungary needs to be concerned with. If you subsequently repudiate all debt, then the Paks expansion arguably won't cost much at all.

Labelling the deal as "selling out" Hungary to the Russians, the left-wing opposition will try to turn Paks into one of the main issues of the campaign, while Fidesz will seek to keep off the public agenda. If it can prevent new information from becoming public, then the governing party starts off with the better odds, especially since it controls large segments of the media.

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