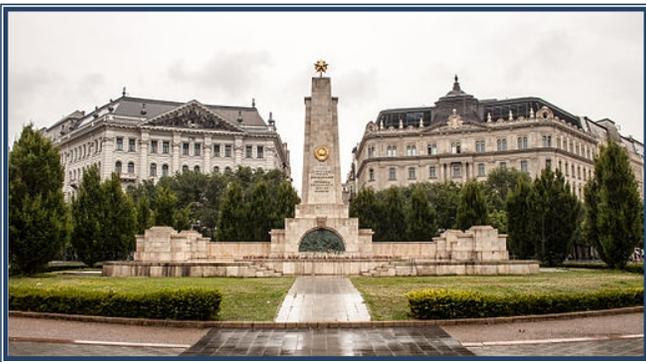


SZABADSÁG TÉR AND THE RUMBLINGS OF A HUNGARIAN *EUROMAIDAN* MOVEMENT: WILL AN EMERGING SCANDAL BE THE ORBÁN GOVERNMENT'S UNDOING?

By John R. Haines

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Budapest's Szabadság tér or "Freedom Square" is an historic public square. It is the site of several monuments, including ones to Ronald Reagan and the Soviet Red Army. In 2014, the Orbán government, to considerable controversy, erected a new one to memorialize Hungary's March 1944 occupation by Nazi Germany.

Is Hungary witnessing the emergence of its own Maidan¹ movement? With popular discontent catalyzed by Prime Minister Viktor Orbán government's effort last October to impose a tax on Internet usage — demonstrations which even Hungary's far right Jobbik movement said were "completely justified and understandable"² — the possible tipping point for the Orbán government may be an unfolding scandal over illicit gains from the sale of natural gas imported under the guise of replenishing Hungary's strategic reserve.

"In Hungary, this is the way to make money."³

Hungary's strategic reserve — an amount, as near as can be figured, equal to nearly half the minimum amount that the Orbán government was required by law to maintain in reserve. This took place in an effort to keep the effective price of heat supplied by local governments low after the Orbán government eliminated a popular subsidy for power producers. When it was time to replenish the NG released from the strategic reserve, the Orbán government apparently tried to come up with a way to circumvent Gazprom, with which Hungary had (and has) an unfavorable long-term supply contract. Hungary's cost to purchase NG from Gazprom was so uncompetitive that many thought it would be cheaper to purchase Russian gas that was

The story comes from a Hungarian news portal, *444.hu*, which launched in August 2013. It begins in 2011, when the Orbán government released a large quantity⁴ of natural gas (NG) from

¹ The protest movement that emerged in November 2013 against the government of President Viktor Yanukovich was dubbed *Euromaidan*, a Twitter hashtag that compressed two terms, *Europe* and *Maidan Nezalezhnosti*. The first, *Europe*, is a reference to the movement's trigger event, which was President Yanukovich's action to suspend of preparations for signing Ukraine's association agreement with the European Union. The second term, *Maidan Nezalezhnosti* (Ukrainian for "Independence Square"), is the name of Kyev's main public square where the protests were centered. Among others, the pro-Russia *Novostimira.ua* news portal tagged the protesters in Budapest last autumn as "Hungarian Maidan." [http://www.novostimira.com.ua/news-eng-134347.html. Last accessed 18 January 2015]

² "Maidan coming to Hungary?" *Jobbik.hu* [English language edition, 4 November 2014]. http://www.jobbik.com/maidan_coming_hungary. Last accessed 18 January 2015. That being said, Jobbik's Gábor Vona added, "The alleged non-political demonstration is most likely inspired by the US intelligence service in an effort to undermine the positions of the Hungarian government, who had been flirting with Russia, or at least show the government that the US does not tolerate anybody going rogue."

³ "A legtöbb pénzt most így lehet csinálni Magyarországon" ("In Hungary, this is the way to make money"). *444.hu* [online Hungarian language edition, 14 January 2015]. http://tldr.444.hu/2015/01/14/a-legtobb-penz-t-most-igy-lehet-csinalni-magyarorszagon/. Last accessed 16 January 2015.

⁴ 585 million cubic feet (mcf), or about 5.7% of the quantity of natural gas that Hungary consumed in 2012 (10,232mcf) as estimated by the International Energy Agency [IEA (2014). *Energy Supply Security 2014*, p. 229. https://www.iea.org/media/freepublications/security/EnergySupplySecurity2014_Hungary.pdf. Last accessed 15 January 2015]. According to European Commission data for 2011, Hungary imports three-quarters (76%) of its natural gas, and three-quarters (76%) of that is imported from Russia. [shttp://ec.europa.eu/energy/gas_electricity/doc/hu_energy_market_2011_en.pdf. Last accessed 15 January 2015]

resold on the open market by a Western European energy trader.

Since Gazprom controlled Hungary's main transmission pipeline, the Orbán government had to find another way to transport its lower-priced NG. The only option was to use the only other transmission pipeline to Hungary, the Hungary-Austria-Gasleitung (HAG) pipeline that opened in 1996. The HAG pipeline runs from the Central European Gas Hub (a gas trading platform partially owned by Gazprom) at Baumgarten an der March, Austria, to Győr, a city in northwest Hungary near the Slovakian border.

It is normal practice for gas traders to bid competitively at auction for pipeline rights; in fact, European Union rules mandate competitive auctions. The Orbán government waived that requirement for a period of one year — between July 2011 and July 2012 — in deference, it claimed, to overriding considerations of national energy security and the need to refill the country's strategic reserve. But it did so for 2.9 billion cubic meters of natural gas, even though only 585 million cubic meters — about one-fifth of that larger quantity — was required to replenish the strategic reserve. The Orbán government then extended the supposedly one-time waiver an additional three times, most recently to July 2015. According to the *444.hu* report, a total of 19.6 billion cubic feet of NG will eventually transit the HAG pipeline free of charge, a quantity 33 times what was necessary to replenish Hungary's strategic reserve.

With a minor exception, only the energy-trading subsidiary of the state-owned MVM⁵ — MVM Partner Energy Trading Ltd. ("MVMP") — was authorized to use the HAG pipeline free of charge.⁶ It would be reasonable to assume, then, that Hungarians benefitted from the arrangement, either because it put MVMP's parent, MVM, in a position to sell lower-cost gas in the domestic market, or because MVM would return the excess profits to the national treasury. As *444.hu* reported, however, neither occurred. What did occur was a series of highly unusual transactions between MVMP and a Swiss-registered based company, MET Holding AG, acting through a Hungarian subsidiary, METI. These transactions were structured as follows according to *444.hu*:

- METI purchased NG from Western European energy traders at a price substantially below Hungary's Gazprom's contract rate.
- METI then sold the NG to MVMP at the HAG pipeline's transfer station at Deutsch-Jahrendorf on the Austrian-Hungarian border.
- MVMP imported the NG to Hungary, taking advantage of its cost-free use of the HAG pipeline.
- MVMP then sold the NG to MET on a same-day basis, for which MVMP pocketed a small margin (USD 0.012 per cubic meter) for transporting it over the border.
- Finally, MET sold the NG in Hungary below (by USD 0.15/m³) Hungary's Gazprom contract rate.

As to what became of the 585 million cubic meters of natural gas released from Hungary's strategic reserves, *444.hu* answers that question as well: part of it (270.6 million cubic feet) was used as intended, but the rest — nearly 54 percent of it — went to MET, which tendered it for sale. The relative benefits of this relationship are seemingly self-evident: while MVMP ended 2012 with a loss of USD 2.3 million, MET distributed dividends that year to its owners⁷ in the amount of USD 205 million.

⁵ An acronym for the state-owned *Magyar Villamos Művek*, or Hungarian Electrical Works.MVM

⁶ The other company was E.On Foldgaz Trade, which at the time was a natural gas trading subsidiary of the German company, E.ON AG. MVM acquired it in October 2013 along with a sister company, E.On Foldgaz Storage, that owns the only underground natural gas storage facilities in Hungary. According to an August 2014 report by *The Budapest Beacon*, "It turns out E.On Földgáz Trade had suffered huge losses for years, and buying it was more akin to purchasing a dangerous time-bomb than taking out an insurance policy on cheap energy." [<http://budapestbeacon.com/public-policy/state-energy-company-mvm-may-lose-usd-2-6-billion-on-purchase-of-e-on-gas-subsidiary/>. Last accessed 16 January 2015] According to another report, MVM incurred a loss on the acquisition of E.ON's gas trading and underground storage facilities (a story in its own right) of as much as USD 2.6 billion. ["Akár 600 milliárd forint veszteséget okozhat az Eon földgáz-nagykereskedő megvásárlása." *Atlatzo.hu* [online Hungarian language edition, 13 August 2014]. <http://atlatzo.hu/2014/08/13/akar-600-milliard-forint-veszteseket-okozhat-az-eon-foldgaz-nagykereskedo-megvasarlasa/>. Last accessed 16 January 2015] With a

total working capacity of 4.43 billion cubic meters —about half of Hungary's 2012 total annual NG consumption — the four underground storage facilities are now used by Gazprom to store NG in Hungary that Gazprom still owns, a highly unusual practice. It substantially insulated Gazprom from the threat of pipeline disruptions in its dispute with Ukraine of payment for NG deliveries. Prior to the September 2014 suspension of NG shipments from Hungary "until further notice," Ukraine received around 3.5 million cubic meters per day. According to one report, "The unexpected disruption came a few days after a meeting between Gazprom CEO Alexei Miller and Hungarian Prime Minister Viktor Orbán, further tightening gas supply to Ukraine in advance of trilateral Ukraine-Russia-EC negotiations which were upcoming at that time." [<http://www.naturalgaseurope.com/hungary-gas-transmission-ukraine>. Last accessed 18 January 2015] When shipments to Ukraine were restarted on 10 January 2015, it was at a lower level of about 2.5 million cubic meters per day.

⁷ See: "Hungarian oligarchs found behind profitable offshore gas agreement." *Atlatzo.hu* [online Hungarian language edition, 28 January 2014]. <http://atlatzo.hu/2014/01/28/nagy-gyorgy-es-garancsi-istan-is-reszesulnek-a-gazbizniszbol/>. Last accessed 16 January 2015.

This begs an obvious *cui bono* question: who owns MET? So far as can be determined from public sources, MET — formally, MET Holding AG — is a Swiss-registered corporation that has three shareholders: the Hungarian state oil company, MOL Nyrt (40%), which formed MET in 2007 as its energy trading division; another Swiss-registered corporation, MET ManCo AG (10%); and a Cyprus-registered corporation, WISD Holding Ltd. According to the Hungarian investigative website *Átlátszó*, WISD is owned by, respectively, two Cyprus-based companies, Westbay Holding Ltd. (30%) and Inather Trading (20%); a British Virgin Islands-registered corporation, Small Valley Investment Ltd (30%); and a Swiss-registered corporation, Deneb Algedi Invest AG (20%).

The *444.hu* article references unattributed allegations of Prime Minister Orbán's direct involvement with MET, and the involvement of unnamed Russian nationals (via Small Valley Investment) who it is said were instrumental to MET's ability to obtain access, through brokerage companies, to otherwise unobtainable Russian NG:

"Some signs suggest MET perhaps operates partly under this business model. Though lacking evidence to support it, some [Hungarian] energy industry experts believe it likely, thanks to its Russian shareholders, that MET is able to purchase Russian gas in Western Europe less expensively thanks to its Russian owners."⁸

The *444.hu* story concludes by asking, "Is MET the new Emfesz?" This is a reference to the May 2009 takeover of Hungary's largest independent gas supplier, Emfesz —at the time, it supplied NG to over a fifth of Hungary's domestic customers and four-fifths of the country's chemical plants — by a Swiss-registered shell company with unknown owners called RosGas AG.⁹ A confidential United States State Department document reported at the time:

"To some analysts, Emfesz is being squeezed out as part of a recent agreement between Russian PM Putin and Ukrainian PM Tymoshenko to exclude Emfesz's controversial supplier, RosUkrEnergo (RUE), from the Ukrainian gas trade. In this scenario, Dmytro Firtash, RUE's criminally-linked co-owner, who also owns Emfesz, is also a target. Many view recent developments as another effort by Gazprom or its proxies to gain a greater stake in Hungary's gas market. (Note: Gazprom's joint venture with E.On, Panrusgas, is the largest gas supplier on the Hungarian market. End note.)¹⁰

The person referenced in the report, Dmytro Firtash, was Emfesz's majority stakeholder until RosGas took it over in 2009. Once referred to as the "matryoshka doll" of the Russian and Ukrainian leaders,¹¹ Firtash "acknowledged ties to Russian organized crime figure Seymon Mogilevich, stating he needed Mogilevich's approval to get into business in the first place," according to a secret December 2008 memorandum written by the United States Ambassador to Ukraine, William B. Taylor.¹² Firtash later disputed the statement attributed to him by Ambassador Taylor.

***"Scripting a Kyev Scenario with a Western Producer."*¹³**

A year ago, some observers warned, "Ukraine Is Hungary All Over Again."¹⁴ Today, Hungarians question whether the reverse may be coming true, and whether "the tremors of Maidan are being felt in Europe,"¹⁵ something heard by others as less a question than an ominous warning. "It is not known yet how the Hungarian situation will end,"¹⁶ reads a December 2014 editorial in the Fidesz-oriented newspaper *Magyar Nemzet* ("Hungarian Nation"), which all but accused the United States of fomenting a "Hungarian Maidan." Orbán himself inveighed that "a new era has started when the United States not only interferes but takes an active part in internal politics in central European countries."¹⁷ To this, Russia's semi-official *Pravda*

⁸ *444.hu*, *op cit.* (4 January 2015).

⁹ Global Witness (2009). *More Funny Business in Europe's Gas Trade: How a Fifth of Hungary's Gas Supply Came Into the Hands of an Unknown Shell Company*. Global Witness Briefing, May 2009. http://www.globalwitness.org/sites/default/files/import/gw_emfesz_may09.pdf. Last accessed 18 January 2015. According to its *Wikipedia* entry, "Global Witness is an international NGO established in 1993 that works to break the links between natural resource exploitation, conflict, poverty, corruption, and human rights abuses worldwide."

¹⁰ United States Department of State (2009). "Shady Gas Firm Emfesz Latest Front In Battle For Hungary's Gas Market." Report marked Confidential, 13 May 2009. https://wikileaks.org/plusd/cables/09BUDAPEST356_a.html. Last accessed 18 January 2015.

¹¹ https://wikileaks.org/gifiles/docs/77/779667_uk-eu-fsu-ukrainian-weekly-views-planned-gas-deal-with.html. Last accessed 18 January 2015.

¹² <http://www.guardian.co.uk/world/us-embassy-cables-documents/182121>. Last accessed 18 January 2015. Global Witness concluded its May 2009 report on RosGas' Emfesz takeover by noting: "Ironically, the opacity surrounding RosGas AG is reminiscent of another Hungarian company, Eural Trans Gas. This company won a multi-million dollar gas supply contract in December 2002, only a day after it had been registered. Its ultimate ownership was obscured by nominee directors and later by an elaborate network of front companies. The company was then replaced by RosUkrEnergo, 50% of whose ownership was obscured through a trust arrangement for the first two years of its existence. Only in April 2006, after Global Witness had questioned his role in the gas trade in *It's a Gas*, did Firtash reveal that he was the owner of Eural Trans Gas and also a 45% shareholder of RosUkrEnergo." See: Global Witness (2009), *op cit.*, p. 6.

¹³ From the title of an article in the Fidesz party-oriented newspaper *Magyar Nemzet* ("Hungarian Nation"). See: "Kijevi forgatókönyvet kapunk nyugati producerrel?" *Magyar Nemzet* [online Hungarian edition, 16 December 2014]. <http://mno.hu/belfold/kijevi-forgatokonyvet-kapunk-nyugati-producerrel-1263704>. Last accessed 18 January 2014.

¹⁴ <http://world.maidanua.org/2013/ukraine-is-hungary-all-over-again/>.

¹⁵ From the title of a posting on the Kyev-based, pro-Maidan Ukraine Crisis Media Center's website. <http://uacrisis.org/tremors-maidan-felt-europe/>. Last accessed 18 January 2015.

¹⁶ *Ibid.* The quoted text reads in the original Hungarian: "Egyelőre nem tudni, hogy mi lesz a magyar forgatókönyv vége".

¹⁷ "USA strangles Europe under the cover of Ukrainian crisis." *Pravda.ru* [online English edition, 25 December 2014]. <http://english.pravda.ru/world/europe/25-12->

added:

"If earlier there were accusations of insufficient democracy, now there are allegations of corruption.' [...] Hungary is a small country and its residents are well aware of the fact that they may turn out to be in the middle of a 'front line' in case of any more aggressive actions [by the United States]."¹⁸

Going farther still, the Russia-based Eurasian Observatory For Democracy & Elections¹⁹ declared:

"The American machine has launched a logic of confrontation with its two major designated enemies: Russia and China. And in the same motion, a wave of regime changes was planned using the well-regulated machinery of 'colour revolutions' [...] the Hungary of Viktor Urban [sic] is a new colour revolution in Europe, after Ukraine, but within the European Union this time!"²⁰

Moving in the words of one analyst "from pragmatism to bear hug,"²¹ the Orbán government has picked up the Russian line with alacrity. Witness Hungarian Chancellor János Lázár in a December 2014 interview with the pro-government newspaper *Magyar Hírlap* ("Hungarian News"):

"In a country where a high proportion of households and the state have debt denominated in foreign currencies, we are more vulnerable to, more defenseless against, foreign interests. It is no wonder that we have had to face attacks in the past few years intended to undermine the government. [...] The interests of the United States do not coincide with Hungary's. The United States does not take into account the region's traditions or the country's traditions. Unfortunately, they do not want to understand the history or culture of Central Europe."²²

Last month, the Orbán government sought political refuge behind the question of immigration into the European Union. In successive weekly radio interviews, Orbán blamed the recent Charlie Hebdo attack in Paris on "bad immigration policy" — adding "I don't want to draw political consequences from the incident, because it is not tasteful to speak as the voice of reason when the soul is shocked"²³ — then declared the following week, "We must defend ourselves" against an "alarming" rise in immigration from outside the European Union.²⁴ He added:

"Here in Hungary, we must speak directly to Europe, without the usual political correctness, to tell the truth that Hungary does not want to be the destination for economic immigration [to the European Union]".²⁵

Jobbik's deputy parliamentary leader, Dániel Kárpát, punctuated Orbán's remarks, advocating "zero tolerance" toward refugees, and adding that "a 'No Vacancy' sign should be put up at Europe's borders."²⁶ Jobbik's Gábor Vona went him one better, declaring "Terrorism has immigrated into Europe."²⁷

Whether the Orbán government succeeds in leveraging anti-immigration sentiment to deflect rising political discontent remains to be seen. According to a December 2012 IPSOS poll, Orbán's Fidesz party's popularity fell 16% in a month to only 25% though many former supporters appear to have shifted right to Jobbik, whose figure rose to 14%.²⁸ Such analysts as the Hungarian political scientist Gábor Török believe Orbán's increasingly strident tone is intended to stem this decline, as Török

2014/129387-usa_europe-0/. Lasat accessed 18 January 2015.

¹⁸ Ibid.

¹⁹ According to a recent Foreign Affairs article, the Eurasian Observatory For Democracy & Elections is "a far-right NGO 'opposed to Western ideology.' The EODE specializes in monitoring elections in 'self-proclaimed republics' (Abkhazia, Transnistria, Nagorno-Karabakh) allied with Moscow, according to its website." See: Mitchell A. Orenstein (2014). "Putin's Western Allies: Why Europe's Far Right Is on the Kremlin's Side." *Foreign Affairs* [online edition, 25 March 2014]. <http://www.foreignaffairs.com/articles/141067/mitchell-a-orenstein/putins-western-allies>. Last accessed 18 January 2015.

²⁰ EODE (2014). "Like in Kiev, a Colour Revolution in Hungary!" <http://www.eode.org/eode-think-tank-like-in-kiev-a-colour-revolution-in-hungary/>. Last accessed 18 January 2015.

²¹ András Rác (2014). "From Pragmatism to Bear Hug: Hungary's Russia Policy on the Eve of the Ukraine Crisis." *Visegrad Review* [online edition, 29 December 2014]. <http://visegradrevue.eu/?p=3223>. Last accessed 19 January 2015.

²² "Lázár János: Dolgozni kell, nem szabad elbizonytalanodni." *Magyar Hírlap* [online Hungarian edition, 22 December 2014].

http://magyarhirlap.hu/cikk/12905/Lazar_Janos_Dolgozni_kell_nem_szabad_elbizonytalanodni. Last accessed 18 January 2015.

²³ "Orbán: Ez barbár, brutális tett volt!" *Index.hu* [online Hungarian edition, 9 January 2014]. http://index.hu/belfold/2015/01/09/orban_kossuth/. Last accessed 18 January 2015.

²⁴ "Orbán szerint nincs kivándorlás Magyarországról." *Napi.hu* [online Hungarian edition, 18 January 2015].

²⁵ The text reads in the original Hungarian: "Itt Magyarországnak az Európában szokásos politikai korrektségtől eltérően világosan és egyenesen kell beszélnie, meg kell mondani az igazat: nem akarjuk, hogy a megélhetési bevándorlók célországja legyen Magyarország."

²⁶ "Immigration increases tensions in Europe." Jobbik.hu [English edition, 13 January 2015]. http://www.jobbik.com/immigration_increases_tensions_europe. Last accessed 18 January 2015.

²⁷ "Vona: Terrorism has immigrated into Europe." Jobbik.hu [English edition, 9 January 2015]. http://www.jobbik.com/vona_terrorism_has_immigrated_europe. Last accessed 18 January 2015.

²⁸ "Az ország 2/3-a elégedetlen - Orbánék 800 ezer támogatót veszítettek két hónap alatt." *Nyugat.hu* [online Hungarian edition, 11 December 2014]. http://www.nyugat.hu/tartalom/cikk/_ipsos_kozvelemenykutatas. Last accessed 18 January 2015.

phrased it, is "to dig trenches, not build bridges."²⁹

Orbán's efforts may be working: one month later, support for Fidesz fell by only two percent in an early January poll.³⁰ This reflects more closely the finding of the Hungarian social research institute TÁRKI that four in ten of Hungarians (39%) agree with Orbán's immigration policy, even though the largest source of immigrants is ethnic Hungarians from Romanian Transylvania.³¹ It is no small irony that the Orbán government openly supports ethnic Hungarian separatism in Transylvania's *Székelyföld* (Székely Land) through conduits such as the government-funded *Civil Összefogás Fórum* ("Civil Union Forum).

Whither Hungary?

Whether a full-fledged *Maidan* movement will emerge in Hungary remains to be seen. There is no doubt, though, that the Orbán government is under pressure from, on the one side, the United States and the European Union, and on the other, Russia. As some Hungarians see it, a state of cold war now exists between the West and Russia, causing both sides to size up the strength of their respective military alliances. "They can see that people are taking to the streets. They can see that the opposition to Orbán is getting strong and that the prime minister's legitimacy is decreasing."³² That opposition undoubtedly is bolstered by the tale of seemingly serial corruption surrounding Hungary's natural gas sector disclosed by *444.hu*.

As to whether the Orbán government tacks east or west in an effort to survive, a disillusioned commentary on the website *Hungarian Spectrum* put it this way:

"Hungary has a bad track record when it comes to picking sides in conflicts. And such governmental decisions have always come at a high cost to the country. 'This time is different,' governments say, but it's almost never different."³³

²⁹ "Török Gábor: Orbán célja az árokásás a bevándorlózással." *Index.hu* [online Hungarian edition, 13 January 2015]. http://index.hu/belfold/2015/01/13/torok_gabor_orban_arkot_as_a_bevandorlozassal/. Last accessed 18 January 2015.

³⁰ "Kismérvű gyengülés a Fidesznel, stagnálás az ellenzéknél." *Ipsos.hu* [online Hungarian edition, 13 January 2014]. <http://ipsos.hu/hu/news/kismervu-gyengules-fidesznel-stagnalas-az-ellenzeknel>. Last accessed 18 January 2015.

³¹ "Tízből négy magyar osztja Orbán idegenellenes véleményét." *NOL.hu* [online Hungarian edition, 13 January 2015]. <http://nol.hu/belfold/orban-bekerult-az-idegenellenesek-kategorijaba-1509567>. Last accessed 18 January 2015.

³² Hungarian foreign policy expert Attila Ara-Kovács quoted in "Viktor Orbán is chaos." *The Budapest Beacon* [online English edition, 9 January 2015]. <http://budapestbeacon.com/politics/ara-kovacs-viktor-orban-chaos/>. Last accessed 18 January 2015.

³³ "Hungary and Europe Through Russian Eyes" *Hungarian Spectrum* [online English edition, 26 December 2014]. <https://hungarianspectrum.wordpress.com/tag/maidan/>. Last accessed 18 January 2015.