

Energy & Natural Resources - Hungary

Security of gas supply and dependency on imports

Contributed by **Nagy és Trócsányi**

January 21 2013

When considering Hungary's energy policy, the security of natural gas supplies is the most important unresolved issue. Hungary's own fossil resources are relatively low quality and comprise limited reserves, while natural gas dominates the heating industry. These two circumstances make Hungary significantly dependent on imported natural gas, mainly from Russia. This dependency makes the security of the supply vulnerable; in case of crises or emergencies, gas suppliers may reduce their exports to Hungary. For example, during the gas dispute between Ukraine and Russia in 2006, Russia suspended its exports for several days and Hungary was forced to use its security stocks. Alongside other events, this motivated the Hungarian government to increase the number of gas storage facilities from a strategic point of view.

As a result of such investments, at present Hungary would be able to handle a situation where imports stopped by using its underground strategic storage facilities, but only for short-term crises. If a long-term crisis arose, existing security stocks would not be adequate to satisfy the demands of Hungarian consumers. The reasons behind the low level of the security stocks are as follows:

- The dominance of Russian gas results in a lack of competition among gas sources and gas prices in Hungary being in excess of the market price.
- The lack of a decent regional infrastructure and further/new interconnectors means that Hungary is unable to access cheaper natural gas.
- The lack of bi-directional gas transfers between EU member states means that free movement of gas is not ensured within the European Union.
- Hungary has limited strategic gas storage facilities in case of long-term crises or an ongoing lack of natural gas imports.

Parliament recently adopted the National Energy Strategy as a non-binding legal instrument. Security of supply is one of the three key issues covered by the national energy policy for the next 20 years. In accordance with the aims and proposals of the National Energy Strategy, the following issues are under consideration as possible solutions to the problem of supply security:

- diversifying the means of gas supply and improving the regional infrastructure by building new gas interconnectors;
- ensuring alternative import sources, as more sources mean more gas imports from different countries, and thus constant gas imports could be maintained;
- ensuring the ability of bi-directional transfers of gas pipelines within the European Union; and
- constructing more strategic gas storage facilities.

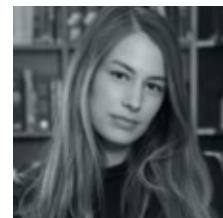
At present, there are several projects in progress in relation to the construction of new interconnectors. Hungarian experts consider that both the Nabucco and the South Stream projects would have a positive effect on the security of the gas supply.

As far as the Nabucco project is concerned, the pipeline would bring 31 billion cubic metres of gas annually through Turkey, Bulgaria, Romania, Hungary and Austria, which would help to increase independence from Russian gas. However, although the project was started in 2003, the construction work has not yet started and the source of the gas itself is still unspecified. Furthermore, Hungarian oil and gas company MOL Nyrt announced that it would not finance the project in 2012 because it had major concerns about Nabucco.

Nabucco is challenged by the Russian-led South Stream gas pipeline project, which aims to connect the European Union, including Hungarian consumers, directly to Russia through an underwater gas pipeline. The planned pipeline will bypass Ukraine,

Author

Kata Molnár



so that crises such as the gas dispute between Ukraine and Russia would no longer affect the gas supply of EU consumers. The project was started in 2007, but like the Nabucco project is still just a plan. According to recent press releases, the South Stream pipeline might bypass Hungary and go through Croatia instead; however, Russia is still examining possible route options.

Another important project in this area is the Slovak-Hungarian gas pipeline, which is based on a joint development agreement between the two countries. The agreement was signed in January 2012 with the aim of realising a pipeline which allows bi-directional gas transfer between the natural gas transmission systems of Hungary and Slovakia. According to the plans, the pipeline will enable Hungary's access to the Western European gas networks, and thus will increase its import possibilities while enabling Slovakia to access the North-South Gas Corridor. However, taking into consideration the fact that the pipeline will transfer mainly Russian gas, this project will not decrease dependency on Russian imports.

For further information on this topic please contact [Kata Molnár](#) at Nagy és Trócsányi by telephone (+36 1 487 8700), fax (+36 1 487 8701) or email (molnar.kata@nt.hu).

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