

HUNGARY'S PRIME MINISTER IN MOSCOW STEPS BACK FROM THE BRINK ON NABUCCO

by Vladimir Socor

For the moment at least, Hungary's Socialist Prime Minister Ferenc Gyurcsany is not ruining the last line of defense against Gazprom's monopolization of pipeline routes to the European Union. That remaining defense is the EU's Nabucco project to pump Caspian gas via Turkey to Europe. During his March 23 visit with Russian President Vladimir Putin in Moscow, Gyurcsany stopped short of endorsing Gazprom's Blue Stream project, Nabucco's rival, although he did obliquely confirm his government's tilt toward the Russian project. Criticized by the Hungarian opposition and some of the country's Western allies for his position, Gyurcsany had to step back from the brink of rejecting Nabucco -- at least while in Moscow.

With the transit pipelines via Ukraine and Belarus and the planned Baltic seabed pipeline all dedicated exclusively to Russian gas, Gazprom seeks to complete the EU's encirclement by capturing the southern route as well. It aims to block the Nabucco project and build instead an extension of Gazprom's Blue Stream pipeline along the same route as that planned for Nabucco. Given Hungary's pivotal location on that route, Russia could nip Nabucco in the bud by inducing Hungary's government to choose Blue Stream. That government, while a partner in the Nabucco consortium, is nevertheless holding parallel, non-transparent negotiations with Gazprom about possibly joining Blue Stream and is signaling publicly its preference for the latter.

Gyurcsany came out in favor of Blue Stream emphatically, albeit without announcing a governmental decision, in the run-up to his Moscow visit (see EDM, March 13), raising the possibility of an imminent agreement with Putin. However, Gyurcsany had to move almost immediately to defuse the alert that his remarks had triggered. Thus, on the visit's eve, he announced that signing gas deals was not on the agenda. Mounting criticism by Hungary's conservative opposition party, Fidesz, as well as sotto voce objections in Brussels, helped dissuade Gyurcsany's government from rushing to join Blue Stream now.

In a series of statements before and during the visit, Gyurcsany attempted to shift toward a more even-handed stance regarding Blue Stream versus Nabucco. He stated that Hungary would adopt a "wait and see" attitude and make its choice when it receives the details of both projects. He also credited Putin with agreeing that Hungary should consider both projects and choose the one that best answers its interests, thus gratuitously implying that Putin's agreement were needed for Hungary to exercise such a choice. Expressing serious doubt that Nabucco would be built at all, Gyurcsany played up Blue Stream as "an opportunity right in front of us." He cited Germany, France, and Italy as trendsetters in signing long-term bilateral agreements with Russia on energy, but he did not mention that Hungary is far more dependent on Russian energy and needs to reverse that trend, instead of deepening it.

Gyurcsany also held out the possibility that Blue Stream and Nabucco may turn out to be complementary projects -- that is, co-existing with one another within the same regional and national gas markets. This view seems to reflect Gazprom's suggestions that Nabucco could carry Russian gas and Russian-delivered Central Asian gas to EU territory, in which case Gazprom would deem Nabucco "viable" and join the consortium to build that pipeline.

Some potential investors and energy traders in Central European countries might regard such a solution as lucrative for themselves, particularly if the misconception persists that Russia's control of Central Asian gas is unassailable. However, such a solution would turn Nabucco into a version of the Gazprom-proposed Blue Stream extension, defeating the main goals of the EU project. Instead of reducing dependence on Russian gas and offering Europe direct access to Caspian Basin gas resources, Gazprom's market share in Europe even further and would also perpetuate Gazprom's hold on Central Asian gas. Moreover, European investors would in this case help finance essentially a Gazprom project even if it were named Nabucco.

Gazprom delivered 8.8 billion cubic meters of gas to Hungary via Ukraine in 2006, amounting to some 80% of Hungary's consumption. Apart from current supplies, Gazprom proposes to build underground storage capacity for 10 billion cubic meters in Hungary. Furthermore, it promises to turn Hungary into a "hub country" for storage and transit of Russian-delivered gas to some countries in Central and Southern Europe, provided that Hungary joins the Blue Stream project, thereby cutting off the Nabucco project from markets in Central and Southern Europe.

Gyurcsany's Moscow visit highlighted Russia's overall expansion in Hungary's economy. The network of Lukoil gasoline service stations has increased to 72 this year in Hungary. Russian firms recently completed repairs at the Paks nuclear power plant, where they took over from a Franco-German consortium. Last month, Hungary's national air carrier Malev was sold through a tender to a Russian-led consortium, with KrasAir as the dominant shareholder. According to Gyurcsany, the focus is shifting from trade to investment in Russia-Hungary economic relations.

On political relations, Gyurcsany assured Putin, "I would never support the tendency in certain quarters to depict Russia as an enemy." He also announced that Hungary-Russia high-level meetings are now occurring with the same regularity as Hungary-EU meetings and are just as important. Such remarks are in line with Gyurcsany's trademark third-road discourse, which apparently seeks to position Hungary, at least in words, somewhere between Russia and the West. He has used such discourse in previous meetings with Putin, with particular abandon last September in Sochi, but sounded more restrained this time in Moscow.

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