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Same systems, different energy policies:
explaining the change in energy dependence on
Russia in Hungary and Poland

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“Uno dei problemi che in futuro sembrano direttamente collegati all'insorgere di gravi tensioni è il problema della competizione sulle fonti energetiche. L'aumento abnorme della popolazione e della richiesta di energia pone infatti il mondo di fronte a situazioni del tutto nuove, che richiedono tutta la nostra intelligenza e immaginazione per essere affrontate.”

Piero Angela, *Viaggi nella scienza*, 1982

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Introduction

i. Historical background

Energy has played a key role in global geopolitics. Without energy there is no development. Indeed, every international order in modern history has been based on a certain energy resource: the world of the Industrial Revolution and the rapid urbanisation of the 19th century made coal a necessity. The need for this hydrocarbon was such until 1912, when Winston Churchill, then First Lord of the Admiralty, decided that coal alone was not enough to make British ships faster than German ones: hence the entry of oil. But there was no oil in England at that time, so it had to be procured from around the world and imported quickly and safely: energy became a security issue. The shift from coal to oil turned the Middle East into a key area of international interests: wars won for oil are now being turned into wars fought for oil. Prominent examples were the Suez crisis in 1956, where there was a suspension of Saudi Arabian crude oil supplies to the West; the Six Day War in 1967 with the embargo imposed by the producing countries on the US and England; and the First Gulf War (1990) with the embargo imposed by the international coalition against Iraqi oil exports.

In Europe, another fossil fuel has played and continues to play a very important geopolitical role, namely natural gas. In the 19th century, natural gas was considered a secondary product to oil and, in the absence of an extensive transport network and infrastructure, was only used for lighting homes and roads. It was not until the end of the Second World War that natural gas pipeline systems were developed and contributed to an increase in the use and economic value of this energy resource. More precisely, since the 1960s, large gas pipelines began to be built to connect the producing countries with the main European markets. Along with obtaining a significant gas supply, the Old Continent was also laying the foundations for a strong energy dependence on external energy supplies, especially Russian ones. Making energy supply lines less vulnerable underpins the security strategies of many governments: what is crucial is that the energy resource (whether oil or gas) flows unimpeded and is not used by producers as a weapon of blackmail. “*The uninterrupted availability of energy sources at an affordable price*”¹ is the definition of energy security given by the International Energy Agency (IEA). This dependence did not cause concern in Western countries until 2009, when the trade disputes between Russia and Ukraine led to the interruption of Russian natural gas supplies to Ukraine. Since the same pipelines that supplied Ukraine were the ones that brought natural gas to other European countries, Europe saw how the supply interruption could become a reality and have a decisive impact, destabilising Western economies.

¹ “Energy Security,” IEA, accessed February 4, 2023, <https://www.iea.org/topics/energy-security>.

ii. Aim of the study and research question

Over the past decade, many EU countries have become more dependent on energy imports from Russia, but to varying degrees. Similarly, not all EU countries have united today in supporting economic sanctions against Russia. In the European landscape, the Eastern European countries are the most exposed to Russia, both for geographical and historical reasons. Hungary and Poland share the same Soviet heritage and the same economic model of dependent market economies. Over the period 2010-2015, these similarities have increased with the rise to power of two leaders who share the same politics of right-wing Eurosceptic populism: Fidesz party with Orbán in Hungary and Law and Justice party (PiS) with Morawiecki in Poland. However, a closer look reveals that the two case studies have taken divergent paths towards ensuring domestic energy security. While Hungary has grown increasingly dependent on Russian gas, Poland has been trying hard to diversify its gas supply sources to diminish its dependence on Putin. Similarly, in the aftermath of the Ukraine war, Poland has openly sided in favour of the EU economic sanctions to Russia while Hungary, in turn, opposes them. How can one account for these puzzling divergent positions in energy policy between two countries with very similar political, economic, historical and geographical conditions? To answer this question, the dissertation will leverage a “most similar cases” comparative research design. Such a design carries explanatory weight by allowing me to hold constant key similarities in the socioeconomic and political context of the two countries while tracing the variation in key explanatory factors which shall account for the countries’ divergent outcomes. In order to gain a complete overview, alternative explanatory scenarios (alternative hypotheses) will also be investigated and reasons given as to why these approaches cannot be adopted. The aim of the study is therefore to investigate why two countries with similar structural characteristics end up adopting opposite energy policies towards Russia.

The dissertation will cover the period ranging from 2009 when there was the suspension of Russian gas to Ukraine and consequently also to Europe, until 2022 with the outbreak of war in Ukraine and the subsequent European anti-Russian reactions. The empirical evidence on which the dissertation will rely is based on the combination of various secondary sources such as academics articles, newspaper analysis and reports from international organizations and think tanks.

iii. Research design

In order to coherently discuss and answer the research question, the present analysis will be divided in four chapters and it is structured as follows.

In the Chapter 1 the importance of exhaustible energy resources is outlined, especially in the European context. Then, it is presented the energy system of Poland and Hungary: how their demand

and consumption is characterised. Then, the OSCE concept of energy security (consisting of availability, accessibility and sustainability) is applied to the two case studies and a focus is made on the power of Russia, as the largest exporter of gas, oil and coal to the EU.

In the Chapter 2 the logic of case selection is considered. The structural similarities of the two countries from an economic and political perspective are then analysed. Furthermore, the alternative hypotheses are formulated, these are the set of hypotheses that are discarded because they fail to give a holistic explanation for the difference in the countries' energy policies. More specifically, the role of public opinion, soft power and the liberalism school of interdependence are considered.

Chapter 3 discusses the theoretical framework and methodology applied to the study. Constructivism is the theory that is used to interpret the different outcome. It is therefore the independent variable. The origin of the formation of the ideas in the two cases is investigated: on the one hand, emphasis is placed on Prime Minister Orbán's set of beliefs, and on the other, on the Polish history. The two hypotheses are then made explicit.

Chapter 4, also called empirical chapter, is the study of the two cases. In the Hungarian case, the two main energy deals involving Russia are analysed: nuclear power and the MET gas diffusion scandal. Other energy projects undertaken by Hungary with Russian support are then explained (i.e. Friendship and Brotherhood Pipeline; Turkish Stream and the renewal of the contract with Gazprom). On the contrary, in the Polish case, initiatives favouring the diversification of energy supply are made explicit: first of all, the Baltic Pipe and the LNG terminal, but also the planned construction of the nuclear power plant and the early termination of the supply contract with Gazprom. In the last part of the chapter, the ambitions of the two states will be analysed in relation to the European context. European actions against imports of Russian energy resources (more specifically the sanctions against Russia and the REPowerUE project) will then be considered.

In the conclusion, the findings to which the analysis led will be presented. In particular, the reasons behind the different energy strategies adopted by Hungary and Poland vis-à-vis Russia will be discussed, while presenting the limitations of the research and offering new perspectives for future research on the same topic.

Chapter 1 - Energy Security Strategies

This chapter will introduce the topic of energy security, which was not perceived as a priority until the last century. Indeed, in the 1970s and 1980s, Europe started to build long pipelines connecting it with the Siberian natural gas field, increasing its dependence on Russia. At the time, however, this was not perceived as a threat. It is in the new century, with the development of an economy increasingly based on energy sources, with the realisation of the scarcity of these sources, and with geopolitical events destabilising the continuity of supply, that the European Union has put energy security high on its agenda.

After analysing the current European energy situation, I will review the energy policies of the two countries under study: Hungary and Poland. The countries' energy production, their markets and the vulnerabilities of the sector in both countries will be considered.

Finally, in the third section, two perspectives will be examined: on the one hand, the possible diversification strategies of energy supply for the two states, and on the other, the energy potential held by Russia, sometimes referred to as a weapon of power.

1.1 The importance of energy security and the European context

Energy has increasingly assumed a key role in modern society. The increase in the world's population as well as industrial and technological development means that people need ever greater amounts of energy. Examples of energy consumption for our daily needs are the operation of household appliances, lighting, transport, heating homes and electronics.

Everything that can produce energy is called an energy source. Energy sources are distinguished into primary and secondary: the former are those that exist in nature, such as crude oil, natural gas, coal and renewable energies, while the latter are those that result from a transformation of the primary ones, such as electricity or petrol. Also, among primary sources there is a further important distinction to be made. So-called exhaustible or non-renewable sources are coal, oil and gas that are extracted from the ground to be exploited and take a very long time to regenerate. In contrast, wind, water and the sun are inexhaustible or renewable sources because they are always available on the planet. My study will focus mainly on primary and exhaustible energy sources. The problem with the inexhaustible energy sources is their intermittency in generating energy in the face of a constant and growing need for it. When one of the renewable sources is missing and the country does not possess or does not have enough exhaustible energy sources, it is crucial that it can rely on energy imports. This is where the energy issue becomes intertwined with that of security.

Given the vital importance of energy supply for states, the energy sector is one of the areas where national governments pay most attention nowadays. In fact, it is no coincidence that energy security

goes hand in hand with the concept of national security.² The Organization for Security and Co-operation in Europe defines energy security as “*having stable access to energy sources on a timely, sustainable and affordable basis.*”³ Although there is no single definition of the term energy security, that of the OSCE seems the most pragmatic and clearly linked to the three main factors of the concept: availability, accessibility and sustainability. The mission of governments is therefore to ensure that their population has a constant supply of energy at a reasonable price and with the least possible impact on the planet. But, given the current geopolitical and economic circumstances, governments are increasingly concerned about the quantity and reliability of their states' energy sources, and it is very likely that the issue of energy security will remain at the centre of countries' political agendas in the years to come.

The main question is how to achieve energy security. The energy dependence can be intensified or mitigated by the different national policies of countries and there are several strategies that can be applied in this regard. A first strategy is to increase energy efficiency,⁴ in other words, to improve the system's ability to utilise energy. The lower the consumption relative to satisfying a given demand, the better the energy efficiency of the system in question. Examples of such policies are the construction of zero net energy buildings and increased R&D to achieve higher performance standards for industrial equipment.⁵ A second strategy is to increase energy storage capacity.⁶ This makes it possible to temporarily mitigate imbalances between supply and demand. During a period of low energy demand, the system must be able to store energy efficiently, while during periods of peak demand, the system allows the stored energy to be utilised and in the event of a supply disruption, the storage acts as a first-response mechanism to gain time. For example, natural gas is stored in sandy reservoirs in order to ensure the maintenance of 'strategic' reserves that can be used to cope with exceptional situations (such as an international crisis that partially blocks supplies from abroad).⁷ During the summer season, the reservoir is filled while, during the winter months, the gas is fed into the national grid. The downside of natural gas storage is the high initial construction costs of the facilities and the high maintenance costs. The third strategy is the diversification of supply and

² Simone Tagliapietra, “Introduction to Global Energy” in *Global Energy Fundamentals*, (Cambridge: Cambridge University Press, 2020), 1.

³ “Energy Security”, OSCE, accessed November 5, 2022, <https://www.osce.org/occea/446236>.

⁴ Aliaksandr Novikau, “Conceptualizing and achieving energy security: the case of Belarus” in *Energy Strategy Rev.* 26, no. 100408, (2019): 2, <https://doi.org/10.1016/j.esr.2019.100408>.

⁵ Eceee, AEEE, ACEEE, “12 strategie per aumentare l’efficienza energetica globale,” (Stockholm: eceee, 2019), <https://www.eceee.org/static/media/uploads/site-2/policy-areas/globalaction/12-ee-strategiesfor-ieahighlevel-itrev.pdf> <https://www.eceee.org/static/media/uploads/site-2/policy-areas/globalaction/12-ee-strategiesfor-ieahighlevel-itrev.pdf>

⁶ Novikau, “Conceptualizing and achieving energy security: the case of Belarus”, 2.

⁷ “Domande frequenti sullo stoccaggio del gas naturale”, Ministero dell’ambiente e della sicurezza, accessed November 6, 2022, <https://unmig.mise.gov.it/index.php/it/informazioni/domande-frequenti/2035998-stoccaggio-del-gas-naturale-domande-frequenti-faq>.

suppliers.⁸ Diversification means implementing a diversity of fuel types and expanding the scope of energy suppliers so as not to be dependent on one country. Generally, gas diversification strategies can be applied domestically and externally: the first category includes reducing gas demand, increasing domestic gas production and diversification based on internally produced energy, while the second category comprises route diversification, diversification of gas import sources and import of different energy products.⁹ Examples of diversification policies are those that focus on nuclear rather than fossil fuels, and those that combine gas supply via pipelines mainly from Russia with LNG terminals from other states such as the USA and Qatar.

According to Eurostat, in Europe “*the quantity of imported natural gas more than doubled over the period 1990-2020*”¹⁰ becoming the second imported energy products, right after crude oil. Not by chance, electricity and natural gas represent respectively the second and third largest shares in the structure of final energy consumption in 2020 in the EU, preceded by oil and petroleum products.¹¹ These energy sources are mostly used in transport, households, and industry. The energy dependency is the ratio between the net imports and gross available energy. It indicates the proportion of energy that an economy must import or, conversely, the ability of a country to meet all its energy needs and it shows how dependent a region is on energy imports.¹² The table below explains the EU's dependence on fuels (Figure 1). The light part of the columns shows the proportion of net imports on the gross availability of the given energy.

⁸ Novikau, “Conceptualizing and achieving energy security: the case of Belarus”, 3.

⁹ Csaba Weiner, “Security of energy supply and gas diversification in Poland,” (Working Paper 243, Centre for Economic and Regional Studies Hungarian Academy of Sciences, 2018), 3–11.

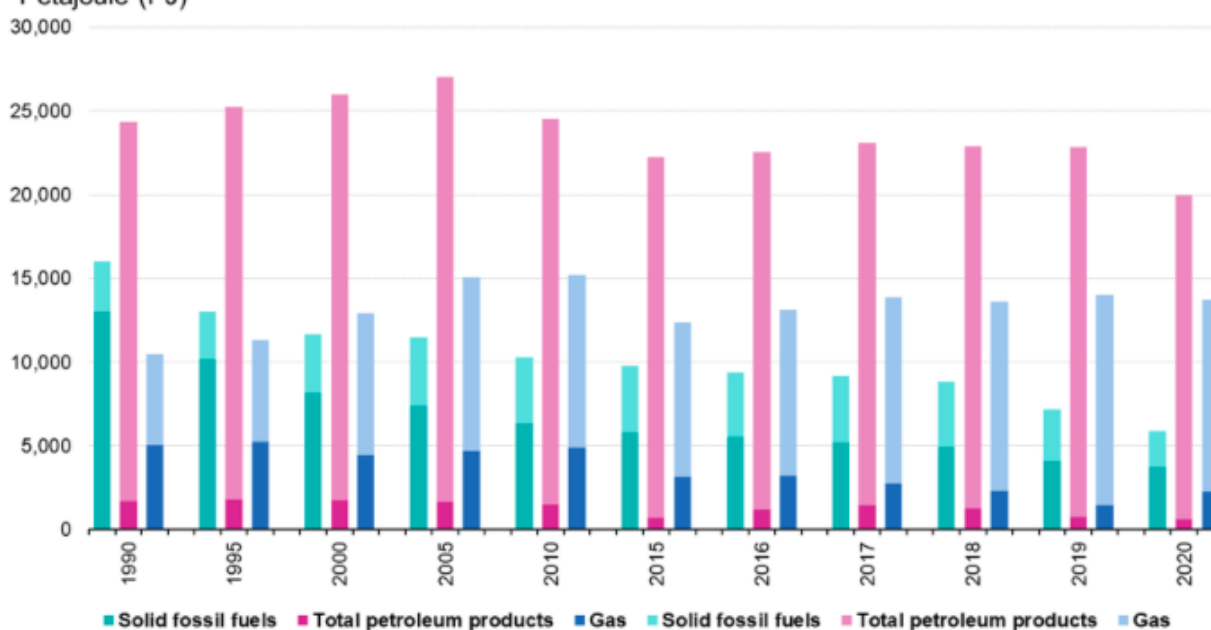
¹⁰ “Energy Statistics – an overview,” Eurostat, accessed November 20, 2022. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Energy_statistics_-_an_overview#Primary_energy_production.

¹¹ Ibid.

¹² Ibid.

Energy dependency by fuel, EU, in selected years, 1990-2020

Petajoule (PJ)



Note: the light coloured proportion of the column shows net imports with respect to gross available energy, which is represented by total column height.

Figure 1. Energy dependency by fuel, EU, 1990-2020. Source: Eurostat (online data code: nrg_bal_s).

What is interesting to note is that 97% of oil and petroleum products were imported in 2020 while the proportion for natural gas is slightly lower but still high: 83.6% of its availability is yielded by imports.¹³ The production as well as the use of solid fossil fuels in the EU has decreased over the last two decades. Overall, it can be graphically deduced that the EU has increased its energy dependence, relying more on imports. Whereas in 1990 the ratio of imported fuels amounted to 50%, in 2020 the percentage rose by 7.5 points.¹⁴ But what is more relevant is that Russia is the largest supplier of natural gas, oil and coal to the EU, more precisely the Union depends on Russia for 24.4% of all its energy needs and on Russian natural gas for 41.1%.¹⁵ These data show that the European Union is vulnerable from an energy perspective, especially during external shocks that endanger energy supplies to the region. In this context, some European countries are more dependent than others on energy suppliers. The dependency rate on energy imports varies widely from 90% in Malta, Cyprus and Luxembourg to 10% in Estonia and 28% in Romania.¹⁶ But the rate of energy dependency is not in itself a factor in the country's vulnerability, in fact, if a good diversification policy is applied, in the event of an emergency the country will not find itself at the mercy of the will of one energy

¹³ Ibid.

¹⁴ Ibid.

¹⁵ "EU energy mix and import dependency," Eurostat, accessed November 20, 2022,

https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_energy_mix_and_import_dependency.

¹⁶ "Energy imports dependency," Eurostat, accessed November 20, 2022,

https://ec.europa.eu/eurostat/databrowser/view/NRG_IND_ID_custom_1851622/bookmark/table?lang=en&bookmarkId=72cae929-3952-46b9-b363-f2a978a1fd64.

supplier, as it will have more suppliers and more energy resources at its disposal. Thus, the most interesting data is the percentage share of energy supply of a given resource from Russia. Germany imports about half of its gas from Russia: both households and a large proportion of German industrial production depend on Russian gas, which is precisely why it was reluctant to apply sanctions against Russia when the war in Ukraine broke out. A large part of Italian gas also comes from Russia, precisely 40,4%.¹⁷ France, on the other hand, draws from other supplier countries, mainly Norway. Similarly, the UK does not suffer from a heavy dependence on Putin's gas as it meets half of its energy needs from domestic sources and imports mainly from Norway and Qatar. Spain also relies on other energy partners, mostly Algeria and the United States. The countries that remain most dependent on Russian gas are those in Eastern and Northern Europe such as Latvia, Bulgaria and Finland. According to the European Commission's Eurostat site, Hungary was 54.2 % dependent on Russian energy imports in 2020,¹⁸ which shows the importance of imports in the country's total energy mix. Its share of natural gas imported from Russia rises to 110.4%.¹⁹ While this share must be interpreted in the context of exports transiting the country, and a share above 100% indicates that the country imports more than its needs for domestic consumption and exports various energy products, it remains a significant figure for understanding how much Hungary relies on Russian gas. Poland, on the other hand, has a total energy import share of 35% from Russia,²⁰ and the most imported energy resource is not gas but oil, but Warsaw had already taken several measures to reduce its dependence, which will be discussed later.

As just demonstrated, Europe is very dependent on non-European countries, especially for gas supplies; it is therefore necessary to minimise risks, both with regard to the critical infrastructure that physically transports gas to Europe, and with regard to geopolitical issues that create uncertainty in relations with suppliers.²¹ In 2019, the Regulation on risk preparedness in the electricity sector was adopted, which goes in the same direction: ensuring a steady and secure energy supply. The regulation stipulates that Member States must identify all possible crisis scenarios at national and regional level that could have an impact on their electricity supply and based on these scenarios, authorities must develop risk preparedness plans to deal with each eventuality.²² The relevance of this Regulation lies

¹⁷ "The EU imported 58% of its energy in 2020," Eurostat, accessed November 20, 2022, <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20220328-2>

¹⁸ Eurostat, "The EU imported 58% of its energy in 2020."

¹⁹ Ibid.

²⁰ Ibid.

²¹ "In evidenza: la sicurezza energetica nell'UE," Commissione Europea, accessed November 20, 2022, https://commission.europa.eu/news/focus-energy-security-eu-2020-04-27_it.

²² "Electricity market design," European Commission accessed November 20, 2022, https://energy.ec.europa.eu/topics/markets-and-consumers/market-legislation/electricity-market-design_en#risk-preparedness.

in the fact that it stimulates cooperation and coordination between Member States in order to strengthen energy security in Europe.

1.2 Energy system of Poland and Hungary

To fully understand the energy system of Poland and Hungary, it is necessary to analyse the country's energy production, the market of the energy sector and their vulnerabilities in energy security.

From 2009 to 2019, Poland experienced an economic growth rate of 4.7%, much higher than the European average (1.5%), and this increased Polish energy demand, especially for transport and industry.²³ However, the Polish energy sector does not meet the European guidelines for energy transition and against climate change. In fact, Poland, in order to meet increased demand, is making greater use of fossil fuels, creating more emissions. As the chart below shows, Poland's energy supply is mainly made up of fossil fuels (88% of TES), and the largest share of this percentage is made up of coal (40.6%), followed by oil (29.6%) and in third place is natural gas (17.4%).²⁴ It is therefore evident the fundamental role that coal plays in the country's energy system, which ranks second on the scale of the largest coal producers in Europe, after Germany. In terms of final consumption, the most used energy resource is oil, followed by electricity, natural gas and coal, which are mainly used in buildings and industry (Figure 2).

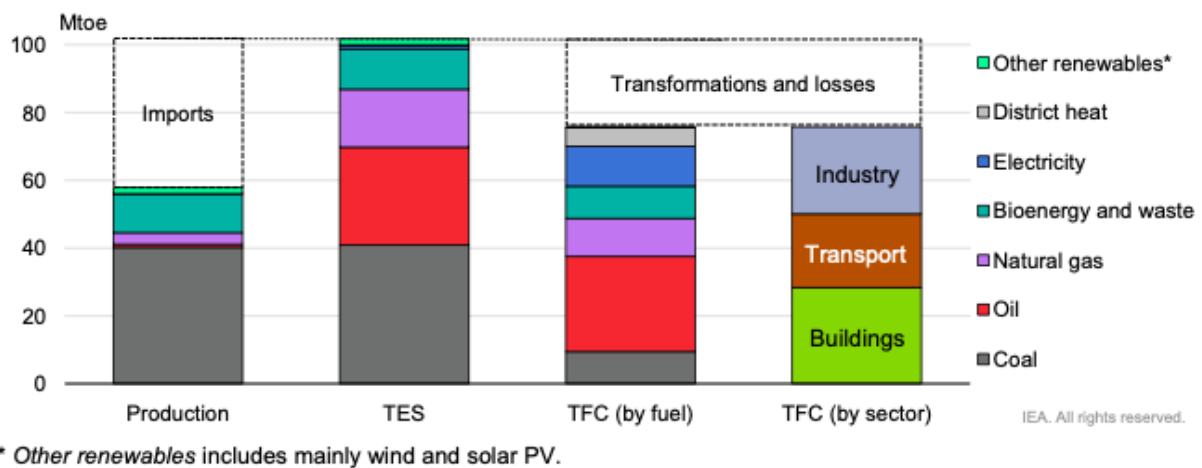


Figure 2. Overview of energy production, supply and demand in Poland, 2020. TES=Total Energy Supply and equals the total supply of energy that is consumed domestically, either in transformation or in final use.; TFC=Total Final Consumption and it is the final consumption of energy by end users, not including the transformation sector. Source: IEA, 2022.

²³ IEA, *Poland 2022 Energy Policy Review*, (Paris: IEA, 2022), <https://iea.blob.core.windows.net/assets/b9ea5a7d-3e41-4318-a69e-f7d456ebb118/Poland2022.pdf>

²⁴ Ibid.

The Polish energy sector is mostly dominated by state-controlled companies and some energy markets still use regulated prices. Although the Polish electricity market is mostly liberalised, ownership of the electricity sales sector is concentrated in four state-controlled energy companies and the switching rate for domestic consumers is among the lowest in Europe.²⁵ The gas market, on the other hand, is dominated by the state-owned giant PGNiG and is considered to be in the process of liberalisation, as it has not yet achieved an adequate level of competition and still maintains retail gas prices for domestic consumers. Finally, the Polish oil markets are fully liberalised, with prices set by market forces but still limited competition. State-controlled companies own all domestic oil and coal production.

The biggest problem for Poland is to reduce the use of coal, as the EU requires, without losing its energy security and ensuring a just transition for coal workers and communities. In fact, this extensive use of coal goes against Poland's commitment to EU 2030 climate targets and the EU 2050 climate neutrality goal. In this regard, the Energy Policy of Poland until 2040 recognises the key role of coal also through 2050. In 2021 the government reached an agreement with the coal unions to gradually close all hard coal mines in Poland, but it did not cover the entire coal sector: lignite mining and lignite-fired electricity generation were not mentioned. The transition is supported also by the EU through the Just Transition Fund which aims to help economic diversification in regions most dependent on fossil fuels and Poland resulted to receive the largest share of funding. Despite this, the funds of EUR 3.5 billion²⁶ are blocked by Brussels for violations of the rule of law. To the present day, coal still dominates the Polish energy system, accounting for the largest share of energy production and supply, electricity generation and heat production.²⁷ The government is aware that its reliance on coal cannot guide Polish energy policy for many more years and in this sense, an energy transition must be implemented, reducing the coal-fired generation by making greater use of renewables, gas and nuclear power. The use of renewable energy is encouraged by Poland's offshore wind programme and measures aimed at increasing the adoption of electric vehicles, while nuclear energy is promoted by the Polish Nuclear Power Programme, which aims to have a first reactor in operation by 2033. Government forecasts say that by 2040 nuclear power could account for up to 16% of energy production.²⁸ Poland is a small producer of natural gas and therefore relies on imports, mainly from Russia. For this reason, Poland has always been very careful to implement a strong policy of diversification of suppliers and routes, so much so that when on 27 April 2022 the Russian company Gazprom unilaterally decided to cut off supplies to Poland (together with Bulgaria), the

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

government in Warsaw was not alarmed, claiming that it had no supply problems, and that it had sufficient reserves not to cut off supplies in any way.

The main priorities of Hungarian energy policies are energy security, reducing the use of fossil fuels and maintaining affordable energy prices.²⁹ Analysing the country's energy system, it stands out that more than half of the total energy supply (TES), mostly composed of fossil is provided by imports, an indicator of high energy dependence due to limited fossil fuel resources. Since Hungary has limited sources of natural gas and oil, it is not surprising that the main source of national energy is nuclear power (Figure 3). Fossil fuels accounted for 68% of Hungary's TES, of which 33% is gas and 27% oil.³⁰ These supplies result in consumption dominated by oil and gas (Total Final Consumption), which is used in buildings, industry and, to a lesser extent, transport.

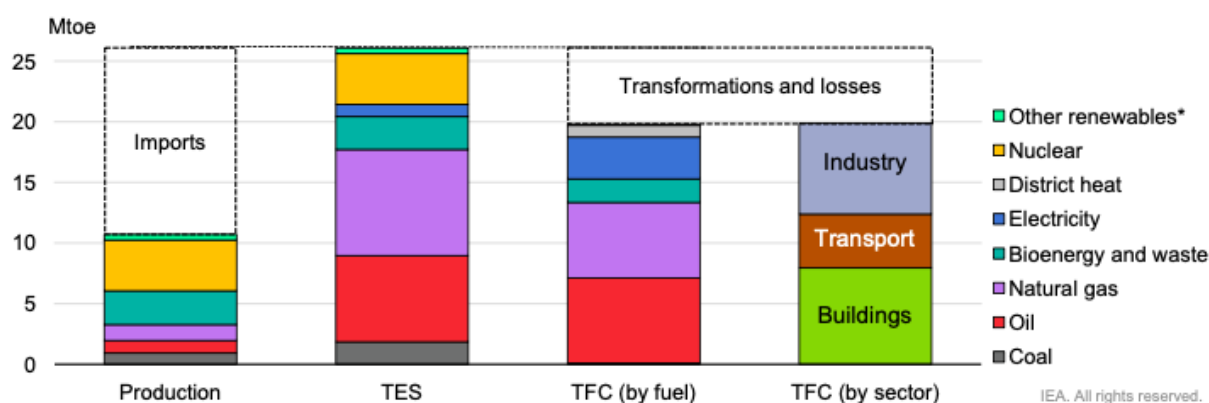


Figure 3. Overview of Hungary's energy system by fuel and sector, 2020. TES=Total Energy Supply and equals the total supply of energy that is consumed domestically, either in transformation or in final use.; TFC=Total Final Consumption and it is the final consumption of energy by end users, not including the transformation sector. Source: IEA, 2022.

Although the electricity and gas market can be described as liberalised, prices for some categories remain regulated. In fact, behind the goal of keeping the prices of these two energy sources affordable, prices have long been restricted by the state not only for the most vulnerable customers but also for all domestic consumers and small businesses. This policy hampers decarbonisation efforts, consumer choice and retail competition. In favour of greater liberalisation, in July 2022, the government decided to deregulate retail gas and electricity prices for households with consumption above average levels and increase them towards market prices. The state-owned giant MVM is the dominant player in both electricity and natural gas sectors. In the latter, MVM is also the contracting party for Gazprom's long-term natural gas supply contract. For what concern market oil, the sector is fully liberalised with no price control, but the dominant oil company MOL enjoys a considerable competitive advantage over its rivals.

²⁹ IEA, *Hungary 2022 Energy Policy Review*, (Paris: IEA, 2022), <https://www.iea.org/reports/hungary-2022>.

³⁰ Ibid.

Hungary's greatest energy vulnerability is its over-dependence on Russia. Explained through the IEA Energy Policy Review numbers: *“With little domestic production, Hungary’s import dependency stood at 87% in 2020. Russia accounted for 64% of crude oil imports and 95% of gas imports.”*³¹ Although the government itself recognises this fragility and in the National Energy Strategy 2030 sets the goal of reducing gas imports as a target, in practice the reduction of this dependence does not apply. Dependence on Russia is not only in the natural gas sector, but also in the oil sector and even in the nuclear field. Indeed, firstly, not only the supply agreements with Putin were renewed in 2021, but the following year discussions were opened to increase Russian gas supplies to Hungary by 1 bcm/y.³² Secondly, Hungary is heavily dependent on the Friendship Pipeline for crude oil imports. Finally, the intergovernmental agreement with Russia for the construction of two additional units at the Paks nuclear power plant (Paks II) and a large loan that Russia granted to the Hungarian government for their construction, are also increasing dependency in the nuclear field.

1.3 Foreign energy dependence and the Russian perspective

As discussed above, one of the ways to reduce energy dependency is to implement diversification of supplies and suppliers. Analyzing the two case studies through the six gas diversification strategies, the result confirms the very different approach of the two states.

In fact, Poland is going to reduce its gas demand while adopting a sectoral diversification based on energy produced domestically, obtained mainly by coal and lignite. Externally, it is applying a route diversification as the construction of the Baltic Pipeline testifies. This new route will allow the gas supply from Norway and Denmark, two states far less fearsome than the Russian neighbour. Moreover, Poland inverted the flow of the Yamal pipeline that runs from Russia to Germany to be less dependent on Moscow. Also, through the installation of LNG regasification plant in Swinoujscie, it is guaranteeing the import of different energy products from the United States and Qatar. Poland has therefore moved in favour of the first two pillars of the definition of energy security: ensuring more energy availability and promoting greater accessibility of energy sources.

The strategy adopted by Hungary differs a lot from the Polish one. The Hungarian government does not worry about dependence on Russian gas, as it has not reduced the demand for gas nor tried to diversify transit routes or gas imports. In fact, it relies mainly on the Friendship Pipeline for oil and the Brotherhood Pipeline for gas, both supplied by Russia. Moreover, the plans to renovate two nuclear power plants in Paks financed by large Russian loans show the strong presence of the Russian giant in Hungary's energy policy. Analysis using the Supply/Demand Index method also confirms

³¹ Ibid.

³² Ibid.

Hungary's energy security fragilities due to its dependence on a single supplier and low domestic supplies of primary energy.³³

As the graph below shows (Figure 4), in 2020 Poland has invested a lot in obtaining gas from other sources, since the share of imports from Russia in total gas consumption is within the average of other European countries while Hungary ranks first in Europe in terms of dependence on Russian natural gas imports with Latvia. The difference between the two states, however, is that the latter uses less gas in total energy consumption. On the one hand, there is Hungary, which prefers gas among its energy sources and, more precisely, obtains its supplies from Russia. There is neither a diversification of energy resources nor a differentiation of gas exporting countries. On the contrary, the share of gas in Poland's energy consumption is not particularly high, nor is the share of gas supplied by Russia. The policy of energy differentiation has been applied here for several years.

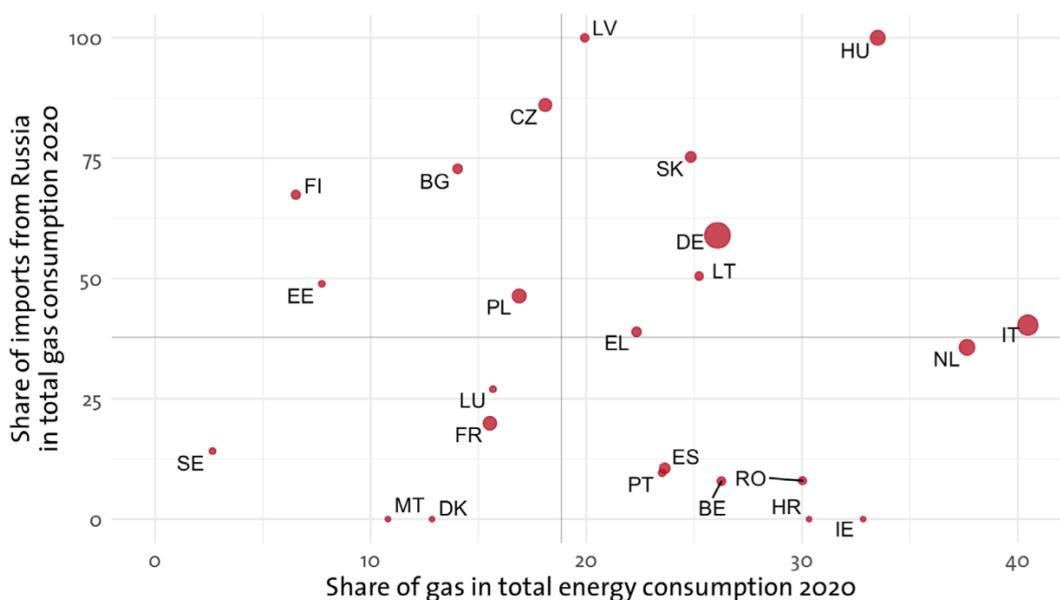


Figure 4. EU countries' dependence on Russian gas in 2020. Absolute gas imports are determined by the size of the bubbles. Source: Nils Redeker, "Same shock, different effects. EU member states' exposure to the economic consequences of Putin's war," Policy Brief, Figure 8, Hertie School, Jacques Delors Centre, (07 March 2022).

While the first and second pillars of energy security (availability and accessibility) seek to be secured by Poland, the third pillar of sustainability is not prioritised by the government. In fact, Poland ranked third among the largest emitters of greenhouse gases in Europe in 2020³⁴ (most of it come from coal), right after Germany and France, as evidenced by the European Environment Agency. Despite an

³³ Mátyás Kékes, Lipcsei Gábor, "Determining the energy supply security of Hungary using the S/D Index," in *2015 5th International Youth Conference on Energy (IYCE)* (New Jersey, IEEE, 2015), pp. 1-6, DOI: 10.1109/IYCE.2015.7180778.

³⁴ "EEA greenhouse gases - data viewer," European Environment Agency, accessed November 28, 2022, <https://www.eea.europa.eu/data-and-maps/data/data-viewers/greenhouse-gases-viewer>.

increase from 9.5% to 16%³⁵ in the share of renewable energy in total final energy consumption in the 2010-2020 period, compared to the International Energy Agency's member states, Poland ranks 21st in 2019³⁶. Poland's most used renewable energies are solid biomass, wind and liquid biofuels.³⁷ One of the main points of the EU Green Deal is the decarbonisation of the energy sector, a difficult goal to achieve for a country like Poland, which in 2020 was 72% dependent on coal,³⁸ making it the most coal-dependent country in the European Union. EU climate policy would not only undermine one of the most prolific sectors of the Polish economy, the mining industry, but also the country's energy security, which Poland is unlikely to give up.

In 2020, the share of renewables in Hungary's total final energy consumption is 14.8%, even lower than in Poland.³⁹ Hungary's most used renewable energies are solid biomass, liquid biofuels and solar energy.⁴⁰ In terms of GHG emissions, Hungary is in line with the European target of a 7% decrease in emissions compared to 2005. Hungary achieved a 21%⁴¹ decrease in emissions in 2020, thus exceeding the target for 2030. The Energy Policy Review published by the International Energy Agency states that *"Hungary needs to prioritise efforts to reduce its high reliance on Russia for gas, oil and nuclear fuel. Concrete actions are needed to diversify energy sources and expand policies that lower fossil fuel consumption, increase energy savings and promote investments in clean energy technologies [...]"*.⁴² What remains to be clarified is whether Hungary is willing to diversify its energy sources to decrease its dependence on Russia or not.

The other side of the coin is the potential of gas from the perspective of the country with the largest gas reserves in the world, Russia. The stronger the dependence of states on energy resources, the more they become a weapon of power: the so-called weaponization of energy. The definition of energy weapon means that *"an energy supplier state uses its resources as a political tool to either punish or coerce (or sometimes a combination of both) its customers."*⁴³

In 2021, Russia is the world's leading exporter of gas⁴⁴ and Gazprom, the largest natural state-controlled gas supplier on the Russian market, testifies in its 2020 report that the company's share of

³⁵ IEA, *Poland 2022 Energy Policy Review*.

³⁶ Ibid.

³⁷ Ibid.

³⁸ Mihaela Grubišić Šeba, Arjun Flora, *IEEFA Europe: Coal dependence squeezes Polish taxpayers for €141 billion*, (Lakewood: IEEFA), <https://ieefa.org/articles/ieefa-europe-coal-dependence-squeezes-polish-taxpayers-eu141-billion>.

³⁹ IEA, *Hungary 2022 Energy Policy Review*, (Paris: IEA, 2022), <https://www.iea.org/reports/hungary-2022>.

⁴⁰ Ibid.

⁴¹ "EEA greenhouse gases - data viewer," European Environment Agency

⁴² IEA, *Hungary 2022 Energy Policy Review*.

⁴³ Karen Smith Stegen, "Deconstructing the "energy weapon": Russia's threat to Europe as case study" in *Energy Policy* no. 39 (10) (2011), pp. 6505-6513, 10.1016/j.enpol.2011.07.051.

⁴⁴ "Leading gas exporting countries in 2021, by export type," Statista, accessed December 1, 2022, <https://www.statista.com/statistics/217856/leading-gas-exporters-worldwide/>.

the European gas market was 32.2% and that LNG sales in Europe were 37%.⁴⁵ If we also add the exports of other Russian energy companies, such as Novatek and Rosneft, then the percentage of Russian gas imported by the EU in the same year rises to 43%.⁴⁶ The EU's strong energy dependence on Russia is therefore evident.

Historically, at least three cases can be found in which Russia applied the weaponization of energy. The first dates to 2006 when, following the 'Orange Revolution' of 2004, Viktor Yushchenko's Ukraine tried to move away from the Russian sphere of influence. Russia then began to use gas as political leverage, increasing its price and cancelling the discounts that Kiev enjoyed, a legacy of the Soviet period.⁴⁷ The crisis culminated in January 2006 when Gazprom caused a complete disruption of Russian gas supplies to Ukraine for three days, accusing it of stealing gas transiting its territory, destined for the EU. Fortunately, an agreement involving an intermediary company, RosUkrEnergo, was reached in January 2006 and the gas supply was restored.⁴⁸

The second was in 2009, when all Russian gas flows through Ukraine were blocked for 13 days. In the background remains the clash between Russia and the EU over the future direction of Ukraine. This gas crisis also affected much of Europe, which saw gas supplies from its largest supplier cut off overnight. There were two main developments from this crisis: the first on the part of the EU, which recognised its over-dependence on Russian gas and accelerated the processes of energy diversification, and the second on the part of Russia, which recognised its over-dependence on the Ukrainian gas supply route and diversified in this regard (Nord Stream is an example of this). Under pressure from many European states indirectly affected by the dispute, a ten-year agreement was reached on 19 January 2009 for gas sales and transit contracts.⁴⁹

The third critical date when Russia used gas as an instrument of blackmail was at the end of April 2022, when Gazprom announced a complete cut-off of gas supplies to Poland and Bulgaria after they refused to pay for gas supplies in rubles. This measure affects all “unfriendly countries”⁵⁰, namely those that have put in place sanctions against Russia because of the outbreak of war in Ukraine. Again, the gas weapon was used to punish states that took anti-Russian positions and as a means of pursuing Putin’s political interest: financing the war. In fact, the reason for the payment in roubles is to stem

⁴⁵ “Gazprom Annual Report 2020,” Gazprom website, accessed December 1, 2022,

https://www.annualreports.com/HostedData/AnnualReports/PDF/LSE_OGZD_2020.pdf

⁴⁶ “Infografica - Da dove proviene l'energia dell'UE?,” Consiglio dell'Unione europea, accessed December 1, 2020, <https://www.consilium.europa.eu/it/infographics/where-does-the-eu-s-energy-come-from/>.

⁴⁷ Marco Siddi, “Ue dipendente da gas russo e crisi ucraina,” *Affari Internazionali* (October, 2015),

<https://www.affarinternazionali.it/archivio-affarinternazionali/2015/10/ue-dipendente-da-gas-russo-e-crisi-ucraina/>.

⁴⁸ Kateryna Filippenko, “A timeline of major events in Ukraine-Russia gas relations,” *Wood Mackenzie*, December 20, 2019, <https://www.woodmac.com/news/opinion/a-timeline-of-major-events-in-ukraine-russia-gas-relations/>.

⁴⁹ Ibid.

⁵⁰ “The Government expands the list of unfriendly countries,” Directive No. 1998-r of 20 July 2022, The Russian Government, accessed December 1, 2020, <http://government.ru/en/docs/46080/>.

the devaluation of the Russian currency against the dollar and the euro and consequently keep the price of gas high. More expensive gas means higher profits, much of which is reinvested in the very expensive military operation in Ukraine.⁵¹

In conclusion, Poland and Hungary are adopting two very distinct energy policies, based not only on the availability of domestic resources but also on their perception of the supplier state. Indeed, it has been shown how the power of such a state can increase if in possession of certain resources (mainly gas and oil) and thus make energy a weapon of power. On the one hand, there is Poland, which sees itself in the crosshairs of the Russian army and has therefore always ensured that it is not too dependent on Russian gas. In this sense, Warsaw has close relations with Washington and security guarantees from NATO, in anti-Russian faction. On the other hand, Hungary's energy policy is based on the idea that Russia is a key ally for economic development and energy security, thus not worrying about its high dependence on Russian gas, but rather proposing itself as a regional energy hub trading between Russia and Western EU.

⁵¹ Rebecca Mantovani, “Perché la Russia ha chiesto il pagamento del gas in rubli?,” *Focus*, March 24, 2020, <https://www.focus.it/comportamento/economia/russia-chiede-pagamento-gas-rubli>.

Chapter 2 – Logic of Case Selection and Alternative Hypotheses

In this chapter, I will explain the similarities of the Hungarian and Polish systems from a political and economic perspective. With regard to the former, I have identified three main points in common: the illiberal policies that have led the two countries to clash with the EU on several occasions (migration policies and violation of the rule of law); their membership of the Visegrád group and the transition process that led them from being part of the Soviet Union to joining the EU. Regarding economic policies, there are two main common points: being dependent market economies and the role of the state trying to centralise the power of key energy firms in the hands of the government. The reasons for the selection of cases are also presented.

Finally, I will explore different alternative hypotheses and demonstrate how they fail to provide a correct interpretation of reality.

2.1 Similar economic and political systems but different energy strategies

The study looks at two European countries, Hungary and Poland, and their attitudes towards energy dependence on Russia. The reason I decide to focus on these two countries is the counter-intuitive attitude they adopt in their respective energy policies. The paradox lies in the fact that these two states have very similar characteristics from an economic and political point of view, and one would therefore also expect parallelism in energy supply, but this is not the case (Table 1). The two populist right-wing parties have turned democracy into an illiberal constitutional one, they are both part of the Visegrád Group, and their economic model is DME with a state which plays a paternal role, but despite this, Poland has tried to depend as little as possible on Russia, while Orbán's Hungary has never had the same concern, sourcing almost exclusively from Russian gas.

MOST-SIMILAR CASES

	Hungary	Poland
Type of democracy	Illiberal constitutional democracy	Illiberal constitutional democracy
Political parties	Fidesz: populist right-wing parties	PiS: populist right-wing parties
Alliances	Visegrád Group	Visegrád Group
Type of economic model	Dependent Market Economies	Dependent Market Economies
Role of the state	Paternal role of the state	Paternal role of the state
Set of beliefs of the elite (IV)	Pro-Russian	Anti-Russian
Energy dependence on Russia (DV)	<i>High</i>	<i>Low</i>

Table 1. Personal elaboration of data showing the similarities, the independent variable and the dependent variable of Hungary and Poland.

The logic applied to the selection of case studies follows the method of 'most similar cases, different outcomes', invented by Mill and later modernised by Bob Hancké.⁵²

It is legitimate to ask why Hungary was chosen rather than a country equally dependent on Russia but with greater weight in the EU, namely Germany. Just to clear the track of further doubts in this regard, the German case and why it is not so significant in the study will be briefly analysed. The Guardian points out that “55% of the natural gas, 52% of the coal and 34% of mineral oil used in the country comes from Russia [and that] few other western economies are as dependent on Russian energy as Germany.”⁵³ Natural gas plays a very important role in Germany: not only heats half the homes of Germans but is also used in crucial sectors of the economy such as heavy industry, pharmaceuticals and food. The extent and duration of Germany's reliance on the energy source may be shown in the country's opposition to a ban on the importation of Russian gas and the Yamal Pipeline, Nord Stream 1 and the planned Nord Stream 2 only confirm this energy dependence. So, why was Hungary selected over Germany, if both have great energy vulnerability to Russia? The answer is simple and lies in the choice of the logic of case selection. Given the method of difference, what is needed is to select two countries with the same structural characteristics but different energy policies. As shown in Table 1, there are many common features between Poland and Hungary, whereas there would have been many fewer between Germany and Poland. Despite their geographical proximity, they differ widely in terms of history, economics and the presence of ruling parties. Now that the exclusion of the German case has been clarified, we can proceed with the explanation of the variables. Through this method, it was analysed the dependent and the independent variables to explain the different behaviour of Poland and Hungary toward Russia. The dependent variable the study aims to examine is the high dependence (in the case of Hungary) or low (in the case of Poland) on Russian gas supply. The independent variable is the the elites' set of beliefs and their consequent economic interests: on the one hand, the Hungarian elite is guided by pro-Russian ideas and its economic interests go in the same direction; on the other hand, the Polish elite and the country's energy policy is based on the historical phobia of Russia and their economic interests are directed towards America.

The political coalition between Orbán and Morawiecki mainly includes their efforts in defence of their illiberal and Eurosceptics positions. In particular, the dispute between Brussels and Warsaw concerns the primacy of EU law over national law, freedom of information, the rights of women and minorities, and the reform of the judiciary. All fundamental elements of a rule of law, which the EU accuses Poland of not respecting. In parallel, the quarrel between Brussels and Budapest concerns the

⁵² Bob Hancké, *Intelligent Research Design* (Oxford: Oxford University Press, 2009), 72-74.

⁵³ Philip Oltermann, “Boycott of Russian gas and oil ‘could cause mass poverty in Germany’,” *The Guardian*, March 14, 2022, <https://www.theguardian.com/world/2022/mar/14/russian-gas-oil-boycott-mass-poverty-warns-germany>.

independence of the judiciary, freedom of the press and thought, minority rights, conflicts of interest and widespread corruption in the country. The EU accused Poland and Hungary of violating the fundamental values of the EU, based on Article 7 of the Treaty on European Union (TEU). The term illiberal democracy refers to the fact that an attempt is being made by the parliamentary majority to “capture” the Constitutional Court, which is defined as “the cusp and the skylight” of the building of the constitutional state.⁵⁴ These are the first and to date only cases in the history of the EU in which this procedure, which can go as far as the suspension of voting rights in the Council, has been initiated. Article 7 was triggered against Poland in December 2017, after the approval of a justice reform wanted by the Warsaw government that, according to the Commission, puts the independence of judges and courts at risk. The procedure against Hungary, on the other hand, was triggered in September 2018 by a vote of the European Parliament, after a report by Dutch MEP Judith Sargentini raised allegations of violations of the rights of migrants and asylum seekers, restrictions on press freedom, corruption and conflict of interest in the government in Budapest. In this context, example of the Polish Hungarian Eurosceptics cooperation is their strategic veto on the European Commission's conditionality of linking the 2021-2027 structural funds to respect for the rule of law. It is no coincidence that both countries are among the net recipients of EU financial transfers, meaning that they received more money than they paid to Brussels: as they were both aware that they were not abiding by the rule of law, they did not want to risk losing important funds. Another proof of this axis is regarding migration policies and the failure to respect the 2015 agreement, at the height of the great migration crisis, which required all EU governments to commit to relocate 160,000 asylum seekers landed in Italy and Greece. Hungary has not taken the necessary measures since the start of the program, while Poland has not carried out any relocations since December 2015. The failure to fulfil obligations resulted in condemnation by the Court of Justice of the European Union.⁵⁵

Then, there are also structural similarities between the two: they are part of the Visegrád Group, an alliance that describes the four member states (Hungary, Poland, the Czech Republic and Slovakia) as united by “*a single civilization sharing cultural and intellectual values and common roots in diverse religious traditions*”⁵⁶. Economically, the four Visegrád countries share the lowest labour costs compared to other Western European countries and therefore they attract investments in manufacturing, industry and the automotive sector, but there is still a long way to go to reach Western European wealth standards. But while economic performance seems to run parallel to the four states, whether they actually share a common political identity remains a matter of debate. Indeed, the group

⁵⁴ Piero Calamandrei, speech delivered at the Italian Chamber of Deputies on 1 April 1950.

⁵⁵ Judgment of the Court (Third Chamber) of 2 April 2020, *European Commission v Republic of Poland and Others*, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:62017CJ0715>.

⁵⁶ “About the Visegrad Group,” Visegrad Group, accessed December 20, 2022, <https://www.visegradgroup.eu/about>.

has never formalised itself institutionally, limiting itself to periodic meetings at various levels between representatives of the countries. The only institution resulting from the agreement is the rather limited Visegrád Fund, which provides funding for projects in science and culture. The V4 aims to cooperate on various fronts, from investments in infrastructure to foreign policy, from technological research to the regulation of immigration plans, from cultural exchanges to European policy. One area where cooperation is particularly structured is defence, where the Visegrád Group wanted to create a framework of shared investments and joint exercises. Furthermore, in 2016 the four created a 'Visegrád Battlegroup', an intervention force consisting of more than 3,000 military personnel from the four countries, within the framework of the EU's Common Foreign and Security Policy (CFSP). Despite this initiative, the foreign policy of the V4 remains heterogeneous on some crucial fronts, such as the key relationship with Russia. More than an international organisation proper, therefore, the Visegrád group is a framework for strategic cooperation whose effectiveness varies according to the degree of cohesion between the four capitals towards the issues on the table from time to time. In recent years, the Visegrád quartet has instead found unity and cohesion when opposing certain EU policies, such as the redistribution of migrants landed in Greece and Italy and also the environmental and anti-pollution policies.

Under the sphere of influence of the Soviet regime, in the late 1980s they both began a process of transition from socialism to democracies. They are placed in the third wave of democracy by Huntington.⁵⁷ Since the second decade of the 2000s, both communism (pre-1989) and liberalism (post-1989) were conceived by the right as failed projects of modernity, a conviction that led to an increase in support for right-wing parties. More precisely, in 2015 Poland seemed to have defeated socialism with the double victory of President Andrzej Duda and his party, the PiS (Law and Order). In Hungary, this had happened five years earlier with the victory of Orbán and his party, Fidesz. It was precisely on the economic ruin of Hungarian families, who were no longer able to pay their home loans taken out at variable rates and with foreign currency, that Viktor Orbán made his debut on the political scene again by taking the country's reins into his own hands, in 2010. The same year in which the Hungarian government in the hands of Fidesz managed to pay off its debt to the IMF, an act that symbolised the end of Brussels' economic oppression within the Hungarian borders, according to the party's rhetoric. Orbán compared the 2008 Western financial crisis to the three great historical events of the 20th century: the two world wars and the fall of communism. One of the PiS slogans in the election campaign was “Let's bring Budapest to Warsaw!”, making clear the road the Polish government would like to take. Traditionalism and strong central power are political culture

⁵⁷ Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century*, (Oklahoma: University of Oklahoma Press, 1991).

similarities of the Polish national conservatives with Fidesz. But the Magyar autocrat is decidedly pro-Russian and a friend and admirer of Putin, while the PiS is more hostile than ever to the Kremlin. Eventually, the two states' path from socialism to democracy, with the advent of nationalist parties, came to a halt to the point where they are now considered illiberal democracies.⁵⁸

In addition to the similar political situation, multiple similarities can also be found from an economic point of view. Andreas Nölke and Arjan Vliegenthart speak of a third variety of capitalism. They argue that the capitalism of East Central Europe (ECE) countries is not included in the VOC theory (Varieties of Capitalism) because the traditional theory excludes the element of external dependence, which is crucial in these countries. Therefore, in addition to the Coordinated Market Economy (CME) and Liberal Market Economy (LME) they devise a third hybrid component: the Dependent Market Economy (DME),⁵⁹ which also include Poland and Hungary. DMEs' main features are the favourable conditions to attract foreign direct investments (such as very low corporate taxes that do not bring much profit to the state), the comparative advantage which lies in the assembly platforms for semi standardized industrial goods (with low labor costs and medium level of technology and skilled population) and the decisive role of transnational corporations as domestically owned small-and medium-scale enterprises are often dependent on foreign partners in supplier-driven and buyer-driven supply chains.⁶⁰ DME model is based on the mechanism of fully established technology being transferred to TNC subsidiaries (under the control of the corporate hierarchy) while the inventive portions of the business cycle remain at TNC headquarters. As a consequence, RnD is conducted outside the region and then imported into the production process, since ECE economies are viewed as a location for production rather than research by foreign corporations.⁶¹ A practical example of the consequences of the DME model can be found by analysing the main trading partners of Poland and Hungary. Since both states have high productivity in the automotive industry and low labour costs, they are able to attract large investments from Germany, one of the most productive countries in the automotive sector.

Another common economic feature is the presence of a paternal role of the state resulting in a centralising tendency of power⁶² and the consequent state's ownership of key energy firms. There are two leaders who concentrate the power of certain precise sectors in their hands, from the public media through the banking sector to the energy companies, in order to protect their interests and expand

⁵⁸ Tímea Drinóczi, "Illiberal Constitutionalism: The Case of Hungary and Poland," *German Law Journal*, no. 20, (2019): pp. 1140–1166, doi:10.1017/glj.2019.83.

⁵⁹ Andreas Nölke and Arjan Vliegenthart, "Enlarging the Varieties of Capitalism," *World Politics* 61, no. 4 (October 2009), 670–702, <https://doi.org/10.1017/S0043887109990098>.

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² Kornai, "Centralization and the Capitalist Market Economy in Hungary," pp. 47-59.

their influence. While the DME model is careful to foster optimal conditions for foreign investment in certain sectors of the country (such as automotive), the most recent administrations of Poland and Hungary have been particularly careful to maintain control in the key energy sectors, thus avoiding leaving them in foreign hands. According to “The Energy Mergers & Acquisition Review”⁶³, the National Energy Strategy 2030 testifies the willingness of Hungary to strengthen the state's presence in the energy sector. The acquisition of Status Power Invest Kft (owner and operator of the Mátrai Erőmű, which is the country's second-largest power plant) by the state-owned energy conglomerate, MVM Group, demonstrates it. In Poland, the state-owned oil and gas company PGNiG dominates the entire gas value chain while the domestic oil production and refinery is owned by three state-controlled companies (PKN ORLEN, LOTOS and PGNiG)⁶⁴, as reported by the International Energy Agency.

2.2 Alternative hypotheses

In trying to understand the key to justify the different outcome, three hypotheses can be advanced. As demonstrated graphically in the scheme below, the role of public opinion, the role of soft power and the liberalism theory of interdependence are investigated and explained why they cannot give an all-encompassing explanation for the different attitude of Poland and Hungary (Table 2). Where there is a red X, it means that the theory does not apply to the state; on the contrary, the green V means that it is valid for one of the two states.

Alternative Hypotheses (IV)	Hungary	Poland
Public Opinion	X	V
Soft Power	X	V
Liberalism of interdependence	X	V
Outcome (DV)	High energy dependence on Russia	Low energy dependence on Russia

Table 2. Personal elaboration of the data showing that the alternative hypotheses *do not explain* the choices of both countries.

The first hypothesis refers to the role of public opinion. According to this explanation, the two states would implement energy policies based on what public opinion thinks of Russia, so there should be an alignment of thought between the majority of the population and their political representatives. Although this was a satisfactory reading for the case of Poland, which, in deciding to differentiate its

⁶³ Pál Szabó, Dániel Aranyi and Eszter Gál, “The Energy Mergers & Acquisitions Review: Hungary,” *The Law Reviews* (January 2022), <https://thelawreviews.co.uk/title/the-energy-mergers-and-acquisitions-review/hungary>.

⁶⁴ IEA, *Poland 2022 Energy Policy Review*.

energy supplies and trying to depend as little as possible on Putin, the PiS as well as the Polish population express their historical fear of Russia, it remains an odd choice for Hungary to do business with its Russian neighbour. Indeed, while on the one hand there is the Pew Research Center study which shows that only the 2% of Poles⁶⁵ hold a favourable view of Russia, lowest of any country in global study; on the other hand, the Hungarian population's opinion on the same country does not go hand in hand with his government. In fact, public opinion reflects the traumas suffered throughout history: first with the suppression of the 1848 Revolution with Russian help, then with the consequences of the 1947 Paris Peace Treaty after the Second World War, since Hungary stood alongside the defeated Axis powers. Soviet troops remained in Hungary and began a gradual process of Sovietisation of the country, culminating in the new Stalinist Constitution in August 1949. Until 1953 there was a total subordination and integration into the Soviet Union, characterised by a lack of autonomous policy. The following years saw a gradual opening of Hungarian foreign policy and an improvement in relations with the Western allies but in 1956, when the Prime Minister Imre Nagy called for the neutralization of Hungary within the Cold War and the withdrawal from the Warsaw Pact and when an armed popular uprising against socialism arose, Khrushchev responded with force. In fact, he sent 60,000 troops, tanks, and artillery⁶⁶ to re-establish communist rule and Nagy was kidnapped and executed. This event carries great weight in the history of Hungary because it caused a deep rift between the ruling elite and the citizens, fuelling nationalist sentiment even more.⁶⁷ After the Revolution, Hungary accepted the dominance of the USSR until its dissolution, when it started a gradual easing of relations with the Western powers. Since traces on the collective memory cannot be over-written from one day to another, *“public opinion polls reflect continued aloofness toward a “big neighbor” that had stationed its armed forces on Hungarian territory in the past”*⁶⁸ and even the majority of the Fidesz voters believe that the country's affiliation with the United States and the EU better serves its national interests. Thus, the recent Russian-Hungarian axis is based on a relationship of elites that has little to do with the variable of popular opinion, rather it seems possible to identify a trend of the Hungarian elite pursuing pro-Russian policies without the general backing of the masses but for purely self-interested purposes. In conclusion, the public opinion cannot be taken into account as an explanatory variable because while it would be able to explain the position of the Polish government, it does not justify the moves of the Hungarian government.

⁶⁵ Daniel Till, “Only 2% of Poles view Russia favourably, lowest of any country in global study”, *Notes From Poland*, June 22, 2022, <https://notesfrompoland.com/2022/06/22/only-2-of-poles-view-russia-favourably-lowest-of-any-country-in-global-study/>.

⁶⁶ Sebastian Thomas Margaras, “L’Ungheria di Viktor Orbán: una riproposizione della Storia” (Master diss., Luiss University, Rome, 2019), 28, LUISSThesis.

⁶⁷ *Ibid.*, 29.

⁶⁸ Dániel Hegedűs, “The Kremlin’s Influence in Hungary,” *DGAPkompakt*, no. 8 (February 2016): <https://dgap.org/en/research/publications/kremlins-influence-hungary>.

The second hypothesis concerns the role of soft power. According to the definition given by Nye, “*soft power is persuasive power deriving from attraction and emulation and grounded on intangible resources such as culture, ideology, and institutions.*”⁶⁹ In the case of Poland there is an undeniable American soft power, while in the case of Hungary this influence comes from the East, more precisely from Moscow. As far as Budapest is concerned, however, the country does not fit with the definition of soft power because “*in terms of gaining influence, the Kremlin has been concentrating almost exclusively on the Hungarian political and economic elites [and] the government-backed business deals with Russia unquestionably serve as a lucrative source of income for Orbán’s inner circle.*”⁷⁰ The Hungarian government uses relations with Russia to gain political and economic advantages for the pro-regime elites, but not to spread a pro-Russian vision within Hungary, as the failure of the plan to launch a Hungarian edition of the Russian propaganda broadcaster RT proved. Whereas the concept of soft power refers to democratic power in the sense that it should involve a large part of the population, in the case of Hungary, the agreements with Putin serve as a source of profit for Orbán’s inner circle to secure both political gains and economic benefits for the pro-regime elites. Conversely, in the case of Poland soft power can be seen in the decision on the desired energy policy model and the formation of the public mood in the face of the energy crisis. Indeed, examinations of the impact of the media on their role in influencing public mood toward the policy of abandoning coal in Poland in favour of nuclear energy show the media’s significant influence on energy policy.⁷¹ The construction of the nuclear power plant is seen by America as a key element in the Polish American Strategic Energy Dialogue, as well as a huge economic opportunity. So, not even the explanatory soft power hypothesis can give us a clear reading of the behaviour of the two states.

The third hypothesis draws on the strand of liberalism of interdependence. Literally, interdependence means mutual dependence and that governments as well as their populations are affected by what happens elsewhere by their counterparts in other countries. In particular, scholars Nye and Keohane argue for complex interdependence, a theory that opposes the traditional separation of high politics (security, survival) from low politics (economics and social issues). In fact, they reverse the hierarchy by arguing that under complex interdependence states must increasingly deal with the low politics of welfare and less and less with the high politics of military security. Following this path, Poland seeks to strengthen trade agreements with European countries: its main trade suppliers in 2020 were

⁶⁹ Joseph S. Nye Jr., *Understanding International Conflicts: An Introduction to Theory and History*, (New York: Pearson, 2009).

⁷⁰ András Rác, “Authoritarian Ties: The Case of Russia and Hungary,” *Wilson Center*, October 22, 2021, <https://www.wilsoncenter.org/blog-post/authoritarian-ties-case-russia-and-hungary>.

⁷¹ Piots Zuk, “Soft power and the media management of energy transition: Analysis of the media narrative about the construction of nuclear power plants in Poland,” *Energy Reports*, no. 9 (December 2022): 568–583, <https://doi.org/10.1016/j.egy.2022.11.192>.

Germany, China and Italy, while the main trade recipients in the same year were Germany, the Czech Republic and the United Kingdom.⁷² It is therefore clear that, despite the disagreements with the European Union on the application of rule of law and democratic principles, strong ties exist between the West and Poland, especially in the economic field. The character of interdependence is given by the fact that the country is an assembly platform for semi-standardised industrial goods, which gives a not insignificant advantage to transnational corporations (TNCs) because labour is cheaper than other states and Poland creates favourable conditions to attract FDIs. Put simply, Poland depends on the investment of these TNCs just as these TNCs depend on the low-cost labour of Poles. In the case of Hungary, however, one cannot speak of true interdependence since trade between Russia and Hungary is mainly based on gas and, thus, it remains rather limited, highly asymmetrical and one-dimensional.⁷³ In fact, in 2020 Russia exported twice as much to Hungary as it imported from the same state. The products exported from Russia are mainly energy goods and have increased over the past 25 years, while Hungary exports medicines, machinery and computers to Russia.⁷⁴ In the end, Hungary is only a minor partner for Russia economically, which is not the case for Orbán, who is completely dependent on Russia for his country's energy supply. In conclusion, not even the liberalism of interdependence can be considered as the key variable explaining the different outcome in energy policies.

To sum up, the three hypotheses investigated (public opinion, soft power and interdependence liberalism) would fit the Polish foreign policy choices, but they cannot provide a good explanation for Hungarian behavior.

⁷² Ambasciata d'Italia in Polonia, "Polonia," *infoMercatiEsteri*, December 14, 2022, https://www.infomercatiesteri.it/public/ime/schede-sintesi/r_82_polonia.pdf.

⁷³ Zsuzsanna Végh, "Hungary's "Eastern Opening" policy toward Russia: ties that bind?," *International Issues & Slovak Foreign Policy Affairs*, Vol. 24, No. 1-2, EUROPE AND RUSSIA (2015), pp. 47-65, <https://www.jstor.org/stable/10.2307/26591857>.

⁷⁴ OEC, *Russia and Hungary Trade*, OEC, <https://oec.world/en/profile/bilateral-country/rus/partner/hun>.

Chapter 3 – Theoretical Framework and Methodology

In this chapter I will discuss the theoretical framework. In the first paragraph I will present the theory that is able to explain the variation in the independent variable. The latter, in turn, is the key that explains the different behavior in energy policy. The different outcome is the variation in the levels of dependency on Russia: in the case of Poland, it is low while it increases dramatically for Hungary. The theory that best explains this variation is constructivism, a branch of the school of international political economy. In fact, the set of beliefs is the explanatory variable: ideas are formed on the one hand by Orbán and on the other by historical conditions, and these drive government elites in making decisions regarding energy policies.

In the second paragraph I will elaborate a set of testable hypotheses to be empirically tested in the case studies in the next chapter. It describes the network of people around Orbán who, thanks to a chronic system of corruption, implemented pro-Russian energy policy ideas. It is also explained how PiS accentuates historical fears to direct energy policy towards the West.

The third part of the chapter is dedicated to the research method: it is clarified the rationale behind the selection of materials and the time frame under review.

3.1 When the set of beliefs of the elite guide the policy of a state

The constructivist approach can justify the positions of the two states. In fact, this strand of IPE affirms that norms and values help to constitute identities and shape preferences. In this case the main concern is how to achieve energy security. On the one hand, there is the Hungarian elite that sees Russia as a key ally for economic development and energy security; on the other hand, there is Poland, which, with its never-vanishing nightmare of being a strategic territory for Russia, tries to gain energy security by depending as little as possible on Russia. On the one side, we have the ideas of a leader guiding Hungarian political action; on the other side, there is the history of Poland influencing the ideas of the government elite and policy choices (Figure 5).

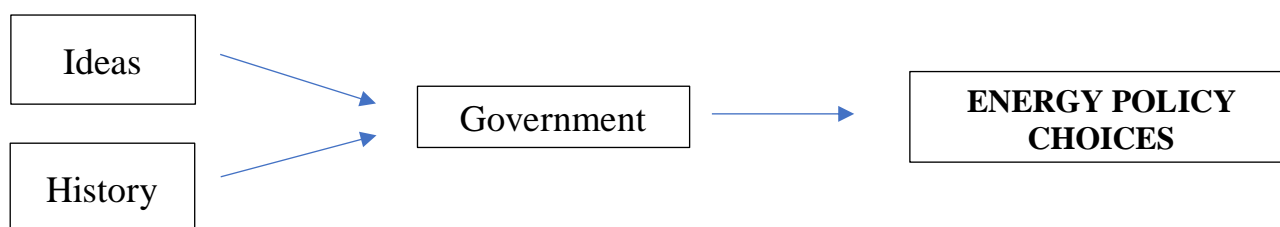


Figure 5. Personal elaboration of the data demonstrating the theory of constructivism applied to case studies. In the case of Hungary the set of ideas is formed by Orbán, in the case of Poland the ideas are formed by historical legacy. In both cases, the ideas guide the actions of governments and influence the choice of energy policy.

It is therefore necessary to investigate the figure of the Hungarian Prime minister and Polish history to understand the origin of the ideas that guide the energy policy of the two countries.

Every time Fidesz has won elections it has had a single Prime minister, Viktor Orbán. It has even gone so far as to speak of 'orbánization', given the highly personalised nature of the party and the policies implemented by the country after 2010. In Wilkin's words, "*Orbánization is to be understood as the transformation of Hungarian political culture into a form of illiberalism where the formal mechanisms of liberal politics remain (elections, a judiciary, a free press, the rule of law), but where the political system has been reorganised in a way that gives the government authoritarian power on a variety of levels.*"⁷⁵ Orbánization is characterised by ethno-nationalist ideology, which seeks an external enemy to lash out against (be it the EU or George Soros or migrants) in order to protect, or make it appear so, the country. Orbán answers to no one, he is completely independent and responsible for the country's policies. In order to better understand the Hungarian leader, it is necessary to take a leap back in time and return to 16 June 1989, to the Heroes' Square (Hősök tere) in Budapest when Hungary paid tribute to those involved in the 1956 Revolution, which was crushed by Soviet tanks. A young Orbán (26 years old at the time) takes the floor and bluntly accuses the Hungarian communist government of stealing the youth of an entire generation, calls for free elections, and for the withdrawal of Soviet troops. The fury of the authorities at the weight of that speech, which was unambiguously opposed to the Soviet regime, was countered by the admiring astonishment of the audience. In that episode, there is everything about Orbán: a volatile, erratic, and charismatic leader.⁷⁶ Almost thirty years later, in his second re-election speech in 2014, he summed up his beliefs in these words "*[...] a trending topic in thinking is understanding systems that are not Western, not liberal, not liberal democracies, maybe not even democracies, and yet making nations successful. Today, the stars of international analyses are Singapore, China, India, Turkey, Russia. We are searching for (and we are doing our best to find, ways of parting with Western European dogmas, making ourselves independent from them) the form of organizing a community, that is capable of making us competitive in this great world-race.*"⁷⁷ From being a young liberal activist and highly critical of Russia, over the years he matured a long turn towards conservatism and in 2014 came to define Russia as one of the most successful countries in the international system, to be understood and imitated. It matters little whether the country is a democracy or not, what matters is being able to compete with nations of this stature. As a matter of fact, from 2010 onwards, the Russian-Hungarian relationship has intensified, especially regarding energy relations, feeding

⁷⁵ Peter Wilkin, "The Rise of "Illiberal" Democracy: The Orbánisation of Hungarian Political Culture," *Journal of World-System Research*, Vol. 24, Issue 1, p. 27, DOI 10.5195/JWSR.2018.716.

⁷⁶ Andrea Muratore, "Da Piazza degli Eroi all'UE: ecco chi è Viktor Orbán," *Inside Over*, April 4, 2022, <https://insideover.ilgiornale.it/schede/politica/da-piazza-degli-eroi-alla-scena-europea-chi-e-viktor-orban.html>.

⁷⁷ Csaba Tóth, "Full text of Viktor Orbán's speech at Băile Tușnad (Tusnádfürdő) of 26 July 2014," *The Budapest Beacon*, July 29, 2014, <https://budapestbeacon.com/full-text-of-viktor-orbans-speech-at-baile-tusnad-tusnadfurdo-of-26-july-2014/>.

European fears of seeing Hungary as a Russia's Trojan horse within the Union. It is therefore not surprising that the Hungarian government in both the Crimean crisis of 2014 and the invasion of Ukraine in 2022 has always tried to oppose EU sanctions against Russia. Orbán has argued that "*this weapon [sanctions on Russia] has backfired, with sanctions Europe has shot itself in the foot*"⁷⁸. The Fidesz leader is described as a man of many contradictions, prone to doing the 'peacock dance'⁷⁹ involving two steps forward and one step back. He repudiates Brussels but exploits the structural funds from it to implement expansionist policies that increase Hungary's GDP. He preaches closure to migrants and the defence of national sovereignty but at the same time attracts into his orbit political figures from countries, such as Italy, that have always called for a fairer redistribution of migrants. He has condemned the Russian invasion but has not broken with Putin, stating that he wants to maintain a position of neutrality. He has shown solidarity with European sanctions but refused to send arms to Ukraine, while declaring itself willing to accept all war refugees.⁸⁰ Budapest thus remains the closest European capital to Russia. Orbán's attitude towards Putin is conciliatory, driven by the belief that securing Russian gas is the best strategy to gain energy security.

From the Russian perspective, the Russian state is protected to the south-west by the Carpathians, which further south turn into the Transylvanian Alps, while to the north-west there are no mountains to protect Russia from possible invasions from the North European Plain: there is a flat corridor, Poland.⁸¹ In addition to the geopolitical aspect, the Polish fear has been repeatedly confirmed by the historical course of events. In fact, from the late 18th to the late 19th century, Tsarist Russia conducted a process of 'Russification' of Polish society, imposing Russian customs and traditions.⁸² This led to the creation of deep resentment towards the Russian Empire and accentuated Polish nationalism, which culminated in the Polish-Bolshevik War in 1919. The war ended two years later with the Peace of Riga. In 1939, the Molotov-Ribbentrop Pact between Nazi Germany and Soviet Russia, proved once again that Russia's expansionist ambitions aimed at a part of eastern Poland. Another event that contributed to Polish Russophobia was the Katyn Massacre in spring 1940. The Polish soldiers taken prisoner after the partition of Poland were massacred along with politicians, journalists, intellectuals, professors and industrialists, killed by summary executions with pistol shots by the military People's Commissariat for Internal Affairs (Nkvd) in a series of episodes that had their climax in the massacre

⁷⁸ Krisztina Than and Anita Komuves, "Hungary PM Orban says EU sanctions on Russia have "backfired," *Reuters*, September 26, 2022, <https://www.reuters.com/world/europe/hungary-pm-orban-says-eu-sanctions-russia-have-backfired-2022-09-26/>.

⁷⁹ Hegedűs, "The Kremlin's Influence in Hungary."

⁸⁰ Muratore, "Da Piazza degli Eroi all'UE."

⁸¹ Tim Marshall, *Prisoners of Geography*, (London: Elliot and Thompson Limited, 2019), 5.

⁸² Giovanni Telesco, "Polonaise, Polonia e Russia tra vecchi rancori e nuovi timori," *Opinio Juris*, January 24, 2022, <https://www.opiniojuris.it/polonaise-polonia-e-russia-tra-vecchi-rancori-e-nuovi-timori/>.

that took place near the Katyn forest, located about 20 km from the Russian city of Smolensk.⁸³ A total of 22,000 people died⁸⁴ in a series of operations aimed at wiping any remnants of Polish identity from the face of the earth. At the end of World War II, Poland was completely subjugated to the Soviet Union, becoming its satellite state until the USSR imploded. At the end of the Cold War, Poland lost no time in promoting the pro-European and pro-Atlantic turn. In 1999 it officially joined NATO and five years later the European Union. Poland then focused on Europeanising its neighbours through diplomacy, in particular Belarus, Moldova and Ukraine, clashing with Putin's territorial aims. If the first two states did not present enough guarantees for the Polish pro-European project, given their close ties to Moscow, Ukraine was more inclined to open towards the West. But when Ukrainian President Yanukovich decided not to make a pact with the EU but to sanction a pact with Putin, Ukrainian society erupted in protests and split between pro-Russian and pro-Western factions. It was this scenario that allowed Putin's entry into Sevastopol and Russia's subsequent annexation of Crimea in 2014. The fear triggered by Russian aggression certified the explosion of consensus of the conservative PiS party, which had launched a massive political campaign against the previous Tusk government, guilty of ignoring Putin's threat⁸⁵ and the PiS made it clear that the external threat came from Russia. The Russian invasion of Ukraine, which began on 24 February 2022, has only confirmed Polish fears of Putin and his foreign policy. In fact, the fear of border security in the face of a possible Russian threat is always present in Polish public opinion, as pointed out earlier, citing research by the Pew Research Centre. The ancient antipathy between Poland and Russia is bi-directional. It is therefore not surprising that Putin in his article 'On the historical unity of Russians and Ukrainians', published in 2021, repeatedly called Poland into question, describing it with negative connotations and implicitly blaming it for stimulating the creation of Ukrainian national sentiment. Indeed, he clearly wrote *“the idea of Ukrainian people as a nation separate from the Russians started to form and gain ground among the Polish elite and a part of the Malorussian intelligentsia.[...] Such hypotheses”* became increasingly used for political purposes as a tool of rivalry between European states.”⁸⁶ This brief historical overview demonstrates the importance of the cultural variable on foreign policy choices and thus the choice made by the Polish government to depend as little as possible on Russian gas while at the same time differentiating energy supply resources.

⁸³ U.S Foreign Affairs Research, “Records Relating to the Katyn Forest Massacre at the National Archives,” *National Archives*, November 25, 2022, <https://www.archives.gov/research/foreign-policy/katyn-massacre>.

⁸⁴ Katarzyna Utracka, “The Katyn Massacre – Mechanisms of Genocide,” *The Warsaw Institute*, May 18, 2020, <https://warsawinstitute.org/katyn-massacre-mechanisms-genocide/>.

⁸⁵ Telesco, “Polonaise, Polonia e Russia.”

⁸⁶ Vladimir Putin, “On the Historical Unity of Russians and Ukrainians,” *Official Internet Resources of the President of Russia*, July 12, 2021, <http://en.kremlin.ru/events/president/news/66181>.

3.2 Set of testable hypotheses

It is necessary to make explicit the set of hypotheses that will be tested empirically in the following chapter.

HY 1: We should expect the elites of countries with a positive belief in the energy exporter not to seek diversification of sources or exporters, but to continue to enter into even bigger contracts with the same trusted exporter.

HY 2: We should expect the elites of countries with an adverse belief against the energy exporter to seek their own energy security by implementing policies to ensure greater diversification and less dependence.

As mentioned above, what are seen as Hungary's beliefs and the resulting energy policy choices actually come mainly from its leader and the close network of his associates. It is the latter who enter into agreements and implement energy plans with Putin. It is therefore interesting to understand how the system works.

Investigative journalists report on the existence of "shadow empires" in the Fidesz business environment, which receive assistance from the political sphere and in return give aid to politicians and there are companies that are known to be "close to Fidesz". Orbán is accused of favoring businessmen and officials with whom he has ties of friendship and kinship, creating a power network. These "shadow empires" are present in every sector of business, including the energy sector. According to the Corruption Perceptions Index 2022, Hungary, with a score of 43 out of 100, is among the three countries with the lowest scores in Western Europe and the EU, together with Romania and Bulgaria.⁸⁷ Jozsef Peter Martin, executive director of Transparency International, stated that *"Since 2010, together with the distortion of the entire institutional system, basically Fidesz and the oligarchs close to Fidesz have taken over the state"* and that *"The most worrying thing about Hungary's development today is cronyism"*.⁸⁸ In little more than 10 years, Orbán has built a hybrid regime, with more and more control over resources (through the firmly established oligarchy loyal to the party) and less and less separation of powers (the judiciary is close to Fidesz). The Corruption Research Center Budapest (CRCB), a non-government-independent think tank, in its 2020 Report proved that in the first four months of the year *"corruption risk in Hungarian public procurement*

⁸⁷ Transparency International, "Corruption Perception Index 2021," *Transparency International*, https://images.transparencycdn.org/images/CPI2021_Report_EN-web.pdf.

⁸⁸ Neil Buckley and Andrew Byrne, "Viktor Orbán's oligarchs: a new elite emerges in Hungary," *Financial Times*, December 21, 2017, <https://www.ft.com/content/ecf6fb4e-d900-11e7-a039-c64b1c09b482>.

reached the highest level since 2005: by April 30, the share of contracts without competition was 41 percent”⁸⁹ (Figure 6).

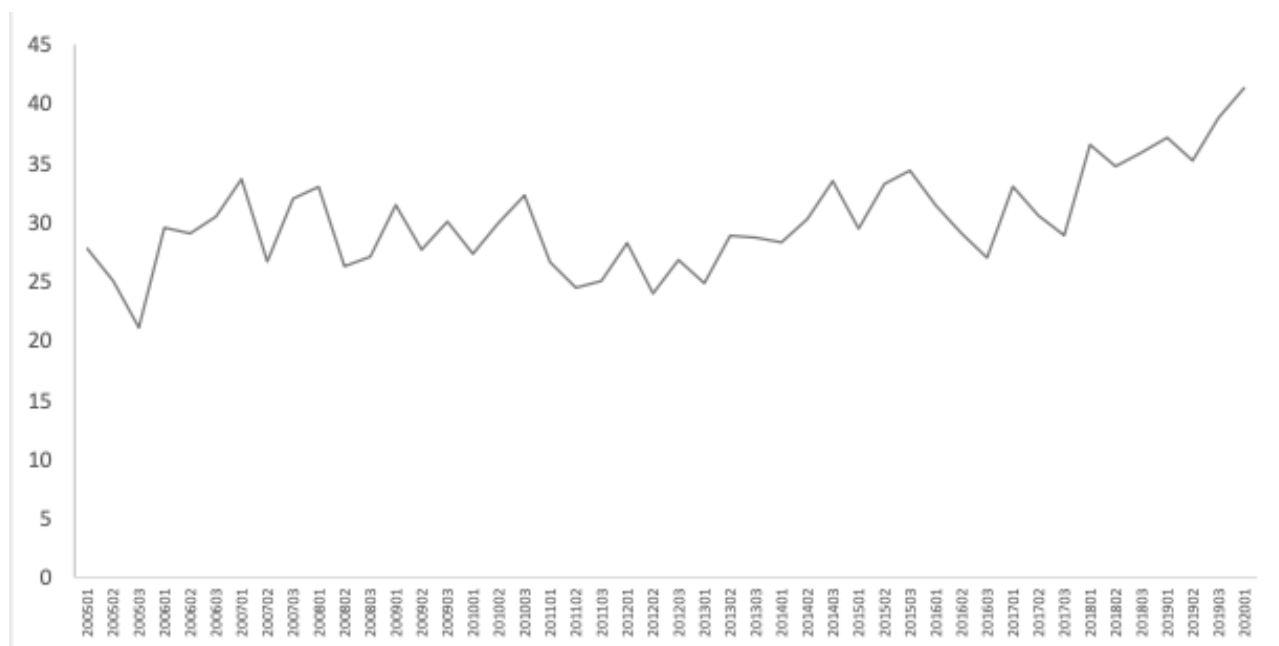


Figure 6. The risk of corruption in the Hungarian public procurement from 2005 to 2020. Share of contracts without competition, with framework agreement. Source: Corruption Research Center Budapest.

The Research Center came up with an acronym that gives a good idea of the power dynamics: MGTS+, which stands for Mészáros, Garancsi, Tiborcz and Simicska, the four most powerful oligarchs around Orbán. Mészáros is a childhood friend of Orbán and in an interview he admitted that in his career “*God, good luck, and Viktor Orbán*” played a key role.⁹⁰ Garancsi shares a passion for football with the prime minister and has interests in banking and natural gas trading. It is not surprising that his company, Market, was involved, among others, in the construction of the Puskas Arena in Budapest. Istvan Tiborcz is Orbán's son-in-law and since 2013 his lighting company has won many contracts partially funded by the EU, and then he sold the company and invested in real estate. Simicska has been a member of Orbán's Fidesz party since its foundation in 1988. In 2014, Simicska was one of the richest and most powerful men in the country, owning a pro-Fidesz media empire but after the 2018 elections there was a break with Orbán.

⁸⁹ CRCB, “New Trends in Corruption Risk and Intensity of Competition in the Hungarian Public Procurement from January 2005 to April 2020,” CRCB Flash Report 2020:1, Budapest: CRCB, http://www.crcb.eu/wp-content/uploads/2021/04/2018_sc_summary_180426.pdf.

⁹⁰ Gabriella Horn, “God, good luck, and Viktor Orbán”: The Story of Lőrinc Mészáros,” *European Network of Corporate Observatories*, February 2, 2020, <https://corpwatchers.eu/en/investigations/know-your-billionaires/god-good-luck-and-viktor-orban-the-story-of-lorinc-meszaros?lang=en>.

The study of the Research Center has shown that the MGTS+ group, through their companies, has won a large portion of contracts out of the total number of public contracts awarded since 2010 (Figure 7).

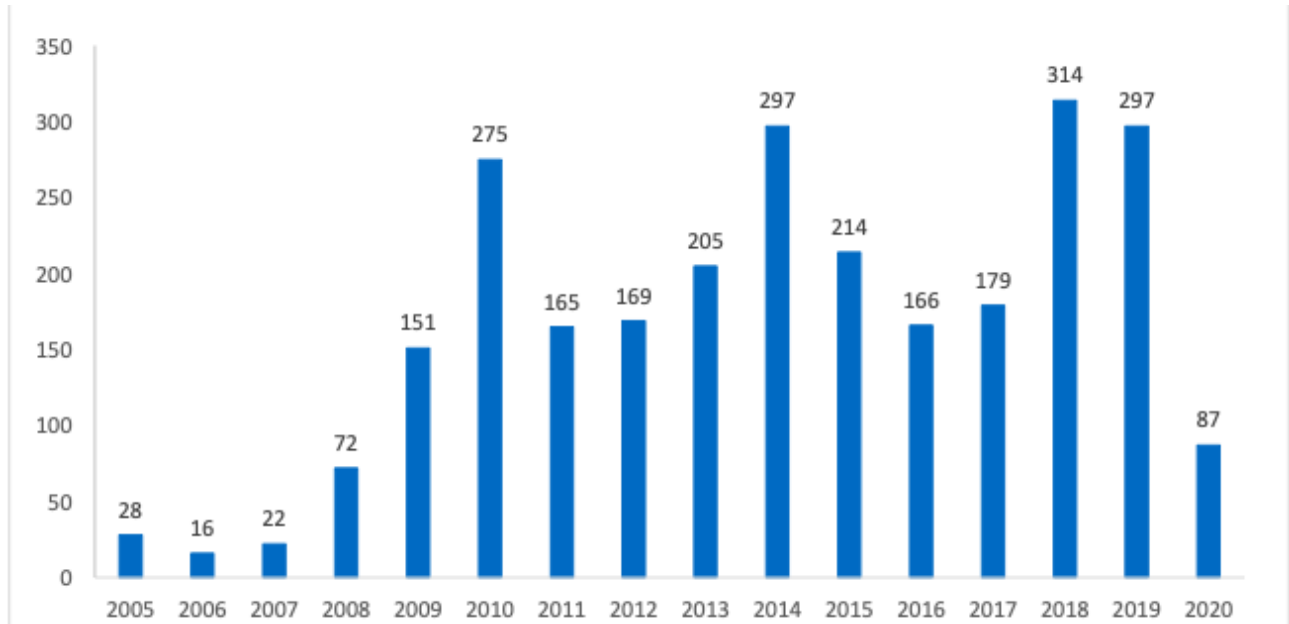


Figure 7. Number of contracts won by crony companies (MGTS+ group) in the Hungarian public procurement, from January 2005 to April 2020, with framework agreement. Source: Corruption Research Center Budapest.

Moreover, it was demonstrated how MGTS+ companies prefer to participate in (and consequently win) large tenders rather than medium-small ones, which are left to ordinary Hungarian companies, in the time period from January 2011 to April 2020 (Figure 8).

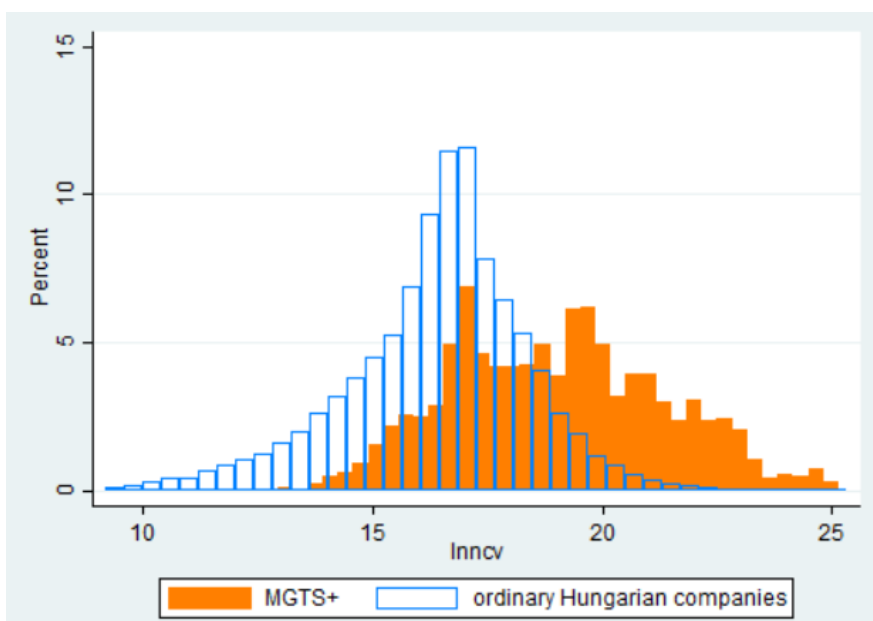


Figure 8. Scheme showing that the frequency of participation in tenders by MGTS+ companies is directly proportional to the size of the proposed contract, with framework agreement. Inncv=distribution of contracts by logarithm of net contract value. Source: Corruption Research Center Budapest.

Finally, it is made clear that more and more public contracts with missing values are being concluded, especially since 2018 and this only increases the lack of transparency (Figure 9). This lack of data makes the calculation of corruption indicators increasingly uncertain.

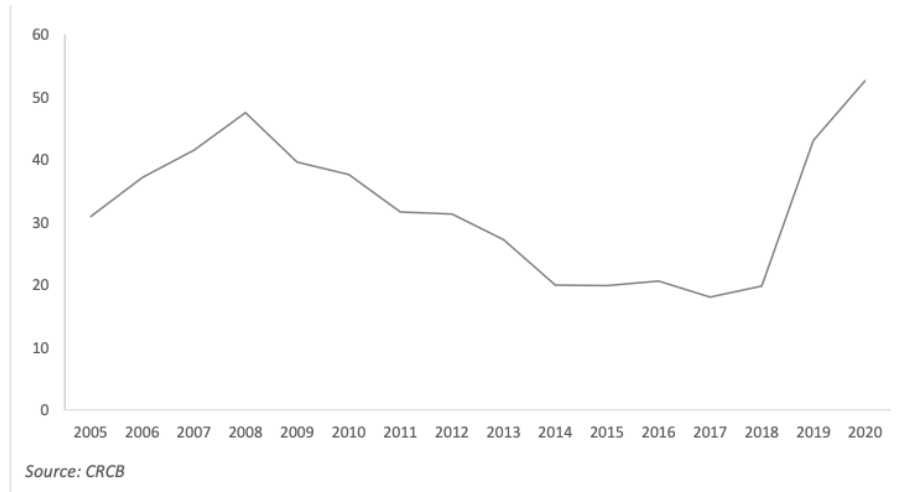


Figure 9. Percentage of contracts with missing values in Hungarian public procurement from January 2005 to April 2020, with framework agreement. Source: Corruption Research Center Budapest.

The result of this report provides empirical evidence of the existence and modus operandi of a powerful oligarchy, loyal to Orbán, which responds to his convictions and beliefs, following the energy policy conciliatory to Russia, as the HY 1 clarified.

According to the HY 2, the adverse belief against the energy exporter was created by Soviet historical traumas and strategically re-proposed by the ruling elite. History has changed the perception of the country's borders. Many times, perception is at the basis of decisions, and this is also evidenced by a marketing theory, namely the country-of-origin effect (COE), according to which, people attach stereotypical “made-in” perceptions to a country, based on what they know, have experienced, or have heard about a country. From this effect then, it has been proven that purchasing decisions are taken by consumers based in part on the perceptions of a country. This behaviour takes place in every area of our lives: politics, business, communications, personal life. The cultural variable clearly contributes to the shaping of perceptions, that guide the country's energy policy.

The PiS has preferred to amplify the general perception that it sees itself in the crosshairs of the Russian army and therefore stood out as the country most aligned with Washington. Poland seems, in many contexts, to set its political agenda according to what would most harm Russia rather than serve Warsaw's interests, as evidenced by the completely uneconomic choice to buy US-made liquefied natural gas and trying to push its European allies to do the same. A choice that favours Washington over Brussels, which places firm Atlanticism alongside Euroscepticism. The consequence of adopting a hostile attitude towards Russia on energy issues is that PiS, by speaking ‘to the belly of the people,’ succeeds in attracting more votes. In addition, harbouring strong anti-

Russian sentiment means depending as little as possible on gas imports and thus continuing to keep the coal market going. One of the four pillars of Poland's energy policy plan for 2040 is the decrease in the production of hard coal and lignite, which, however, will continue to occupy an important position in 2040. In fact, the government, in concluding the agreement with the mining unions, agreed that hard coal mining in Poland will continue until 2049. In this manner, the miners' vote has been gained. And it is not a category to be underestimated given that the coal industry employs about 85,000 direct jobs and, with related industries, generates four times as many jobs.⁹¹ The actions of PiS, aimed at fostering energy diversification and independence from Russia, are shaped by the historical idea set. In practice, the choice of energy policy favours a broad consensus and places Poland at the forefront as America's strategic anti-Russian ally.

3.3 Research method

This study wants to contribute to the literature because starting from a fact, the different energy policy of the two countries, it aims to understand why. The analysis seeks to determine whether energy policy is just a maya veil hiding deeper motivations regarding the international positioning of Poland and Hungary. In Chapter 2, the alternative hypotheses (public opinion, soft power and liberalism of interdependence) were discarded and, through the process tracing method⁹² two hypotheses were developed, which will be tested in the chapter 4.

The material under study were divided into:

- Academic paper: in order to provide the study with an academic theoretical basis. Examples are Nölke and Vliegthart's writings on the Varieties of Capitalism and Wilkin's on the rise of 'illiberal' democracy and Hegedű's on the influence of the Kremlin in Hungary.
- Online articles: the primary function of newspapers has been to have a current opinion on the motives and consequences of countries' energy choices. The newspapers that were used are widely recognised in the international and journalistic field such as the Financial Times, Reuters, The Guardian, Affari Internazionali.
- Reports and Research institutes: reports were used to obtain empirical and quantitative evidence on certain phenomena. Both the IEA Energy Report and Eurostat provided a good basis for understanding the policies and the energy composition of states. The CRCB provided statistics in analysing the corruption phenomenon in Hungary. The Gazprom Report was

⁹¹ Valérie Gauriat, "Polonia, il paradosso delle miniere di carbone," *Euronews*, December 12, 2018, <https://it.euronews.com/my-europe/2018/12/21/polonia-il-paradosso-delle-mini-e-di-carbone-solidarnosc-katowice-cop-24-inquinamento>.

⁹² Peter A. Hall, "Tracing the progress of process tracing," *European Consortium for Political Research* 1680-4333 (March, 2012): doi:10.1057/eps.2012.6.

necessary to understand Russian investments in the case studies. Research institutes have similarly provided both quantitative and qualitative evidence on Poland and Hungary, examples being the Warsaw Institute and the Wilson Center.

- Official documents: such as the European Commission, the Official Internet Resources of the President of Russia and U.S. Foreign Affairs Research have been valuable sources for analysing how third countries and institutions interpret the moves of Poland and Hungary.

The combination of these sources ensured a wide-ranging analysis of countries' energy policies and the factors that led to certain decisions in the sector.

The thesis covers the period from 2009 to the termination of Russian gas supplies to Poland (April 2022), a consequence of the outbreak of war in Ukraine.

The year 2009 was marked by the tug-of-war between Russia and Ukraine, which resulted in the total suspension of gas supplies to Ukraine and south-eastern Europe for 13 days. Although this gas crisis did not directly affect Hungary and Poland, it is considered a critical juncture because of the consequences it created. By using the words of the Czech foreign minister at the time, "*The main lesson learned from this crisis is that Russia and Ukraine aren't reliable suppliers. Europe must think about alternative sources and pipelines.*"⁹³ This statement highlights not only the lack of trust in these two key players in the distribution of gas in Europe, but also the need for the Old Continent to diversify its sources of energy. It is the awareness of the European Union's over-dependence on Russian gas that makes the 2009 energy crisis a landmark.

Already in 2009, Poland was concerned about reducing dependence on Russian gas by implementing diversification: it invested in the creation of LNG terminals, increased domestic energy production and underground gas storage, and sought new interconnections.⁹⁴ Hungary, on the other hand, in addition to creating new connections between the gas pipelines of its neighbouring states and starting the construction of a gas reserve depot, has not been afraid to sign agreements with Russia: both for the upgrading of the Paks nuclear power plant and for the construction of the South Stream.⁹⁵ This exogenous shock produces different policy effects in the two countries.

Two other important dates are 2010 for Hungary and 2015 for Poland, which represent the rise to power of the two right-wing populist parties: Orbán with his Fidesz party and Kaczyński's Law and

⁹³ Simon Pirani, Jonathan Stern and Katja Yafimava, "The Russo-Ukrainian gas dispute of January 2009: a comprehensive assessment," *Oxford Institute for Energy Studies*, Registered Charity, No. 286084, (February 2009): 57, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2010/11/NG27-TheRussoUkrainianGasDisputeofJanuary2009AComprehensiveAssessment-JonathanSternSimonPiraniKatjaYafimava-2009.pdf>.

⁹⁴ Péter Kaderják, "The January 2009 gas crisis: what happened in central and south east Europe?," *Regional Center for Energy Policy Research Corvinus University of Budapest* (April, 2009): <https://www.ceer.eu/documents/104400/-/-/c25e042e-1a94-4877-78cf-bb964fedb004>.

⁹⁵ Rapporti Paese congiunti Ambasciate/Uffici Ice estero, "Ungheria," I sem. 2009, https://ambbudapest.esteri.it/resource/2009/10/32849_f_amb61rapporto2008II.pdf.

Order party. Although one of the PiS slogans in the election campaign was *'Let's bring Budapest to Warsaw'*⁹⁶, with the clear intention of replicating some of Orbán's nationalist policies on Polish soil, Hungary's relationship with Russia was never included in the slogan. In fact, the two countries' foreign policy towards the East has always been quite different.

The climax of tensions between Russia and Ukraine reached its first peak in 2014 when Russia annexed the Ukrainian peninsula of Crimea. The second peak is then reached in 2022, with the outbreak of the Ukraine war. The analysis ends in April 2022 when the first European sanctions against Russia are implemented, and Poland and Hungary take opposite positions.

⁹⁶ Internazionale, "La vittoria della destra euroscettica e xenofoba in Polonia," *Internazionale*, October 26, 2015, <https://www.internazionale.it/notizie/2015/10/26/polonia-vittoria-diritto-giustizia-kaczynski>.

Chapter 4 – Empirical Cases

In this final chapter, the empirical analysis of the two states under review, Hungary and Poland, will be conducted. Their main energy projects will be presented and the hypotheses will be tested. The hypotheses already presented in Chapter 3, are equal and opposite: for the Hungarian case, when elites have positive confidence in the energy exporter, they do not seek diversification; rather they intensify investment; for the Polish case, when elites have negative confidence in the energy exporter, they seek diversification and energy independence.

The last section will focus on the perspective of the two countries as possible regional hubs, taking into account the energy direction undertaken by the European Union, especially after the exogenous shock of the outbreak of war in Ukraine. The different outcomes of the two countries will then be outlined.

4.1 Empirical study 1: the case of Hungary

Orbán reoriented foreign policy by implementing the so-called 'Eastern Opening', that is, the revitalization of the economic relations with non-European partners (mainly Russia) to counterbalance Hungary's strong ties with the West.⁹⁷ The Eastern Opening strategy is primarily aimed at finding new markets in which to invest, especially in the energy sector. Moreover, as soon as Orbán took office in government in 2010, he created a "National System of Cooperation" (NER) which theoretically is the project that aims to bring members of society together to pursue common goals, but in practice turns into a network of selected companies, whose role is to implement the energy policy direction desired by the Fidesz leader.

The two largest investments in the energy sector linking the two states are Paks II and the MET gas trading scheme. The nuclear energy cooperation between Russia and Hungary is nothing new since it has its origins in 1955, when, still under Soviet influence, Hungary signed a bilateral agreement for the implementation of Soviet VVER-type reactors, known as the Budapest Research Reactor, which are pressurised water nuclear reactors.⁹⁸ Then, in 1966 there was an agreement between the two states to build a nuclear power plant in Hungary, the chosen location was Paks, 100 kilometres south of Budapest. The following years, Soviet nuclear reactors were installed. The Paks Nuclear Power Plant (NPP) is the only one operating in Hungary. It belongs to the retailer and electricity generator Magyar Villamos Művek Zártkörűen Működő Részvénytársaság (the 'MVM Group'), which is 100% state-owned. The life cycle of these reactors was expected to end around 2030, consequently the Hungarian Parliament firstly undertook a plan to extend the life of the Paks units for another 20 years and

⁹⁷ Végh, "Hungary's "Eastern Opening."

⁹⁸ Rosatom Overseas, "The VVER today: evolution, design, safety,"

<https://www.rosatom.ru/upload/iblock/Obe/Obe1220af25741375138ecd1afb18743.pdf>.

secondly approved the start of preparatory activities for the expansion of the Paks NPP. Among the most important proposals in the National Energy Strategy 2030 to achieve a competitive, sustainable and secure supply is the modernisation of power plants, making the four existing ones more efficient and adding two new ones (Paks II) that generate less CO₂ emissions.⁹⁹ The Paks II project was signed in 2014 between the Hungarian government and the Russian state company Rosatom, which has been entrusted with the construction of the plant, without prior tender or notification and also the Parliament voted for keeping secret the contract. In fact, in 2015 the European Commission launched an infringement procedure against Hungary for the lack of the principles of “transparency, non-discrimination and equal treatment.”¹⁰⁰ Hungary managed to justify itself with the argument of technical exclusivity, according to which in some cases the principles of competition cannot be respected for technical reasons, meaning that the technical and safety requirements of the project can only be met by Rosatom. Hungary have relied on the judicial precedent set by France (in that case, France had awarded the contract for the construction of the Flamanville 3 nuclear reactor to the state-owned company Areva for technical reasons).¹⁰¹ The European Commission therefore closed the case as the justification provided by Hungary was considered valid. The Commission also opened an investigation into state aid granted for the construction of nuclear power plants that could distort competition on the energy market. State aid is prohibited by Article 107 of the Treaty on the Functioning of the European Union if it tends to distort competition. As the Hungarian government made substantial commitments to minimise the distortion of competition, this allowed the Commission to approve the investment under EU State aid rules.¹⁰² Moreover, the agreement included a EUR 10 billion loan for the implementation of the project, with the consequence that the repayment of the loan would bind Hungary to Russia for a period of at least 21 years, starting in 2026.¹⁰³ The paradox is that Hungary, through nuclear power, could move away from dependence on Russian fossil fuels, but instead Orbán makes even tighter agreements with Putin, ‘tying its hands’ in the nuclear sector as well. The energy agreement reached between Russia and Hungary consequently generates numerous public contracts of great economic significance. An example of this is the tender for the complete construction of the new port building, including the pre-filter building, bicycle storage, and connecting roads. It is not surprising that the contract was won by the company Mészáros és Mészáros

⁹⁹ Bencsik János and Kovács Pál, *National Energy Strategy 2030*, (Ministry of National Development, 2012), p. 14, <https://2010-2014.kormany.hu/download/7/d7/70000/Hungarian%20Energy%20Strategy%202030.pdf>.

¹⁰⁰ Daniel Haitas, “Aspects of Hungary-Russia Energy Relations in the Context of European Union Law,” JURA, 24 (2), 2019, pp. 368-377, Aspects of Hungary-Russia Energy Relations in the Context of European Union Law 2018-2 JURA.pdf.

¹⁰¹ Ibid.

¹⁰² DECISIONE (UE) 2017/2112 DELLA COMMISSIONE del 6 marzo 2017, Gazzetta ufficiale dell’Unione europea, https://eur-lex.europa.eu/legal-content/IT/TXT/HTML/?uri=CELEX:32017D2112&from=HR#ntr&L_2017317IT.01004501-E0009.

¹⁰³ Ibid.

Kft., owned by Orbán's friend, for a value of 3.4 billion net forints.¹⁰⁴ Thus, the Paks II project not only increased the cooperation between Hungary and Russia (and the subjugation of the former to the latter), but also favoured the Hungarian elite through the rib projects stemming from the main one. MET's gas trading scandal is another striking example of the implementation of Orban's ideas on energy policy through the oligarchy. The CRCB published a report titled "The Analysis of the Hungarian Government – MVMP-MET Story" in which the dynamics of the huge economic transactions between MVMP (a subsidiary of state-owned MVM company) and the MET Group (partly state-owned and partly privately owned group of companies) are analysed. MET is an offshore energy company settled in Switzerland, and its ownership is shared between 40% of the Hungarian energy company MOL and four private individuals: Benjámin Lakatos (Chairman of MET Group), György Nagy (Hungarian ambassador in Switzerland), István Garancsi (strictly linked to Orbán) and Ilya Trubnikov (Russian businessman).¹⁰⁵ The MVMP-MET case began when MVMP managed, through ad hoc laws, to enjoy privileged positions in gas trading (from 2011 to 2015). The Hungarian government managed to grant it almost exclusive use of the Hungarian-Austrian gas pipeline (HAG) and this was established without any tendering procedure but through ministerial authorization. The quasi-exclusive position of MVMP also raised doubts in the EU, which in 2015 initiated infringement proceedings against Hungary for granting exclusive use of the HAG pipeline. What is more bizarre, however, is that during this period with an advantageous position on the gas trade, MVMP rather than exploiting it, signed contracts with another company: MET, "which ensured a significant part of the profit to be generated by the MET Group (a majority privately owned company)."¹⁰⁶ In fact, the revenues obtained from MET could have enriched both MVMP and the Hungarian state budget if the Hungarian government had not outsourced them to a network of allied oligarchs. In summary, the scheme was this: a subsidiary of MET bought the cheap gas from the west, sold it at the Austrian-Hungarian border to MVMP (enjoying the exclusive use of HAG), which transported it domestically at minimum profit, and, once it arrived at its destination, sold it again to MET, which was able to sell it back to Hungary at the price the offshore company wanted. This scheme assumes the implicit consent of the Kremlin since the gas coming from the West is mostly Russian gas anyway and Gazprom controls the resale of gas in the spot market. The MVMP-MET gas supply scheme tested a system in which "the Hungarian government outsourced monopolistic access to the Hungarian-

¹⁰⁴ Katus Eszter, "Paks II. - The Mészáros have won another billion-dollar tender, now they are building a gate," September 20, 2021, *Atlatszo*, https://atlatszo-hu.translate.google.com/2021/09/20/paks2-meszarosek-ujabb-milliardos-tendert-huztak-be-most-portat-epitenek/?x_tr_sl=hu&x_tr_tl=en&x_tr_hl=en&x_tr_pto=sc.

¹⁰⁵ István János Tóth and Klára Ungár, "The Analysis of the Hungarian Government – MVMP - MET Story," *CRCB*, April 2018, http://www.crcb.eu/wp-content/uploads/2021/04/2018_sc_summary_180426.pdf.

¹⁰⁶ *Ibid.*

Austrian gas pipeline to an offshore company”¹⁰⁷. The real fortune in this business is made at the expense of Hungarian citizens and for the benefit of Hungarian and Russian oligarchs through the figure of Ilya Trubnikov, co-owner of MET. Given that the MET programme was suspended in 2015, Moscow at the time had the power to exert strong political pressure on the Hungarian government by threatening to suspend access to cheap gas, but still continues to have blackmail power should it decide to publish evidence of such a corrupt scheme.

The result of this careful analysis is to consider the energy market as a sector strictly regulated by the state and the market structure characterised by oligopoly and oligopsony, which raise barriers to market entry. The sector is particularly vulnerable to the revolving door phenomenon, i.e. the movement of high-level employees from public sector jobs to private sector jobs and vice versa, in this case from positions with the regulatory authority to companies affected by the regulation. The CRCB analysis is opened by a preamble that distinguishes state capture from cronyism. While the former implies that there is a weak state that is 'used' by interest groups to pursue their interests, the latter concept refers to a strong state that selects 'friends' from above, rewarding them with public tenders and high-paying job opportunities. In this case we can find both. In fact, the research team found that this is a story of government failure, in which the state-owned company (MVMP) fails to make maximum profit and in which there was an unbalance relationship between a weak state-owned company (MVMP) and a profit-oriented private company (MET); and also it describes a story of exclusivity of MET, which has a complex structure and “the ownership through offshore companies makes fully formal the existence of the ultimate beneficial owners and the changes in the ownership structure between them,”¹⁰⁸ recalling the concept of cronyism.

The nuclear cooperation and the MET scheme demonstrate the orientation of energy policies to conclude contracts with Russia in a far from transparent manner: “*the strong ties connecting the large-scale Hungarian business projects to Russia allow the politically organized Hungarian oligarchy access to significant financial gain while giving Moscow an easy tool of control and influence.*”¹⁰⁹ All this is in line with Orbán's ideological orientation. He does not worry about the possibility that Russia might one day blackmail Hungary. The Hungarian leader therefore continues to do business with Russia through oligarchs, applying neither diversification of exporting countries nor energy sources.

Hungary, besides already being heavily dependent on Russian oil and gas exports through the Friendship and Brotherhood Pipeline, is pushing for the creation of new gas pipelines from the same supplier. In fact, when Russia proposed two new projects to free itself from the obligatory passage

¹⁰⁷ Hegedűs, “The Kremlin’s Influence in Hungary.”

¹⁰⁸ Tóth and Ungár, “The Analysis of the Hungarian Government – MVMP - MET Story.”

¹⁰⁹ Ibid.

through Ukraine, Hungary supported in both cases the creation of new connections. These are South Stream and Turkish Stream: both pass through the Black Sea but with the difference that the former arrives in Bulgaria while the latter arrives in Turkey. While the South Stream was widely opposed by the European Commission (and many of its member states), the Hungarian parliament passed an ad-hoc law providing for the approval of the Hungarian Energy Office as the sole requirement for the construction of the pipeline.¹¹⁰ The aim was to bypass the European veto, securing more energy reserves and sending a clear message to Russia: ‘Hungary is on your side.’ Despite the Hungarian attempt to deviate from European policy, the South Stream project was eventually cancelled and a second one, Turkish Stream, was planned. Again, Hungary ensured that the pipeline flowed into its territory by signing an agreement with Gazprom.

Further proof is provided by the fact that Hungary renewed its gas supply contract with Gazprom for 15 years in September 2021, securing a large energy supply (4.5 billion cubic metres of gas annually) and explicitly stipulating that gas will arrive on routes bypassing Ukraine. The following year, in August 2022, on the one hand Russia announced an increase in gas supplies to Hungary (up to 5.8 million cubic metres of gas per day), on the other hand Gazprom cut off natural gas supplies to Germany and France via the Nord Stream 1 pipeline, making it clear that a mechanism of rewards and punishments for certain countries, depending on their stance on the Russian invasion of Ukraine, was applied.¹¹¹

The project of nuclear power and the gas trading scheme, as well as the Hungarian support for new gas pipelines to Russia and the latest contract with Gazprom have a lowest common denominator: the increase of energy contracts with Russia. This type of energy policy is driven by the leader's conciliatory stance towards neighbouring Russia. However, the nuclear case creates tenders in the crosshairs of contractors close to the party and the MVMP-MET case generates a large profit for MET shareholders (Hungarian and Russian businessmen who profited greatly from the deal). These two projects have emphasised that in addition to the set of beliefs there is often also an element of economic interests on the part of the respective elites in concluding the agreement. In conclusion, the hypothesis formulated can be understood as partially confirmed because while it is true that there is a positive Hungarian conviction towards the Kremlin, one is unable to separate this component from the economic interests of the elites and to state which of the two factors is predominant.

¹¹⁰ Haitas, “Aspects of Hungary-Russia Energy Relations.”

¹¹¹ John Szabo and Marton Fabok, “Infrastructures and state-building: Comparing the energy politics of the European Commission with the governments of Hungary and Poland,” in *Energy Policy* no. 138 (2020), 10.1016/j.enpol.2020.111253.

4.2 Empirical study 2: the case of Poland

The Polish energy strategy is briefly summarised in the sentence “Poland stands on coal.”¹¹² The country is rich in this fuel, especially in the Silesia and Lubelskie regions. Coal played a key role in the industrialisation process of the country, especially after World War II, and in ensuring the Polish energy security.¹¹³ The pursuit of this policy not only set Warsaw against Brussels and its Green Deal goals of climate neutrality by 2050, but also against what should be another ally country within the Visegrád group, the Czech Republic. In fact, in February 2021 Prague sued the Polish government before the EU Court of Justice for the damage to the water supply of Czech citizens due to lignite mining in the Turów mine, located on the border with the Czech Republic. As a result, the Court had fined Poland EUR 500,000 per day for not complying with a ruling that required the country to stop extracting lignite from the mine.¹¹⁴ The dispute came to an end the following year when representatives of the two governments agreed on a compensation settlement without, however, shutting down the mine, which is estimated to supply 4 to 7% of electricity to Poland, it is the fourth largest coal-fired power station of the state and employs over 1,200 people.¹¹⁵ *“The government’s actions have been used to sustain the ideological social inscription of coal’s importance, as it takes a paternal role in the sector which it conveys towards society as an essential element of continued prosperity. The Polish government has opted to extend the current energy mix of the country for decades to come by propping up an uneconomic sector.”*¹¹⁶ What is most interesting is that in 2008 Poland was a net importer of hard coal for the first time,¹¹⁷ meaning that coal imports exceeded exports. Imports come mainly from Russia. This increase in coal imports, which could lead to increased dependence on Russia, is perceived differently than dependence on gas, as Russian coal imports can be replaced in full in the event of a conflict.¹¹⁸ What makes the difference here is the government's perception of the danger of such energy dependence. While Russian gas could jeopardise the country's energy security, coal imports are perceived as less dangerous by the Polish elite.

Poland, like Hungary, is part of the Three Seas Initiative (TSI), a forum that fosters political and economic dialogue between 12 European countries located between the Adriatic, Baltic and Black Seas. The cooperation started in 2016, shortly after the reopening of the Ukrainian issue (2014).

¹¹² Ibid.

¹¹³ Ibid.

¹¹⁴ Maria Wilczek, “Poland and Czech Republic sign agreement to end coal mine dispute,” *Notes From Poland*, February 3, 2022, <https://notesfrompoland.com/2022/02/03/poland-and-czech-republic-sign-agreement-to-end-coal-mine-dispute/>.

¹¹⁵ Ibid.

¹¹⁶ Szabo and Fabok, “Infrastructures and state-building.”

¹¹⁷ IEA, *Poland 2022 Energy Policy Review*, p. 123.

¹¹⁸ Szabo and Fabok, “Infrastructures and state-building.”

However, it is an Initiative at the heart of which are Polish interests, which become the expression of the export of American LNG to Europe. It is no coincidence that the projects pursued by the TSI are also supported by US funding because they are consistent with its interests in the European energy market at the expense of Russian gas. In this sense, the TSI decided to establish the TSI Investment Fund with the aim of attracting FDIs for the implementation of the projects. In the end, Poland perceives its security in proportion to the American presence. TSI's planned projects include the construction of the Baltic Pipe as well as the expansion of the Swinoujscie LNG terminal, these are on the list of the EU's priority infrastructure projects (the PCI, Projects of Common Interest). For this reason, the two projects also received European funds from the Connecting Europe Facility (CEF), a European investment programme overseen by the European Climate, Infrastructure and Environment Executive Agency (CINEA). A project, in order to be labelled as PCI must have *“a significant impact on energy markets and market integration in at least two EU countries, boost competition on energy markets and help the EU's energy security by diversifying sources as well as contribute to the EU's climate and energy goals by integrating renewables.”*¹¹⁹

The Baltic Pipe project is a 900km natural gas pipeline which provide Denmark and Poland with a direct access to Norway's gas fields. In 2016 the gas transmission system operator of the two countries, Energinet and GAZ-SYSTEM, started the feasibility study for the project and came up with a positive result. In the following years, all authorisations to proceed with the onshore and offshore constructions were obtained and the construction phase moved into 2020.¹²⁰ Gas transmission started in September 2022. The project guarantees a fundamental change in the existing structure of gas transmission: whereas before, pipelines always ran from East to West, this corridor ensures transmission from the North to Central and Eastern Europe.¹²¹ *“Today, we can make this statement with full confidence: the era of Russia's domination in the gas area is coming to an end. The era marked with blackmail, threats and extortion. Today, we are starting a new era: the era of energy sovereignty, energy freedom and increased safety”*¹²² are the words of Mateusz Morawiecki during the opening ceremony of the Baltic Pipe. In addition, this project is of strategic importance not only for the countries directly benefiting from it, but also for the energy alliance of the EU member

¹¹⁹ European Commission, “Key cross border infrastructure projects,”

https://energy.ec.europa.eu/topics/infrastructure/projects-common-interest/key-cross-border-infrastructure-projects_en.

¹²⁰ “Timeline of the Baltic Pipe Project,” Baltic Pipe Project, accessed January 20, 2023, <https://www.baltic-pipe.eu/about/timeline/>.

¹²¹ “Baltic Pipe Project benefits,” Baltic Pipe Project, accessed January 20, 2023, <https://www.baltic-pipe.eu/about/the-project-about-benefits/#competitiveness>.

¹²² “Prime Minister Mateusz Morawiecki During the Opening of Baltic Pipe: Today, We Are Starting the Era of Energy Sovereignty,” The Chancellery of the Prime Minister, accessed January 20, 2023, <https://www.gov.pl/web/primeminister/prime-minister-mateusz-morawiecki-during-the-opening-of-baltic-pipe-today-we-are-starting-the-era-of-energy-sovereignty>.

states, which aims at the creation of a pan-European network enabling efficient cross-border gas transport to ensure secure, affordable and sustainable gas supplies.

As early as 1990, Poland was concerned about how to reduce its energy dependence, proposing ideas of building LNG terminals, but the agreement concluded with Russia to build the Yamal pipeline convinced other European governments that it was not necessary to seek the same product from other suppliers. The pivotal year that led Poland to implement the gas divestment was 2005, when Germany signed the contract with Gazprom for the construction of the North Stream pipeline.¹²³ In fact, the North Stream, by directly connecting Russia to Germany, had several 'side effects' to the detriment of Poland: first, it deprived Poland of its status as an energy transit country and thus also of its transit tariffs; then, it increased uncertainty around energy supply, should the Yamal Pipeline suffer damage/breakdown; finally, the underwater pipeline would inevitably make possible connections between Poland and Denmark for Norwegian gas more difficult (what later became the Baltic Pipe).¹²⁴ Moreover, 2005/2006 is one of three periods (listed in Chapter 1) when Russia applied energy weaponisation during the conflict with Ukraine, also blocking the flow of gas to Europe, including Poland. Under these historical conditions, Poland began to realise the idea of the need for an LNG terminal on its coast. The two locations that were considered suitable for the construction of the terminal were Gdansk and Świnoujście, but in the end the latter was chosen because it provided a shorter travel route for tankers and therefore a lower final cost of LNG. We have to wait until 2011 to see the start of construction of the terminal, which will be completed at the end of 2015. At the same time, Poland secured long-term LNG supplies by signing agreements with Qatar and American companies. The growing demand for natural gas is prompting Poland to expand the capacity of the Świnoujście terminal, in fact, in June 2021, Polskie LNG (the terminal operator, a subsidiary of the aforementioned Gaz-System) announced plans to increase the LNG terminal's capacity from 5 bcm to 8.3 bcm of natural gas imports by the end of 2023.¹²⁵ LNG Terminal Expansion Program is on the list of PCI and it is in progress. The aim is to: increase regasification capacity, increase storage capacity being processed and build new maritime infrastructure.¹²⁶ In addition, the Gaz-System is planning to build a Floating Storage Regasification Unit (FSRU) in the Gdańsk region with a capacity of LNG unloading, in-process storage and regasification of LNG.¹²⁷ Both the Baltic Pipe and the LNG

¹²³ Małgorzata Kamola-Cieślak, "LNG Terminal in Świnoujście as an Element of Poland's Energy Security," *Polish Political Science Yearbook* 44, no. 1 (2015): 268–82, <https://doi.org/10.15804/ppsy2015018>.

¹²⁴ Benedek Sipocz, "The Importance of the Świnoujście LNG Terminal in Light of the Energy Crisis in Europe," *The Warsaw Institute Review*, September 29, 2022, <https://warsawinstitute.review/news-en/the-importance-of-the-swinoujście-lng-terminal-in-light-of-the-energy-crisis-in-europe/>.

¹²⁵ IEA, *Poland 2022 Energy Policy Review*.

¹²⁶ "LNG Terminal Expansion Program," GAZsystem, accessed January 21, 2023, <https://www.gaz-system.pl/en/terminal-lng/lng-terminal-expansion-program.html>.

¹²⁷ "FSRU terminal," GAZsystem, accessed January 21, 2023, <https://www.gaz-system.pl/en/transmission-system/investment-projects/fsru-terminal.html>.

terminal go in the same direction: they are projects that ensure Poland's energy independence, support the state's energy self-sufficiency and guarantee it access to global LNG markets.

In addition to these two PCI projects, the Polish diversification strategy has increased through the agreement with the USA for the construction of the nuclear power plant, key component of the Energy Policy of Poland until 2040 (EPP2040). As early as the 1970s, the Communist government had chosen the site for a first nuclear power plant in Poland, but lack of funds, as well as the Chernobyl disaster of '86, have halted the project. Despite some governmental actions drawing attention to nuclear power (i.e. the 2009 Council of Ministers resolution calling for the construction of at least two nuclear plants in Poland) we have to wait until 2021 for concrete action towards the project. In fact, in 2020 the Ministry of Climate announced an acceleration of the plans, calling for technology selection in 2021, and signing of the final contract for the first plant in 2022.¹²⁸ The same year Poland has announced that it had chosen the US company Westinghouse to build the nuclear power plant in the Northern of the country, to be completed by 2033. Other candidate companies included South Korean KHNP and French EDF. Some experts believe that Poland's choice to cooperate with the American Westinghouse was dictated by a political choice: as already mentioned, Poland is closer to Washington than to other European countries (such as France), which threaten to tie European funds to compliance with the rule of law.¹²⁹ Moreover, statements by PiS leader Jarosław Kaczyński said recently that he could only talk to France about nuclear power if the latter recognised that criticising the Polish rule of law was 'a brazen lie'.¹³⁰ According to EU rules, the tender must see the participation of several bidders and all of them must be treated equally, ensuring a procedure of real competition. Poland could reassure the European Commission if the government declares that the joint project with the US is only one of several planned investments in the nuclear sector, while the next one will involve investors from EU countries.¹³¹ For now, the issue is too recent to be able to tell whether or not the project might be hindered by the EU. Beyond these conflicts of interest, the Polish government's forecast estimate "*that by 2040, nuclear energy could account for up to 16 % of generation,*"¹³² thus further enhancing the country's energy diversification and security.

The latest developments in the energy relationship between Russia and Poland have cooled with the Yamal case. The supply of Russian gas to Poland via the Yamal Pipeline had been agreed in 1993,

¹²⁸ "Nuclear Power in Poland," World Nuclear Association, accessed January 21, 2023, <https://world-nuclear.org/information-library/country-profiles/countries-o-s/poland.aspx>.

¹²⁹ Raphael Minder and Barbara Erling, "Poland looks to nuclear power to guarantee its energy independence," *Financial Times*, December 28, 2022, <https://www.ft.com/content/e5c2685d-f3b5-4ed5-8050-824274051104>.

¹³⁰ Ibid.

¹³¹ Aleksandra Krzyszczoszek, "EU may block Polish nuclear investment, warns opposition," *Euractiv*, October 31, 2022, <https://www.euractiv.com/section/energy-environment/news/eu-may-block-polish-nuclear-investment-warns-opposition/>.

¹³² IEA, *Poland 2022 Energy Policy Review*.

and, after undergoing various amendments, it was confirmed again for the period 2010-2022. Nevertheless, already in 2019, the Polish state gas company, PGNiG, had declared that it would not renew the gas supply agreement with Gazprom. The agreement would then have expired at the end of 2022 if the war in Ukraine had not broken out. For this reason, at the beginning of 2022 Moscow had demanded to be paid in roubles for gas deliveries and Poland refused, triggering a reaction from the Kremlin which cut off supplies. As a result, Poland 'took the opportunity' to announce the early termination of the contract with Gazprom, giving a strong signal to Russia: 'Poland does not need Russian gas to survive.' The Minister of Climate and Environment, Anna Moskwa commented on this: *"Poland terminated the agreement on the Yamal gas pipeline. Russia's aggression against Ukraine confirmed the rightness of the Polish government's determination to become completely independent of Russian gas. We have always known that Gazprom is not a reliable partner."*¹³³ It is no coincidence that since the beginning of the war in Ukraine, Poland has always supported the European sanctions packages against Putin's Russia and often called for even stricter sanctions. The construction of the Baltic Pipe and the Nuclear Power Plant in agreement with the USA and the break with Gazprom orient Poland's energy policy towards the West. In this case, there is a strictly causal connection between historical legacy (i.e. Molotov-Ribbentrop Pact and Katyn Massacre), and the anti-Russian stance of the elite. If in fact, in the short term, it might have been convenient for Poland to pay Gazprom in roubles and continue to use gas from the Yamal Pipeline, the choice made was to terminate the contract early and invest in alternative, albeit more expensive, markets (such as LNG). Therefore, the hypothesis that countries with a negative conviction towards the exporting country will try to depend as little as possible on the latter and implement diversification is strongly verified.

4.3 Ambitions of Poland and Hungary in the wider European context

The energy policies of the two states, which, as mentioned above, respond to the two countries' convictions towards Russia, also guide their territorial ambitions. In fact, both aim to become an energy hub for the region, but while Hungary seeks to do so through Russian gas; Poland, on the contrary, aims to break away from Russia and propose other energy routes (Table 3).

¹³³ "Poland terminated the gas agreement on the Yamal gas pipeline," Ministry of Climate and Environment, accessed January 22, 2023, <https://www.gov.pl/web/climate/poland-terminated-the-gas-agreement-on-the-yamal-gas-pipeline>.

HUNGARY	POLAND
Regional hub through Russian supply	Regional hub through non-Russian supply
Vulnerable to Russian blackmail	Elimination of Russian blackmail
New agreement with Gazprom	(Early) End of the agreement with Gazprom
Russian Trojan horse in EU	Trojan horse in anti-Russian function
Worst relations with EU	Better relations with EU

Table 3. Personal elaboration of the data representing the consequences of the different energy policy applied by the two states.

Poland is focused on the development of alternative energy routes to Russia. For this reason, it has from the outset opposed the construction of North Stream 2, a gas pipeline that, parallel to North Stream 1, would have directly connected Russia to Germany. The project was completed in September 2021 and doubles the capacity of North Stream 1 to 110 billion cubic metres of gas per year. The implementation of this project would have greatly diminished Polish energy influence in the region, as well as jeopardised the EU's economic security by making one of the EU's leading countries even more dependent on Russia. In the end, North Stream 2 never came into operation due to tensions between Russia and the EU. Moreover, the expansion of the Świnoujście terminal not only provides an excellent market for American oil industries, but also allows Polish diplomacy to have more influence in European energy policy choices. On the other hand, Orbán's strategic goal is to make Hungary a regional hub, thanks to its geographical location, based on infrastructure supported by both the EU and Russia.¹³⁴ While Orbán seeks to expand Hungary's room for manoeuvre by granting it new markets in which to invest (the aforementioned 'Eastern opening'), he is doing exactly the opposite: having undermined the country's position as a credible partner in the West, it fails to gain significance in the eyes of Russia, as it is linked to the West via NATO and the EU membership and exit from these institutions has never been a real option for Orbán.

Diversification of suppliers means elimination of Russian blackmail power while Hungary still remains vulnerable in this respect: a gas supply disruption would fall heavily on the Hungarian economy. The IEA Executive Director Fatih Birol affirmed *"Poland has shown great foresight in cutting its reliance on Russian natural gas over recent years, putting itself in a relatively secure position today despite the difficult times we are living through."*¹³⁵ On the other hand, the 2022 IEA Report on Hungary highlights that *"the Hungarian government needs to urgently review options to reduce this dependency of pipeline imports from Russia and strengthen the diversification of its oil imports, together with its regional neighbours."*¹³⁶ Effectively, the unwritten messages that have

¹³⁴ Szabo and Fabok, "Infrastructures and state-building."

¹³⁵ IEA, *Poland 2022 Energy Policy Review*.

¹³⁶ IEA, *Hungary 2022 Energy Policy Review*.

passed from the stance of the two countries are that Hungary stands by Russia because its gas is lifeblood for the country, while Poland does not need Russian gas to survive.

Furthermore, the energy policy of the two countries can be easily understood from the relations the countries have with Gazprom; on the one hand, Poland decided to terminate the contract earlier than planned, Hungary, on the other hand, renewed a further contract with Gazprom for another 15 years. From an external geopolitical point of view, the idea is that Poland acts as a kind of Trojan horse in an anti-Russian function, while Hungary is often referred to as the Russian Trojan horse within the EU. Finally, in addition to the already complex position of the two Visegrád countries in the European Union due to the disregard of the rule of law, the different energy security policies now threaten the Warsaw-Budapest axis. This, however, is more damaging to Hungary's reputation than that of Poland, which, with its anti-Russian energy policy, instead, gains more credibility towards the member states.

The aspirations of the Polish and Hungarian elites, being part of the broader EU context, must come to terms with the EU's plans, which are more aligned with the Polish idea of seeking diversification of energy supply in order to depend as little as possible on Russian gas. In fact, following the Russian invasion of Ukraine, the EU first responded with economic sanctions packages against Russia and then proceeded to prepare an EU disengagement plan from Russian gas.

The sanctions are both individual and economic. Economic sanctions aim to economically destabilise Russia and hinder the continuation of aggression by imposing a series of restrictions on the import and export of Russian products. The sixth sanctions package included restrictions on the import of Russian crude oil and certain petroleum products. There was a temporary exception for imports of crude oil supplied by pipeline to states such as Hungary and Slovakia, as they are landlocked countries and heavily dependent on Russian oil with no viable alternative options. Targeted sanctions, on the other hand, target those responsible for financing and implementing actions that undermine Ukraine's independence (these include President Putin and Kremlin-linked oligarchs). The reaction of Hungary and Poland to the sanctions against Russia were complete opposites, given the different energy policies of the two countries. As previously outlined, Hungary's energy security is particularly vulnerable because no diversification policies have been implemented, so inevitably European sanctions on Russia are instruments that endanger the country's energy security. For this reason, Orbán has repeatedly opposed them, threatening a veto. He has linked the sanctions to an atomic bomb falling on the Hungarian economy and he even spread large propaganda posters with the message 'Brussels sanctions will ruin us!'¹³⁷. So far, however, Budapest has always voted in favour

¹³⁷ Euronews, "Budapest fa campagna contro le sanzioni a Mosca, ma le ha sempre votate," *Euronews*, November 21, 2022, <https://it.euronews.com/2022/10/21/budapest-fa-campagna-contro-le-sanzioni-a-mosca-ma-le-ha-sempre-votate>.

of the sanctions, as they require unanimity of the member states. Conversely, Morawiecki welcomed the sanctions and called for 'the broadest possible'¹³⁸ sanctions regime.

The second important step taken by the EU towards greater energy security is the REPowerEU project. The main goal is to reduce the EU dependence on Russian fossil fuels by 2027. The European Commission President Ursula von der Leyen presented the plan, making it clear that “*we must become independent of Russian oil, coal and gas. We cannot rely on a supplier that explicitly threatens us.*”¹³⁹ Also the vast majority of Europeans support the Union's actions in the energy field in order to get rid of dependence on Russian fossil fuels: around 85% of respondents support the filling of gas storages to avoid the risk of shortages, the adoption of measures to increase the energy efficiency of buildings, transport and goods, and the urgency of investing in renewable energy.¹⁴⁰ The project is based on three main pillars:

1. Diversification of gas supplies, through increased imports of liquefied natural gas (LNG) and pipeline gas from non-Russian suppliers.
2. Reduction of fossil fuel use in our homes, buildings and industry, through increased energy efficiency.
3. Acceleration of clean energy through investments in renewable energy, fostering the target from 40% to 45%, and cutting emissions.¹⁴¹

On this last point, the IEA's forecasts are not positive: according to their predictions, although there is an increase in the use of renewables by 2027, it will at best reach the 55% share of renewables in electricity (the plan spoke of 69%), for transport 16% (less than half of that predicted by REPowerEU) and the share of renewables in heating and cooling will rise by 0.9% annually (the plan's ambitions prescribe 2.3% annually).¹⁴² As far as points 1 and 2 are concerned, it will mainly be the commitment of each state that will determine the success of the plan. The most crucial aspect is the timeframe for the implementation of new deliveries. In fact, the distribution of Russian gas is not uniform across Europe: there are countries like Spain and Portugal that do not depend on Putin's gas at all, while other countries like Hungary and Germany are highly dependent on it. It is inevitable that some countries will be more reluctant to end energy relations with Russia in the short term and logic of

¹³⁸ “La Polonia incoraggia un regime di sanzioni il più ampio possibile,” Assocamerestero, accessed January 22, 2023, <https://www.assocamerestero.it/notizie/polonia-incoraggia-un-regime-sanzioni-piu-ampio-possibile>.

¹³⁹ “REPowerEU: Joint European action for more affordable, secure and sustainable energy,” European Commission, accessed January 22, 2023, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1511.

¹⁴⁰ “Eurobarometer: Europeans approve EU's response to the war in Ukraine,” European Commission, accessed January 22, 2023, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_2784.

¹⁴¹ “REPowerEU: affordable, secure and sustainable energy for Europe,” European Commission, accessed January 22, 2023, https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe_en.

¹⁴² IEA, “Is the European Union on track to meet its REPowerEU goals?” in *Renewables 2022*, IEA, December 2022, <https://www.iea.org/reports/is-the-european-union-on-track-to-meet-its-repowereu-goals>.

burden sharing should thus be adopted. With non ready alternatives to replace Russian gas, the EU cannot expect to remove Russia from the EU's energy mix without serious economic damage. Therefore, extensive economic investment must be directed toward securing alternative energy projects to Russian gas.

The IEA study found that energy efficiency in Hungary needs to increase, especially in the transport and industrial sectors. Decoupling is a mechanism that separates two activities that usually develop in parallel: therefore if decoupling is applied, we can have economic growth but with less energy demand and therefore less fossil fuel consumption. In the case of Hungary, however, efficiency efforts have not been able to decouple energy demand from economic growth.¹⁴³ The National Energy and Climate Plan 2021 (NECP) includes less ambitious energy efficiency targets than the EU hopes to achieve in 2030. One of the main problems in this sector is the lack of skilled workers. According to the IEA's recommendations, the Hungarian government should raise the bar for energy efficiency by updating the NECP and placing the issue at the centre of energy policy making by creating an ad hoc agency for efficiency policy implementation.¹⁴⁴ Regarding the diversification of gas supplies, formally the country recognises in its energy plan the goal of reducing import dependency, but in the practical terms, the country's energy dependency rate is 87 % in 2020, of which 64 % is Russian oil and 95 % Russian gas.¹⁴⁵ Hungary is heavily dependent on the Druzhba pipeline (also called the Friendship Pipeline) for crude oil imports. While it is true that Hungary has made progress in diversifying its supply routes, it is equally true that most of the new interconnections still supply natural gas from Russia, so this is mainly a diversification of supply routes, not of natural gas supply sources. All this only increases the energy dependence on Russia for both gas and oil. Hungary would therefore need to increase diversification of both sources and exporters to be able to meet the REPowerEU guidelines.

Poland, on the other hand, has managed to decouple energy demand from economic growth through energy efficiency.¹⁴⁶ Poland, in its Energy Policy for Poland to 2040 (EPP2040), has included two specific goals concerning the improvement of energy efficiency and the development of high-efficiency district heating and cogeneration.¹⁴⁷ Energy savings were mainly achieved in the industry and construction sectors. Among the IEA's recommendations is the establishment of a national agency to coordinate the country's energy efficiency support programmes and the introduction of policies in the automotive sector aimed at reducing the number of old and inefficient vehicles.¹⁴⁸ With regard to

¹⁴³ IEA, *Hungary 2022 Energy Policy Review*, p.12.

¹⁴⁴ *Ibid.*, p.16.

¹⁴⁵ *Ibid.*, p.14.

¹⁴⁶ IEA, *Poland 2022 Energy Policy Review*, p.11.

¹⁴⁷ *Ibid.*, p.53.

¹⁴⁸ *Ibid.*, p.68.

diversification, the EPP2040 focused on a number of key objectives, such as the diversification of supplies and the development of network infrastructure for natural gas, crude oil and liquid fuels (through the expansion of LNG import capacity and the increase of pipeline and oil import capacity) and the realisation of the Polish nuclear programme by 2033.¹⁴⁹ So Poland, which has already started to apply diversification strategies well before Russia's invasion of Ukraine, plans to continue investing in this direction to increase its energy security.

To sum up, the different results of the energy policy of Poland and Hungary are dictated by the ideas of the elites (in the Hungarian case these are combined with economic interests) and drive territorial ambitions of the two countries. It should not be forgotten, however, that as they are both part of a broader institutional framework, they have to respond to what Brussels demands. While on the one hand we have a Poland aligned with the EU's demands to break free from Russian gas dependence, Hungary is in a more difficult situation, being very exposed to dependence on Russia. It is legitimate to argue that the Hungarian approach in the long run will have to adapt to the goals of the EU, but it is not yet clear how the ideological and economic interests of the Hungarian elite will turn in this direction.

¹⁴⁹ Ibid., p.25.

Conclusion

i. Research findings

The research brought to light energy policies adopted by the governments of Poland and Hungary. There are many studies on the energy policies of individual countries, but the number is drastically reduced when it comes to comparing similar case studies. The comparative perspective, in a context of structural similarities between countries, made it possible to highlight the explanatory factors for the different behaviour.

On the one hand, Orbán's Hungary is already very dependent on the Brotherhood and Friendship Pipelines (both from Russia), and also supports the construction of new pipelines such as the South and Turkish Stream, again linked to the Kremlin. On the other hand, Poland seeks to achieve its energy independence by relying on the Baltic Pipe (connecting it to Denmark and Norway) and the LNG terminal to import liquefied gas from other parts of the world (e.g. Qatar and the USA). The latter choice has a purely strategic value since transporting LNG by ship is much more expensive than gas from pipelines.

On the one side, relations between Poland and the Russian energy company Gazprom have cooled considerably following the early termination of the gas supply contract and the Polish demand for even stricter European sanctions against Russia. On the other side, Hungary negotiated new long-term agreements with Gazprom that would guarantee an increased supply and, at the same time, tried to thwart European sanctions packages against oil imports from Russia.

The most emblematic case remains the nuclear sector. In Hungary, the construction of two new reactors was entrusted to the Russian company Rosatom, without calling for tenders and in addition taking out a Russian loan to finance its construction. Where, with the expansion of the nuclear power plant, Hungary could have moved away from energy dependence on Russia, it signed agreements to crystallise the dependence relationship in this area as well. Poland, which does not yet have a nuclear power plant, has instead decided to entrust its construction to the American company Westinghouse. Poland intends to invest in the nuclear sector in order to deepen its broader diversification strategy, move away from Russian energy dependency and increase the American presence on its territory.

In a nutshell, the two energy policy approaches aim at the same goal, to obtain a stable and secure supply of energy resources, applying two opposite strategies: the Hungarian one intensifies relations with Russia, the Polish one tries to minimise them.

The variation in energy policy choices is explained by two hypotheses. Hypothesis 1 states that the elites of countries with positive convictions towards the exporting state do not care about energy dependency on a single exporter state, rather they continue to enter into agreements with that country. In contrast, Hypothesis 2 affirms that if country elites have negative convictions towards the exporting

state, then they will try to diversify their energy supplies as much as possible. It is therefore a matter of positive and negative beliefs of the government elites towards the energy-exporting country.

Orbán, with its policy of 'Eastern Opening,' sees Russia as an alternative market to Europe and has labelled it positively as a key ally for Hungary's economic development and energy security. It is true that energy policy choices are driven by the ideas of Orbán, now in his fourth term of office, but it is equally true that behind these investments there is also an element of economic interest. The latter is particularly evident in the case of the nuclear and in the MVMP-MET gas trading scheme. Thus, it is concluded that Hypothesis 1 is partially confirmed since Hungarian energy policy choices come not only from the set of ideas the elite has towards Russia but also from the economic interests that enrich the Hungarian elite by concluding agreements with Russia.

On the contrary, Polish Russophobia, which only amplifies in a very sensitive field like energy, takes its shape from historical legacy and is re-proposed by the main party. Polish energy policy choices are guided by the memory of history and its traumas and implemented by Law and Justice party. In this case, there is a strong causal connection between the idea set variable and the energy policy adopted by the country.

Bringing the results of the research into a more abstract framework, they allow us to identify one of the determining factors in the countries' energy policy choices, and thus suggest that we should not downgrade government elites' idea sets to secondary considerations, but take their significance into account.

ii. *Limitations and suggestions for future research*

A first limitation of the research, as already pointed out, concerns the Hungarian case. Whereas in the Polish scenario there is a strong causal relationship between the idea set variable and the energy policy adopted, this same assumption is only partially true in the Hungarian case. Orbán and his network of trusted people very often conclude agreements with Russia also out of convenience: energy policy choices are thus dictated by a mix of positive views towards Russia as well as the set of economic interests. Indeed, in 2014, on the occasion of his second re-election, Orbán included his views on his Eastern neighbour in his speech. He argued that the Hungarian people must strive to understand states that are not liberal (and sometimes not even democratic), free themselves from the dogmas of Western Europe, and find a form of state organisation that can compete with these states, including Russia, seen as one of "*the stars of international analyses.*"¹⁵⁰ While it is true that the elite has positive views towards Russia, it is undeniable that many of the energy agreements also involve a good deal of economic interests. Thus, the limitation of the case study lies in the partial assessment of the

¹⁵⁰ Tóth, "Full text of Viktor Orbán's speech."

hypothesis. However, it is not the purpose of this study to analyse how economic interests influence the ideas of the Hungarian government elite. This rather could be the research question of a further study.

Moreover, these convictions have to come to terms with the institution of which the two countries are part: the European Union, which especially in recent years has been trying to develop a common energy strategy. For this reason, the final part of the empirical chapter focuses on the most relevant projects that the EU is adopting to decrease its energy dependence on Russia. Although this field is explored by the research, the natural limit to the governments' set of ideas is the constraints imposed by the institution of which they are part, e.g. the enforcement of the embargo on crude oil from Russia. Even though the European plan makes exceptions for those countries particularly dependent on Russia (including Hungary), in the long run all will be required to comply with EU guidelines.

Another unexplored field is how the different approach towards Russia is able to change the balance in the EU. Indeed, prior to the outbreak of the war in Ukraine, which with it brought the problem of energy dependence on Russia back to the centre of European attention, Poland and Hungary were often at each other's throats over rule of law issues. Since the energy issue has become a priority, however, Poland with its policies of energy independence has become a 'little more EU-friendly' while Orbán's Hungary has been labelled a 'Russian Trojan horse on European soil'.

A further reflection could be offered: unlike in the Polish case, the Orbán's conciliatory ideas with Putin are not reinforced by public opinion, which instead struggles to erase from memory the year 1956 and the Soviet entry into Budapest of tanks firing on protesting crowds. In Warsaw, on the other hand, we find the same fears of popular opinion reflected in the political class, which is looking for alternative routes to energy dependence on Russia. It would therefore be interesting to analyse in further research the role of public opinion in the energy policy choices of both states. How much the power of this actor has been eroded by strong dominant parties that have had the European call for policies that do not conform to the rule of law and how influential it is in the subsequent choices of the political elites.

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Executive Summary

Chapter 1

Energy has increasingly assumed a key role in modern society. The increase in the world's population as well as industrial and technological development means that people need ever greater amounts of energy. Given the vital importance of energy supply for states, the energy sector is one of the areas where national governments pay most attention nowadays. In fact, it is no coincidence that energy security goes hand in hand with the concept of national security. According to the OSCE, energy security means *“having stable access to energy sources on a timely, sustainable and affordable basis.”* But how is energy security achieved? There are three main strategies: the increase in energy efficiency, the increase energy storage capacity and the diversification of supply and suppliers. The EU has increased its energy dependence, relying more on imports and Russia is its largest supplier of natural gas, oil and coal. More precisely, the EU depends on Russia for 24.4% of all its energy needs and on Russian natural gas for 41.1%, demonstrating the region's vulnerability to external shocks that put energy supplies at risk. Depending on national energy policies, this vulnerability may be accentuated or mitigated. Holding a large amount of fossil fuels inevitably brings the holding state, wealth, and power. One speaks of energy weapon when *“an energy supplier state uses its resources as a political tool to either punish or coerce (or sometimes a combination of both) its customers.”* Historically, at least three cases can be found in which Russia, the world's leading exporter of gas, applied the weaponization of energy. In 2006, when Gazprom caused a complete disruption of Russian gas supplies to Ukraine for three days. The second was in 2009, when all Russian gas flows through Ukraine were blocked for 13 days. The third critical date when Russia used gas as an instrument of blackmail was at the end of April 2022, when Gazprom announced a complete cut-off of gas supplies to Poland and Bulgaria after they refused to pay for gas supplies in rubles.

The study aims to make a comparative analysis of two states: Poland and Hungary. Poland's energy supply is mainly made up of fossil fuels and the largest share of this percentage consists of coal while, in terms of final consumption, the most used energy resource is oil. The use of natural gas ranks third in both supply and consumption. The biggest problem for Poland is to reduce the use of coal, as the EU requires, without losing its energy security and ensuring a just transition for coal workers and communities. In Hungary, more than half of the total energy supply is provided by imports and it is mostly composed of fossil, of which the majority is gas and oil. These supplies result in consumption dominated by oil and gas. Hungary's greatest energy vulnerability is its over-dependence on Russia. In 2020 Poland's share of Russian imports is within the average of other European countries, while Hungary ranks first in Europe in terms of dependence on Russian natural gas imports. On the one

hand, there is Hungary, which prefers gas among its energy sources and obtains its supplies from Russia. There is neither a diversification of energy resources nor a differentiation of gas exporting countries. On the contrary, the share of gas in Poland's energy consumption is not particularly high, nor is the share of gas supplied by Russia. The policy of energy differentiation has been applied here for several years.

Chapter 2

The logic applied to the selection of case studies follows the method of 'most similar cases, different outcomes': the paradox lies in the fact that these two states have very similar characteristics from an economic and political point of view, and one would therefore also expect parallelism in energy supply, but this is not the case. There are many structural similarities. First, the political coalition between Orbán and Morawiecki mainly includes their efforts in defence of their illiberal and Eurosceptics positions. In particular, the dispute between Brussels and Warsaw concerns the primacy of EU law over national law, freedom of information, the rights of women and minorities, and the reform of the judiciary. Secondly, both are part of the Visegrád Group, with Czech Republic and Slovakia. But while economic performance seems to run parallel to the four states, whether they actually share a common political identity remains a matter of debate. Rather, they found unity and cohesion when opposing certain EU policies (i.e. redistribution of migrants and anti-pollution policies). Moreover, Poland and Hungary share a common Soviet heritage and in the late 1980s they both began a process of transition from socialism to democracy, culminating in the present with the traditionalism and strong central power of the two parties: Law and Justice and Fidesz. The fourth common feature defines the two countries as dependent market economies, characterised by favourable conditions for attracting foreign direct investment, the comparative advantage that lies in the assembly platforms for semi standardized industrial goods, and the decisive role of transnational corporations. DME model is based on the mechanism of fully established technology being transferred to TNC subsidiaries while the inventive portions of the business cycle remain at TNC headquarters. Lastly, the presence of a paternal role of the state should be emphasized, which translates into a tendency towards the centralisation of power and consequent state ownership of major energy companies. In Hungary, the state-owned giant MVM is the dominant player in both electricity and natural gas sectors; in Poland, the gas market is dominated by the state-owned giant PGNiG.

In trying to understand the key to justify the different outcome, three hypotheses can be advanced.

1. The first hypothesis refers to the role of public opinion. According to this explanation, the two states would implement energy policies based on what public opinion thinks of Russia. In the

case of Poland, this could be a satisfactory reading, since the energy differentiation policies reflect the historical fear of Russia on the part of both PiS and the Polish population. However, it remains an odd choice for Hungary to do business with its Russian neighbour: the Hungarian population's opinion on Russia reflects the traumas suffered throughout history. The recent Russian-Hungarian axis is based on a relationship of elites that has little to do with the variable of popular opinion. Thus, the public opinion cannot be taken into account as an explanatory variable because it does not justify the moves of the Hungarian government.

2. The second hypothesis concerns the role of soft power. In the case of Poland there is an undeniable American soft power, while in the case of Hungary this influence comes from the East, more precisely from Moscow. In the case of Poland, soft power can be seen in the impact of the media on their role in influencing the public mood towards the policy of abandoning coal in favour of nuclear power. On the other hand, the Hungarian government uses relations with Russia to gain political and economic advantages for the pro-regime elites, but not to spread a pro-Russian vision within Hungary. So, not even the explanatory soft power hypothesis can give us a clear reading of the behaviour of the two states.
3. The third hypothesis draws on the strand of liberalism of interdependence. Poland seeks to strengthen trade agreements with European countries. Poland depends on the investment of these TNCs just as these TNCs depend on the low-cost labour of Poles. In the case of Hungary, however, one cannot speak of true interdependence since trade between Russia and Hungary is mainly based on gas and, thus, it remains rather limited, highly asymmetrical and one-dimensional. Not even the liberalism of interdependence can be considered as the key variable explaining the different outcome in energy policies.

Chapter 3

After discarding the three previous hypotheses, the one considered is based on the constructivist approach. This strand of IPE affirms that norms and values help to constitute identities and shape preferences. Hypothesis 1 affirms that we should expect the elites of countries with a positive belief in the energy exporter not to seek diversification of sources or exporters, but to continue to enter into even bigger contracts with the same trusted exporter. Hypothesis 2 states that we should expect the elites of countries with an adverse belief against the energy exporter to seek their own energy security by implementing policies to ensure greater diversification and less dependence. On the one hand, there is the Hungarian elite that sees Russia as a key ally for economic development and energy security; on the other hand, there is Poland, which, with its never-vanishing nightmare of being a strategic territory for Russia, tries to gain energy security by depending as little as possible on Russia.

According to the hypothesis considered, these beliefs are guided by the Hungarian Prime minister and by the Polish history. From 2010 onwards, the year of Orbán's election, the Russian-Hungarian relationship has intensified, especially regarding energy relations, feeding European fears of seeing Hungary as a Russia's Trojan horse within the Union. Budapest remains the closest European capital to Russia. Orbán's attitude towards Putin is conciliatory, driven by the belief that securing Russian gas is the best strategy to gain energy security. In practice, Orbán's ideas are implemented by the close network of his associates. Investigative journalists report on the existence of "shadow empires" in the Fidesz business environment, which receive assistance from the political sphere and in return give aid to politicians. These companies are known to be "close to Fidesz". These "shadow empires" are present in every sector of business, including the energy sector. Polish history has been riddled with clashes with Russia: as early as the 18th century, when Tsarist Russia conducted a process of 'Russification' of Polish society, then the Polish-Bolshevik War of 1919, also in 1939 with the Molotov-Ribbentrop Pact and the Katyn massacre. From the Second World War to the end of the Cold War Poland was completely subjugated to the Soviet Union, becoming its satellite state. The fear triggered by Russian aggression certified the explosion of consensus of the conservative PiS party, which had launched a massive political campaign against the previous Tusk government, guilty of ignoring Putin's threat and the PiS made it clear that the external threat came from Russia. The Russian invasion of Ukraine, which began on 24 February 2022, has only confirmed Polish fears of Putin and his foreign policy. The PiS has preferred to amplify the general perception that it sees itself in the crosshairs of the Russian army and therefore stood out as the country most aligned with Washington. Harboring strong anti-Russian sentiment means depending as little as possible on gas imports and thus continuing to keep the coal market going. The choice of energy policy favours a broad consensus and places Poland at the forefront as America's strategic anti-Russian ally.

Chapter 4

The empirical study of the Hungarian case demonstrated how Orbán reoriented foreign policy by implementing the so-called 'Eastern Opening', that is, the revitalization of the economic relations with non-European partners (mainly Russia) to counterbalance Hungary's strong ties with the West. The two largest investments in the energy sector linking Hungary and Russia are Paks II and the MET gas trading scheme. The former concerns the nuclear energy cooperation: the agreement for the modernisation of power plants, making the four existing nuclear power reactors more efficient and adding two new ones (Paks II) was signed in 2014 between the Hungarian government and the Russian state company Rosatom, which has been entrusted with the construction of the plant, without prior tender or notification and the Parliament voted for keeping secret the contract. The agreement

also included a EUR 10 billion loan for the implementation of the project, with the consequence that the repayment of the loan would bind Hungary to Russia for a period of at least 21 years, starting in 2026. The paradox is that, through nuclear power, Hungary could move away from dependence on Russian fossil fuels, but instead Orbán makes even tighter agreements with Putin, ‘tying its hands’ in the nuclear sector as well. The latter, concerning the MVMP-MET story, refers to the gas distribution scandal in which the Hungarian government indirectly outsourced monopolistic access to the Hungarian-Austrian gas pipeline to an offshore company. Within this offshore company (MET), which made large profits, there was a Russian shareholder, and it is assumed that this scheme had the implicit consent of the Kremlin. The nuclear cooperation and the MET scheme demonstrate *“the strong ties connecting the large-scale Hungarian business projects to Russia allow the politically organized Hungarian oligarchy access to significant financial gain while giving Moscow an easy tool of control and influence.”* Among these two main projects, Hungary is heavily dependent on Russian oil and gas exports through the Friendship and Brotherhood Pipeline, and it is pushing for the creation of new gas pipelines (South Stream and Turkish Stream). Furthermore, in September 2021, Hungary renewed its gas supply contract with Gazprom for 15 years securing a large energy supply. The following year, Russia announced an increase in gas supplies to Hungary. All these projects testify the increase of energy contracts with Russia. This type of energy policy is driven by the leader's conciliatory stance towards neighbouring Russia. However, the nuclear case creates tenders in the crosshairs of contractors close to the party and the MVMP-MET case generates a large profit for MET shareholders. These two projects have emphasised that in addition to the set of beliefs there is often also an element of economic interests on the part of the respective elites in concluding the agreement. In conclusion, the hypothesis formulated can be understood as partially confirmed because while it is true that there is a positive Hungarian conviction towards the Kremlin, one is unable to separate this component from the economic interests of the elites and to state which of the two factors is predominant.

The empirical study of the Polish case revealed how coal played a key role in ensuring Poland's energy security. In 2008 Poland became a net importer of hard coal for the first time and imports come mainly from Russia. But this is perceived differently than dependence on gas, as Russian coal imports can be replaced in full in the event of a conflict. While Russian gas could jeopardise the country's energy security, coal imports are perceived as less dangerous by the Polish elite. There are two main projects contributing to the diversification of gas supplies, which have also been labelled as Projects of Common Interests by the EU. The first concerns the construction of the Baltic Pipe, which provides Denmark and Poland with direct access to Norway's gas fields. *“Today, we can make this statement with full confidence: the era of Russia's domination in the gas area is coming to an*

end” are the words of the Polish Prime Minister at the opening of the new gas transmission plant in September 2022. The second project is the construction of an LNG terminal, completed in 2015. Poland secured long-term LNG supplies by signing agreements with Qatar and American companies. Given the growing demand for liquefied gas, the terminal operator announced the LNG Terminal Expansion Programme in 2021. In addition, the Polish diversification strategy has increased through the agreement with the American company Westinghouse for the construction of the nuclear power plant. The Polish government's forecast estimate “*that by 2040, nuclear energy could account for up to 16 % of generation.*” The latest developments in the energy relationship between Russia and Poland have cooled with the Yamal case: when in 2022 Moscow had demanded to be paid in roubles for gas deliveries, Poland refused, triggering a reaction from the Kremlin which cut off supplies. This led to the early termination of the contract with Gazprom. In this case, there is a strictly causal connection between historical legacy, and the anti-Russian stance of the elite. If, in the short term, it might have been convenient for Poland to use the gas of the Yamal Pipeline, the choice made was to terminate the contract early and invest in alternative, albeit more expensive, markets (such as LNG). Therefore, the hypothesis that countries with a negative conviction towards the exporting country will try to depend as little as possible on the latter and implement diversification is strongly verified. The energy policies of the two states also guide their territorial ambitions. In fact, both aim to become an energy hub for the region, but while Hungary seeks to do so through Russian gas; Poland, on the contrary, aims to break away from Russia and propose other energy routes. However, the aspirations of the Polish and Hungarian elites, being part of the broader EU context, must come to terms with EU's plans, which are more aligned with the Polish idea of seeking diversification of energy supply. In fact, following the Russian invasion of Ukraine, the EU first responded with economic sanctions packages against Russia and then proceeded to prepare an EU disengagement plan from Russian gas (REPowerEU). As far as the sanctions packages against Russia are concerned, Poland demands even stricter sanctions against the Kremlin while Orbán has repeatedly threatened a veto while spreading propaganda in Hungary against the 'Brussels-imposed' sanctions. The REPowerEU basically calls for (1) the diversification of gas supplies, (2) the reduction of fossil fuel use and (3) the acceleration of clean energy. According to the IEA, the roadmap of the European renewables project (3) is too tight for all member countries. Regarding the goals of (1) and (2), Hungary needs to increase both diversification and energy efficiency. Poland, on the other hand, has implemented the decoupling of energy demand and economic growth through increased energy efficiency, and the policy of energy differentiation is well developed and continues to be the focus of the country's energy plans. We have a Poland aligned with EU demands to break free from Russian gas dependence, while Hungary is in a more difficult situation, being very exposed to dependence on Russia. It is legitimate to argue that

the Hungarian approach in the long run will have to adapt to the goals of the EU, but it is not yet clear how the ideological and economic interests of the Hungarian elite will turn in this direction.

Conclusion

The comparative perspective, in a context of structural similarities between countries, made it possible to highlight the explanatory factors for the different behaviour. Orbán, with its policy of 'Eastern Opening,' sees Russia as an alternative market to Europe and has labelled it positively as a key ally for Hungary's economic development and energy security. It is true that energy policy choices are driven by the ideas of Orbán, now in his fourth term of office, but it is equally true that behind these investments there is also an element of economic interest. Thus, it is concluded that Hypothesis 1 is partially confirmed since Hungarian energy policy choices come not only from the set of ideas the elite has towards Russia but also from the economic interests that enrich the Hungarian elite. On the contrary, Polish Russophobia, which only amplifies in a very sensitive field like energy, takes its shape from historical legacy and is re-proposed by the main party. In this case, there is a strong causal connection between the idea set variable and the energy policy adopted by the country. Bringing the results of the research into a more abstract framework, they allow us to identify one of the determining factors in the countries' energy policy choices, and thus suggest that we should not downgrade government elites' idea sets to secondary considerations, but take their significance into account.