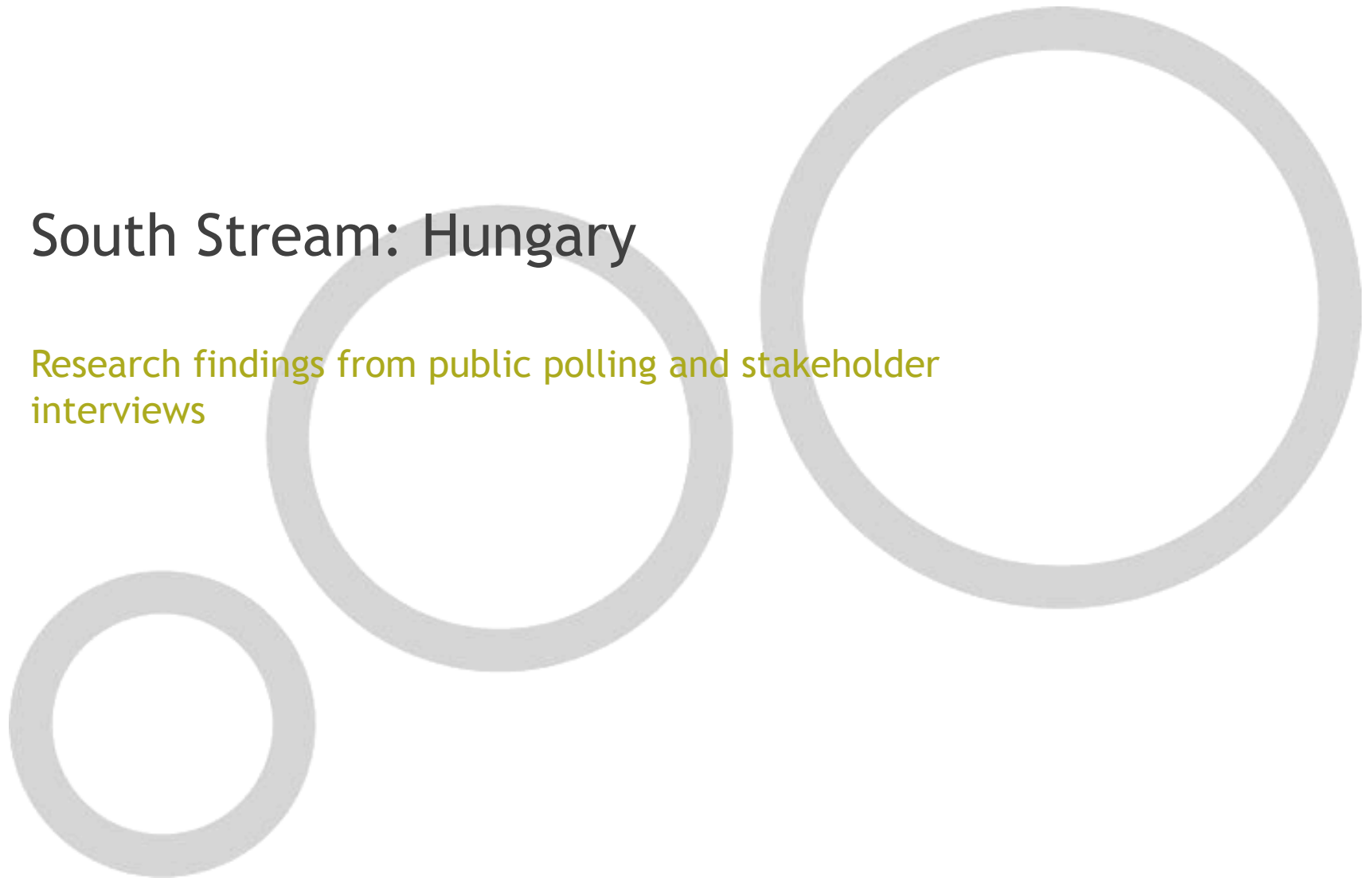


South Stream: Hungary

Research findings from public polling and stakeholder interviews





Contents

- Introduction
 - Background
 - Objectives
 - Methodology
- Background hopes and fears for Hungary
- Views on energy challenges and Hungarian energy policy
- Attitudes to energy sources and new energy developments
- Attitudes to South Stream
 - Overall support
 - Potential advantages
 - Potential disadvantages
 - Trusted sources

Introduction

Background

- The South Stream pipeline will bring significant volumes of Russian gas to Italy, transported across Bulgaria, Serbia, Hungary and Slovenia.
- South Stream is a partnership between Gazprom, ENI and EDF, as well as a number of NOCs, and other businesses and financial partners.
- Once complete, the pipeline will diversify European energy supplies and ensure a reliable gas supply.

Introduction

Objectives

- Natural Gas Europe commissioned WorldThinks to conduct research to understand attitudes towards the pipeline in Bulgaria, Hungary, Italy, Serbia and Slovenia.
- In each country, the research aimed to understand:
 - levels of support for the pipeline;
 - perceptions of its advantages and disadvantages;
 - attitudes towards the main companies involved; and
 - any differences in opinion between stakeholders and members of the general public.
- These slides present the research results for Hungary.

Methodology

PUBLIC ATTITUDES RESEARCH

- Online survey
- Fieldwork: 2nd - 8th July 2013
- 501 respondents
 - Margin of error within sample size = $\pm 4.38\%$

STAKEHOLDER RESEARCH

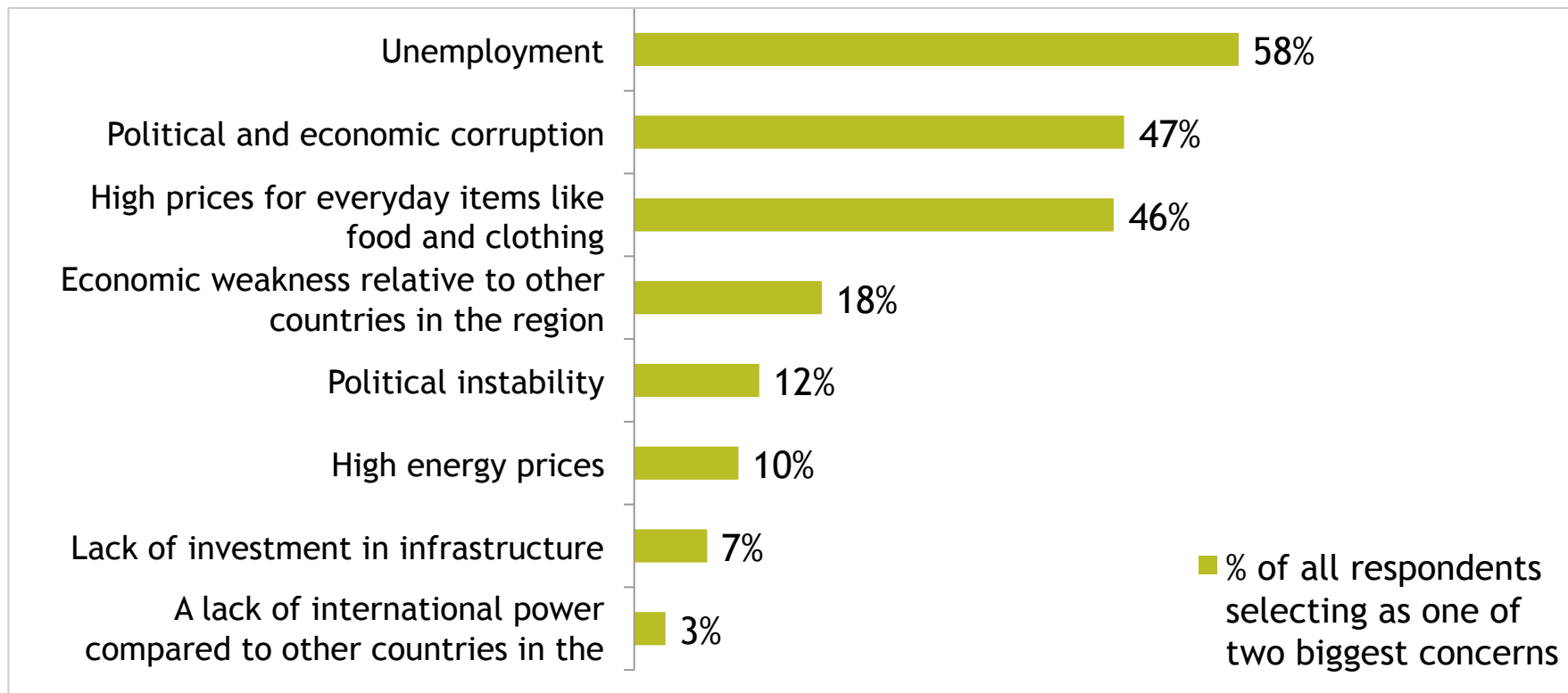
- 10 interviews
- Telephone or face-to-face
- 30-45 minutes each
- Conducted in Hungarian by local research agency
- Mixture of stakeholder groups:
 - 1 Academic
 - 2 Business/Investors
 - 3 Politicians
 - 2 Environmental NGOs
 - 2 Think tanks



Background hopes and fears for Hungary

Hungarians are most concerned about economic and political issues

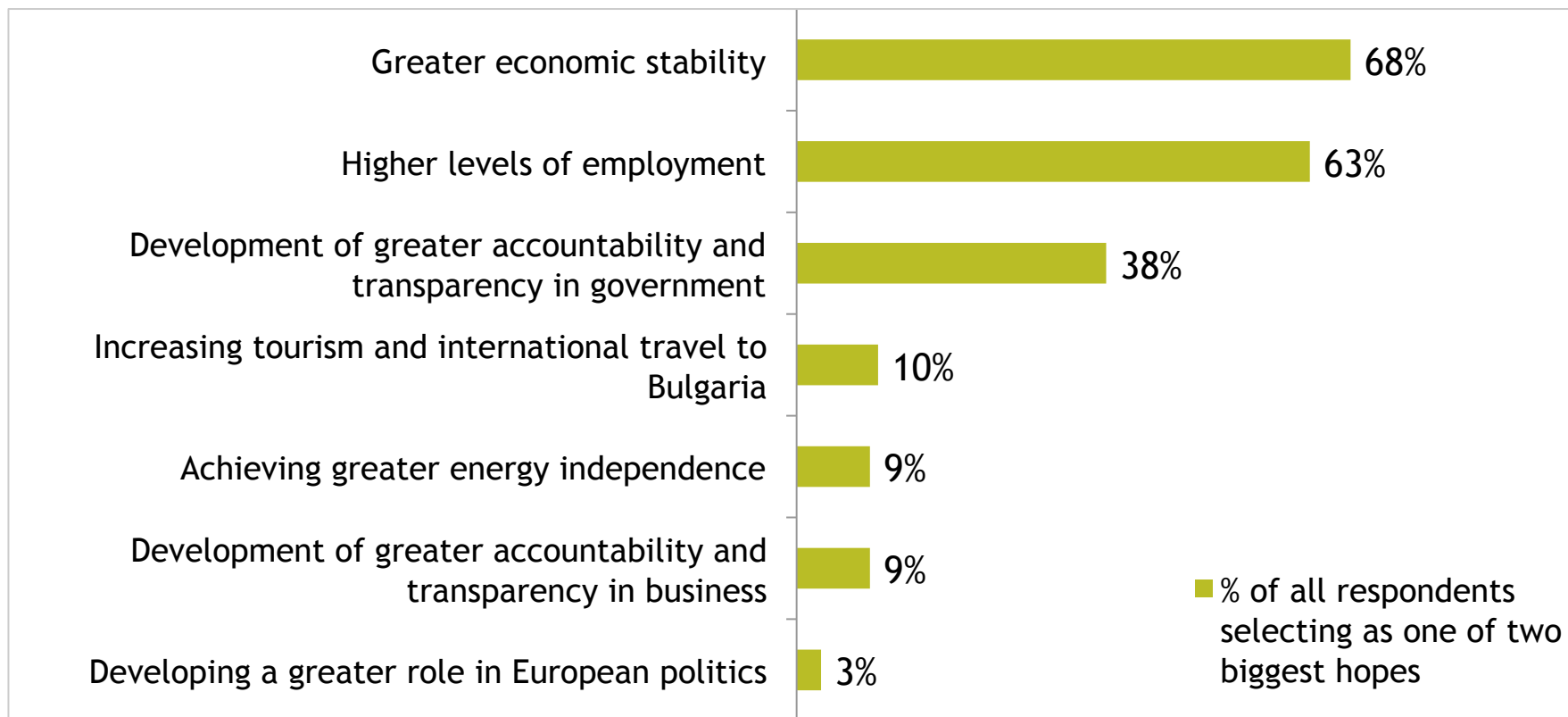
- Energy prices, lack of investment in infrastructure and international power are not big concerns for most of the public.



Q.1 Which two of these are your biggest concerns for Hungary at the moment? Please select 2 from the list below. [Base = All respondents (501)]

Economic stability and higher levels of employment are the most common hopes for Hungarians

- Achieving energy independence is less of a priority.



Q.2 Which two of these are your biggest hopes for Hungary at the moment? Please select 2 from the list below. [Base = All respondents (501)]



Views on energy challenges and Hungarian energy policy

A reliance on imports and cost are the two main concerns identified by stakeholders

- For some, the main concern is Hungary's reliance on imports.
 - In particular, a couple of stakeholders are worried about Hungary's reliance on Russia, and the implications this has for supply security.
- Other stakeholders are concerned about the cost of energy, which they feel is high both in relation to the international markets, and in relation to local wages.
- A small number of stakeholders are concerned about legislation and taxation and the impact that these have on the energy market and energy companies.

STAKEHOLDER RESEARCH

“Energy prices in relation to average wages are extremely high, so it’s difficult for people to pay the bills.”

Stakeholder

“The dependence on energy imports is a challenge. The bill for energy imports surpasses the money generated on income tax every year. This dependence on energy imports generates an imbalance in the economy, which leads to political issues and makes us very vulnerable.”

Stakeholder

National energy policy is seen as incoherent

- Stakeholders feel that Hungary lacks a coherent energy strategy.
 - On paper there is a commitment to renewables but in practice gas and electricity are favoured.
 - The contradiction between written strategy and implemented policy has led stakeholders to view the official energy policy as untrustworthy.
 - Party politics are also felt by some to prevent the development of a coherent strategy.

“There is a mismatch between what is written on paper and reality. Practically, policy emphasises gas and electricity but on paper it's full of efficiency, renewables and environmental protection.”

Stakeholder

Some stakeholders believe things have improved since central government took greater control

- Most stakeholders feel that central government is the key figure in energy policy.
 - In addition, some think that international energy companies and MVM also have some influence.

“Hungary's energy policy has not been coherent for a while now. There are isolated ideas, which come together in the end, but this cannot be considered coherent at all. However, increased state participation in energy politics has improved the situation since 2010.”

Stakeholder



Attitudes to energy sources and new energy developments

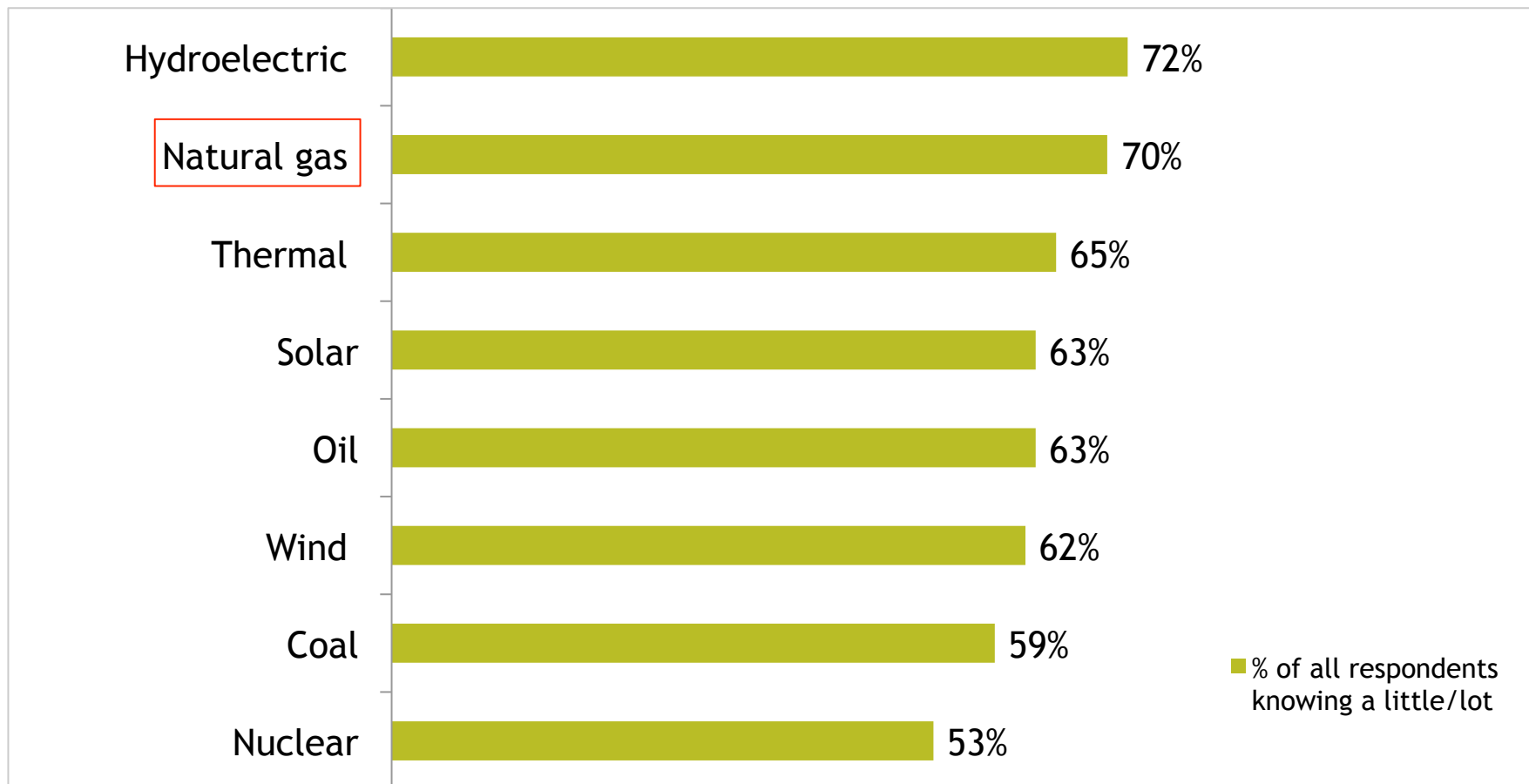
Public attitudes to energy sources

Public attitudes to energy developments

Stakeholder attitudes toward natural gas

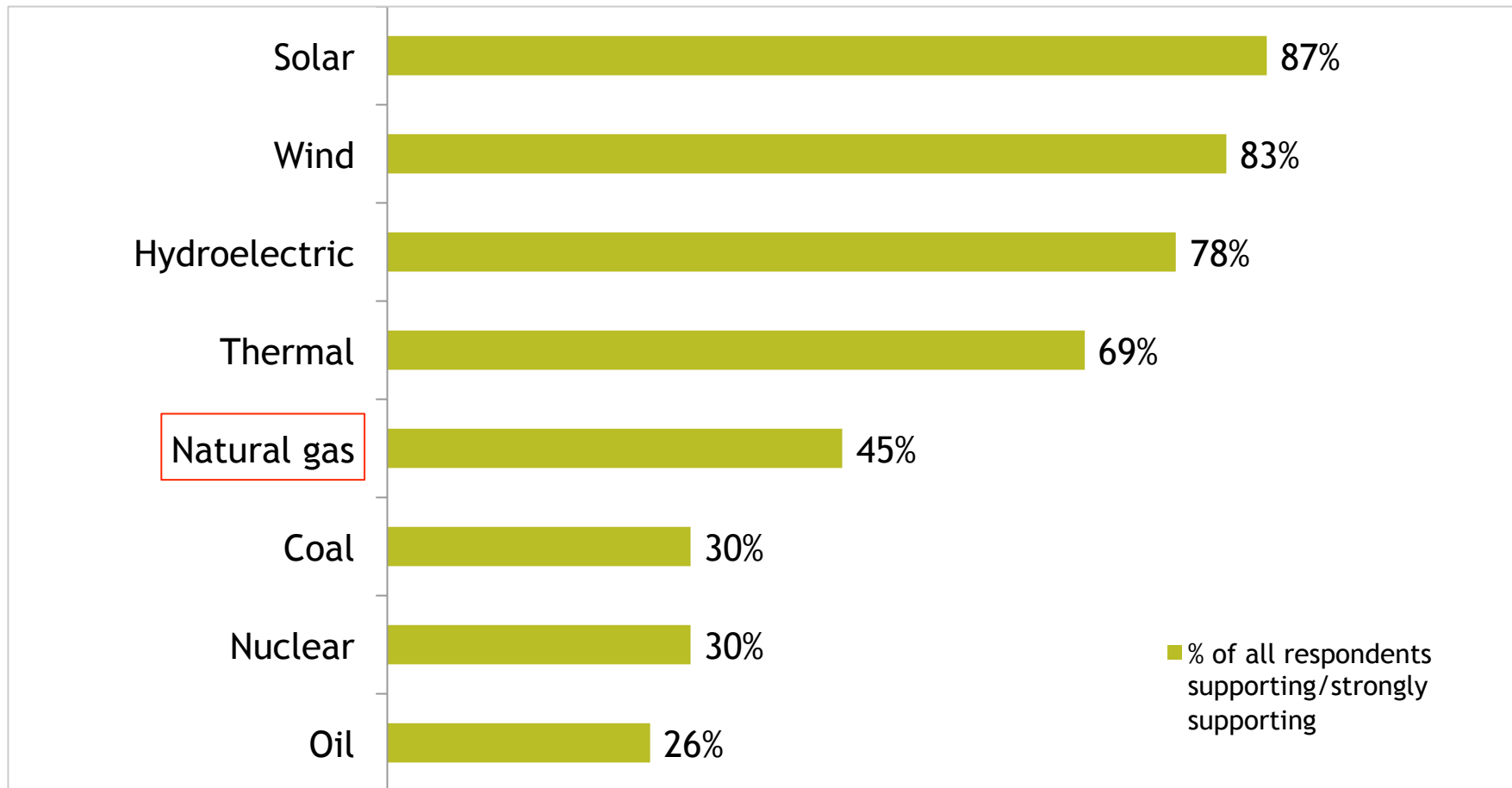
Knowledge of all energy sources is relatively high with little variation by energy type

- 70% of Hungarians know something about natural gas.



Q3. Thinking about the range of potential sources of energy for providing Hungary's gas and electricity, how much would you say you know about each of the following?. [Base = All respondents (501)]

Renewable energy sources receive the most support but natural gas is the most popular fossil fuel in Hungary



Q4. And, based on what you know now, how much do you support or oppose each of the following as a source of energy in Hungary. [Base = All respondents (501)]

Most stakeholders see gas playing an important part in Hungary's future energy mix

Pros

Hungary already has a well-functioning gas infrastructure.

Gas is a cleaner and more efficient energy supply than oil or coal.

There is a good global supply.

Cons

Hungary is already heavily dependent on gas, making it heavily reliant on imports, in particular from Russia.

Although it is cleaner than other fossil fuels, gas is still polluting.

Gas prices are high.

STAKEHOLDER RESEARCH

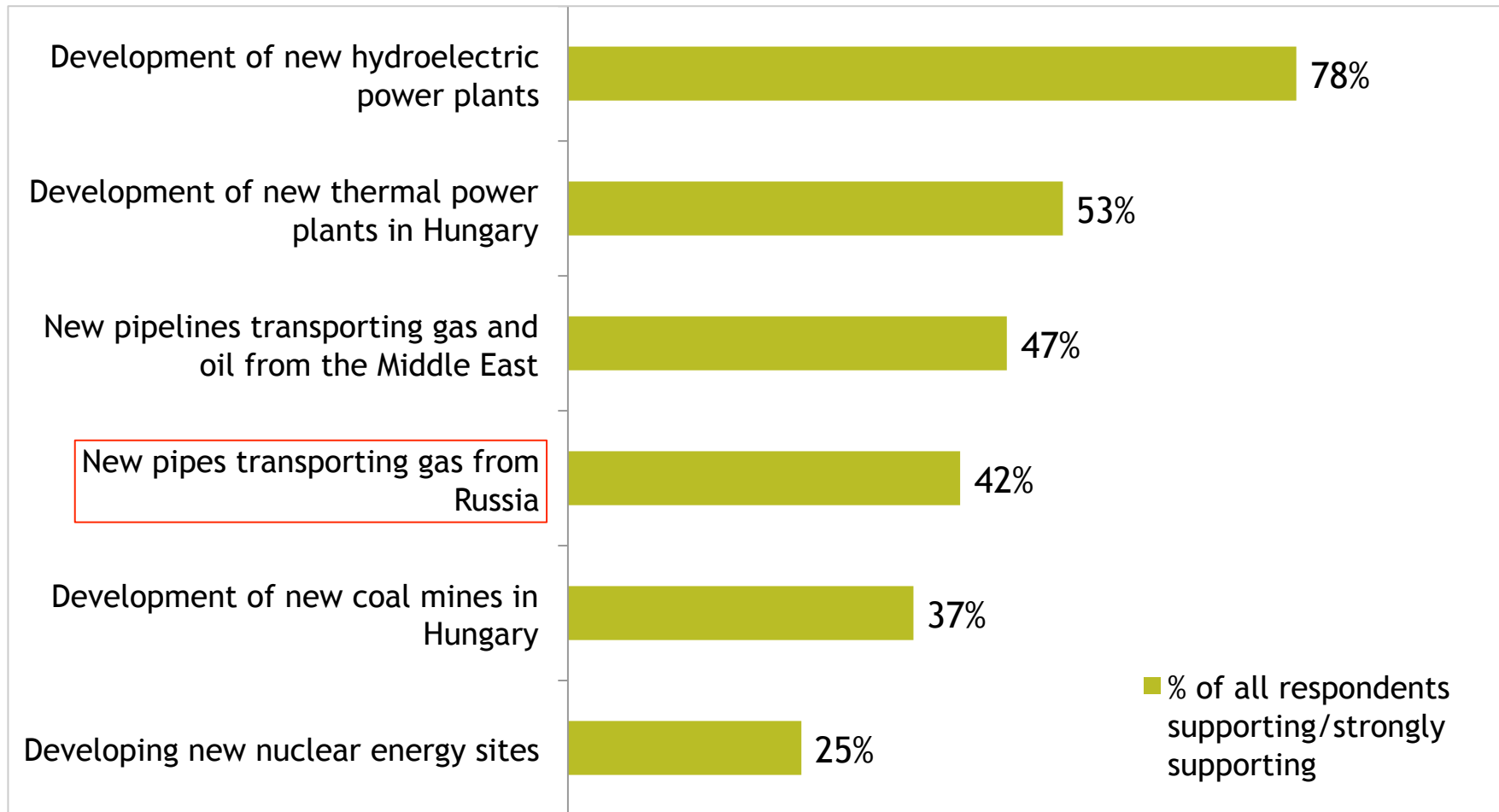
“Sources are abundantly available globally; there is a well built and safely operating gas-transporting infrastructure. It is a comfortable and easily operated system.”

Stakeholder

“Hungary is extremely dependent on gas and, since domestic production is very limited, supply is largely based on imports. Moreover, imports are largely from Russia and we haven't yet diversified sources of supply. This creates a big supply security problem.”

Stakeholder

New gas pipelines from Russia are supported by 42% of Hungarians, with only 10% opposed



Q5. How far do you support or oppose the following energy developments in Hungary? [Base = All respondents (501)]



Attitudes to South Stream

Awareness and support

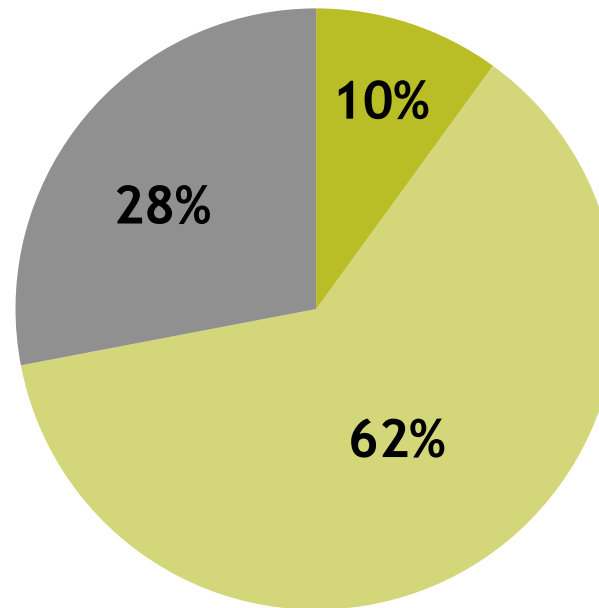
Assessment of potential advantages and disadvantages

Attitudes to organisations involved

Public awareness of South Stream is high

- The most common source of information about South Stream is the news (96%), followed by word-of-mouth (10%).

- Yes - I know a lot about South Stream
- Yes - I know a little about South Stream
- No - I haven't heard anything about South Stream



72% know about South Stream.

Q6. Prior to today, were you aware of South Stream? [Base = All respondents (501)]

51% of Hungarians support the South Stream pipeline project and only 4% are opposed

Strongly support

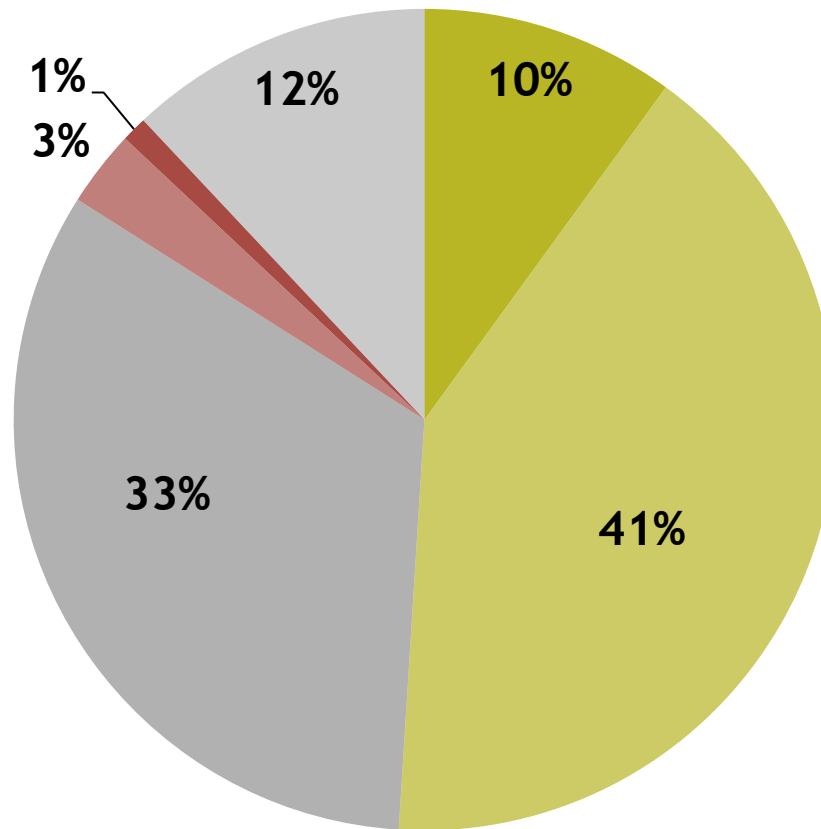
Support

Neither support nor oppose

Oppose

Strongly oppose

Don't know



Aged 55+
76% support

Aged 18-24
19% support

Q8. Overall, how supportive do you feel about the South Stream pipeline project in Hungary? [Base = All respondents (501)]

STAKEHOLDER RESEARCH

Whilst some stakeholders are supportive of South Stream, there is a degree of ambivalence amongst many

Reasons for support

It diversifies the supply route and avoids Ukraine.

There is the potential for Hungary to develop an important role as a gas hub.

It will encourage integration with neighbouring countries.

Reasons for opposition

It will increase dependence on gas and discourage development of primary energy sources.

There are questions about whether the money being spent on South Stream would be better invested in other projects.

Construction costs will be high since all materials and expertise will be imported from Russia.

STAKEHOLDER RESEARCH

“It gives us an alternative transportation route, avoiding the political risks of the Ukraine... All in all, it is an advantage to have gas coming via another route, it means benefits to the transit country as well as a secure supply to consumers.”

Stakeholder

“It doesn’t diversify supply sources and increases Hungary’s exposure to import. There is a risk that it will set us at ease and make it seem as though we don’t need source-diversification or renewables.”

Stakeholder

For stakeholders, the main benefit of South Stream is that it will increase energy security

- Stakeholders believe that South Stream will increase Hungary's energy security.
 - It will provide an alternative transport route that bypasses Ukraine.
 - Some think that it will also give Hungary a reservoir capacity.
- Stakeholders also think that there is the potential for Hungary to develop an important international role as a gas hub.
 - However there is limited support for the belief that the pipeline will increase Hungary's bargaining power.
- For stakeholders, the main economic benefit is transit fees.
 - However, some question whether these will materialise.
 - There are doubts about whether the pipeline will bring any other economic benefits such as job creation or lower gas prices.

Stakeholders are most concerned about energy diversification

- There is concern that South Stream does not offer a true diversification of supply.
 - Russia will remain Hungary's most important gas supplier, posing supply security risks.
 - Some feel that the money spent on South Stream would be better invested elsewhere, for example on projects that address a perceived over-reliance on gas.
- Stakeholders do not feel that the pipeline poses a health and safety risk.
- Most stakeholders are not concerned about the environmental impact of South Stream.
 - Most stakeholders consider dependence on fossil fuels to be inevitable. They therefore consider gas to be the cleanest energy option available.
 - However, a small number are concerned that Hungary is binding itself further to a fossil fuel that will run out and which, although clean, is still a pollutant.

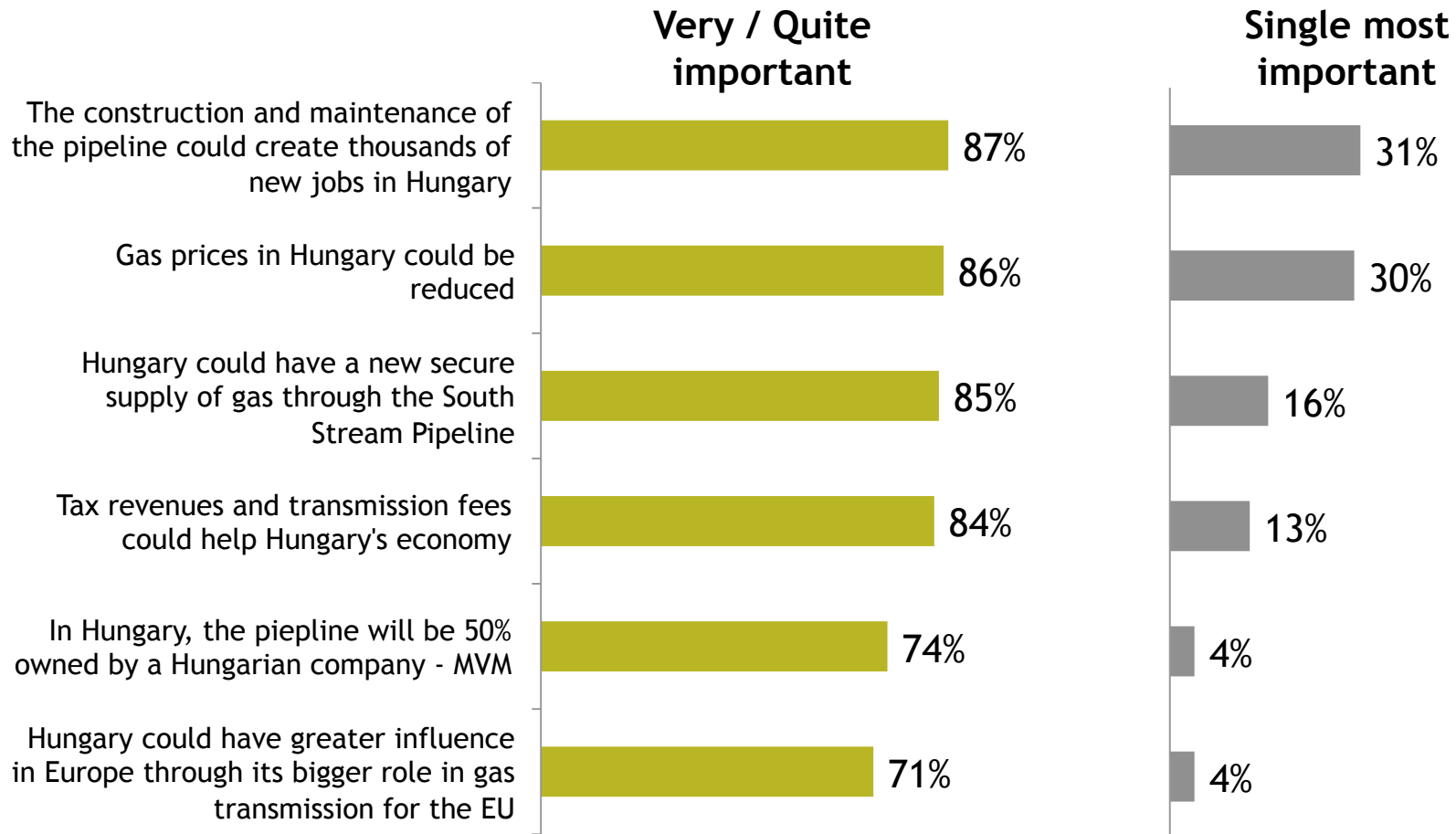
Several stakeholders feel that the detail of the contracts will be crucial to securing benefits

- There were calls for transparency, including making the contracts public.

“My advice is to share more details, thus increasing trust and reducing the amount of questions.”

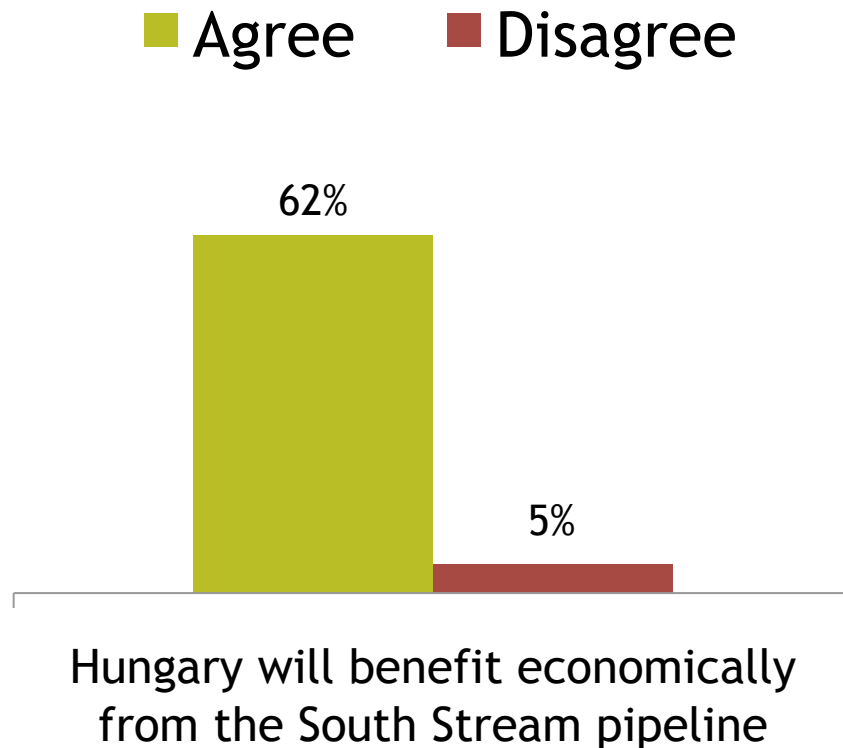
Stakeholder

For the public, the most important potential benefits are economic, though energy security is also seen as quite important



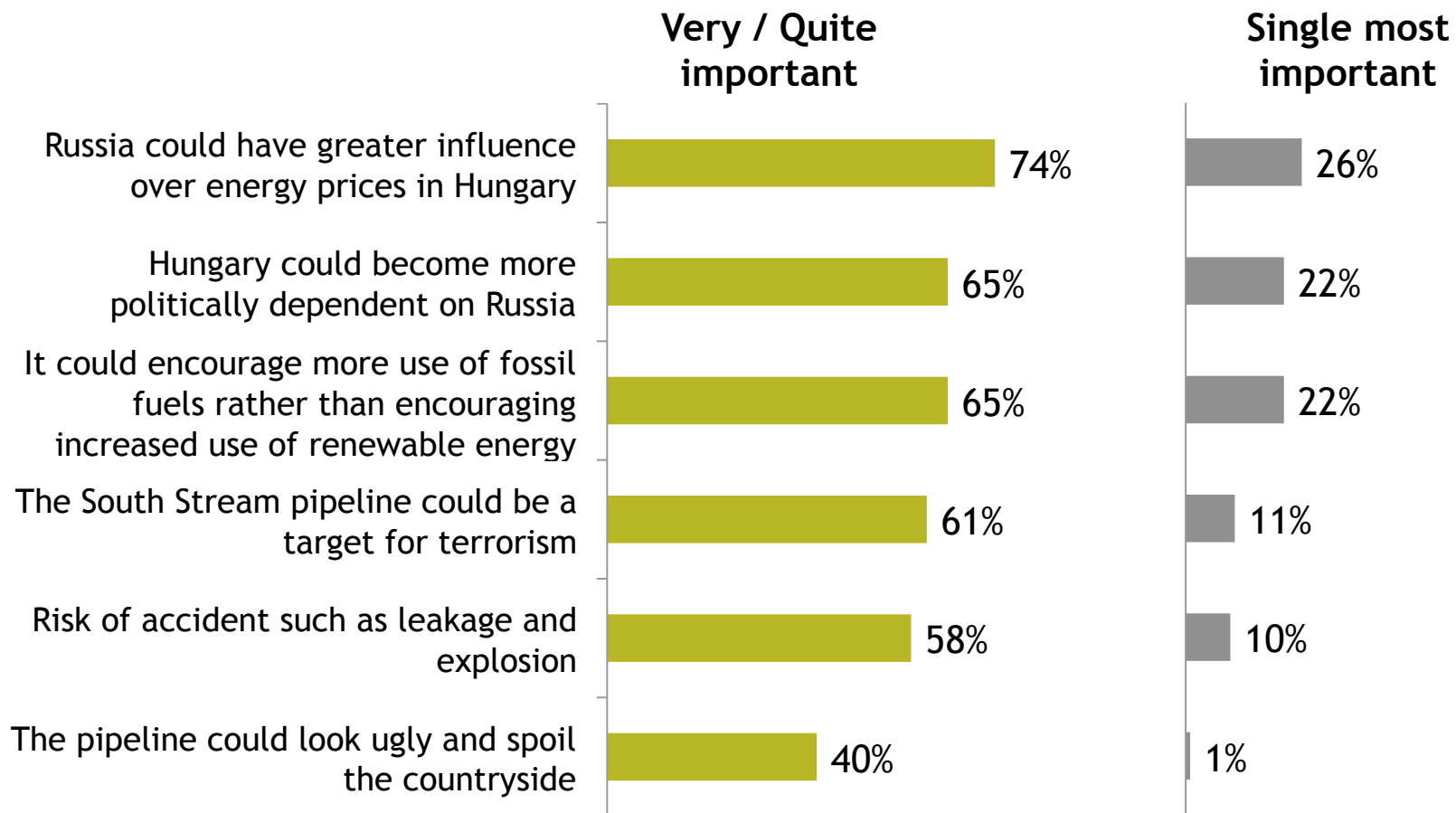
Q12. Below are some potential benefits associated with the South Stream project. Please say how important each one is. // Q13. Which do you think is the most important? [Base = All respondents (501)]

The majority of Hungarians believe that South Stream will lead to economic benefits for Hungary



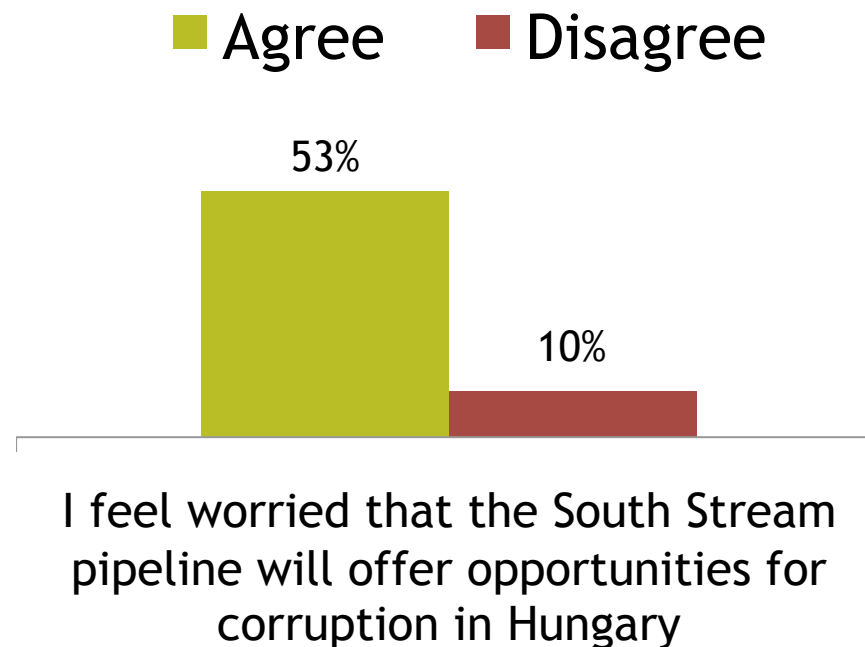
Q14. How far do you agree with each of the following statements? [Base = All respondents (501)]

Greater dependence on Russia, as well as increasing the use of fossil fuels over renewables, are seen as the most important potential disadvantages by Hungarians

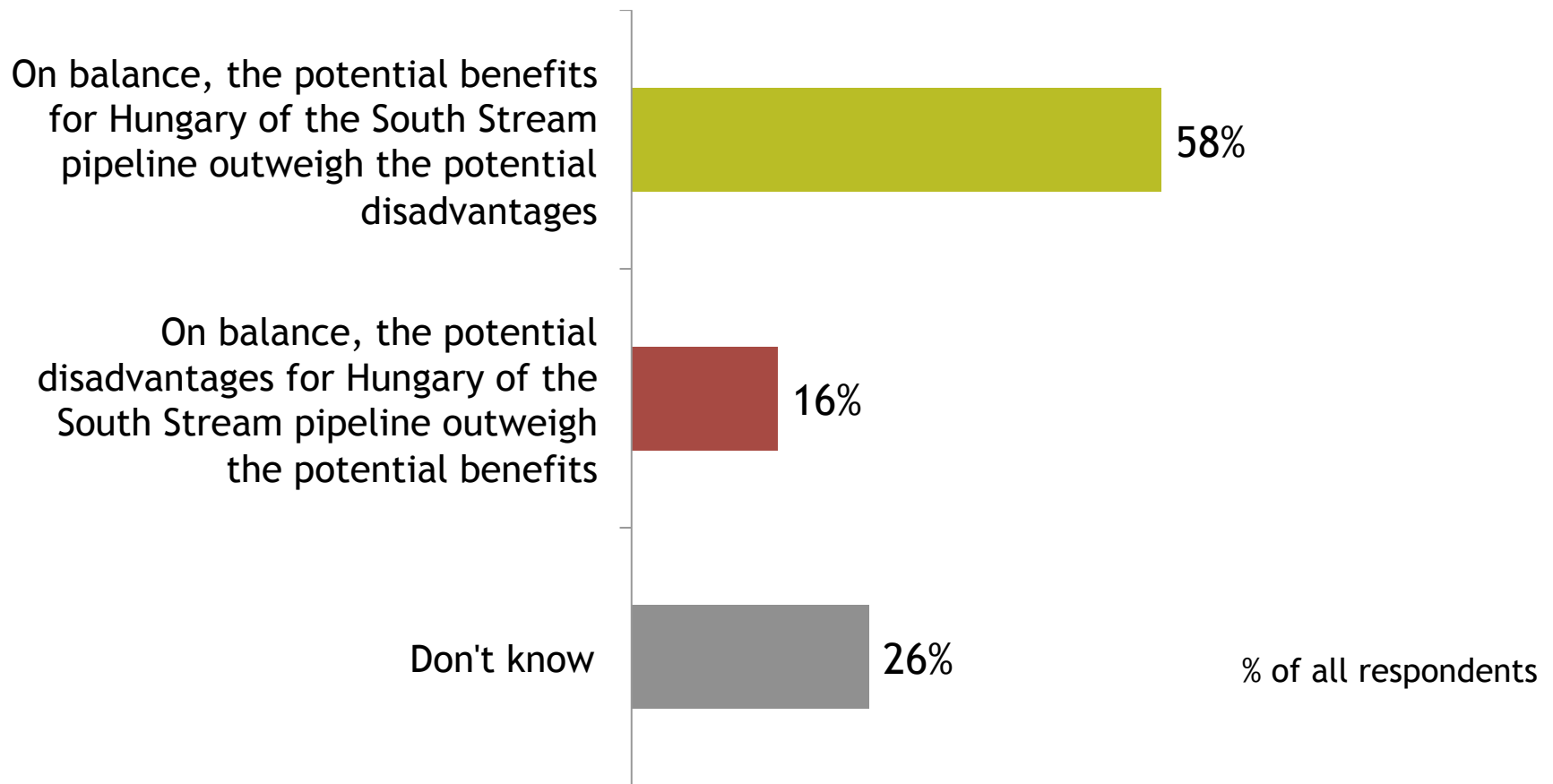


Q10. Below are some potential disadvantages associated with the South Stream project. Please say how important each one is. // Q11. Which do you think is the most important? [Base = All respondents (501)]

There is concern that South Stream will offer an opportunity for corruption



On balance, 58% believe the potential advantages outweigh the potential disadvantages, with 16% disagreeing

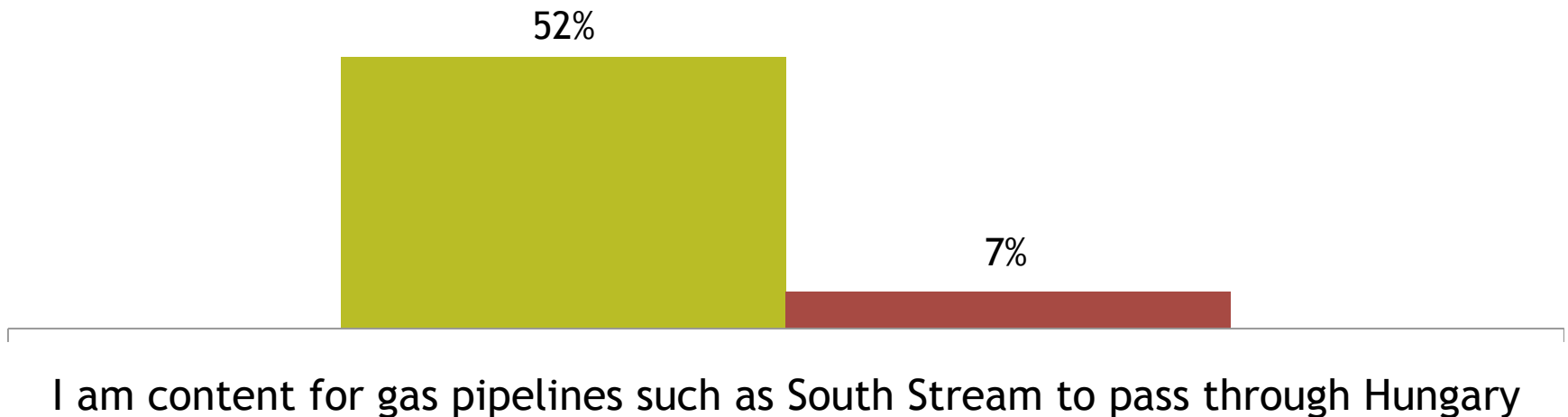


Q15. Which of the following statements comes closest to your view? [Base = All respondents (501)]

52% are content for pipelines like South Stream to pass through Hungary

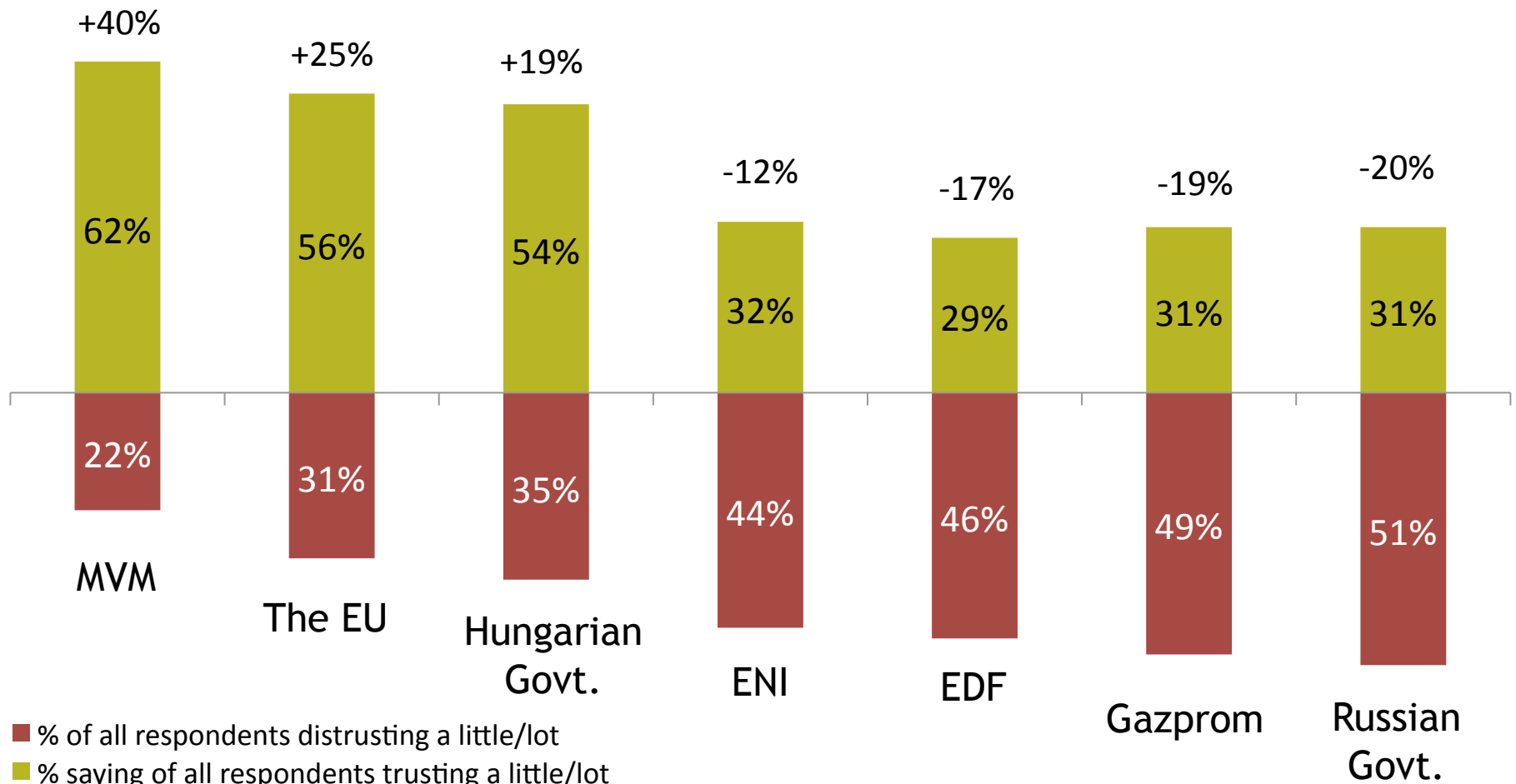
■ Agree

■ Disagree



Q14. How far do you agree with each of the following statements? [Base = All respondents (501)]

Of the organisations involved, MVM and the EU are the most trusted to act in the interests of Hungary



Q9. Below are some of the companies and organisations that are involved in the South Stream Pipeline project. Please say whether you trust each to act in the interests of Hungary. [Base = All respondents (501)]

Some stakeholders have reservations about Gazprom and MVM

- Many stakeholders have relatively little to say about the organisations involved in South Stream.
- However, some view Gazprom as a branch of the Russian state.
 - For some, this makes it an unpredictable partner and raises questions about whether it will be used to enforce Russian policy objectives in Hungary.
- Some have questions about whether MVM is capable of fulfilling the project.
- Knowledge of EDF and ENI is lower than that of other organisations.
 - A couple of stakeholders have reservations about ENI's intentions and operating practices.

STAKEHOLDER RESEARCH

“Gazprom is basically equal to the Russian state. It has been a reliable supplier for the past 20 years but I don't think I can trust Russian political interests so I consider Gazprom a risky or dangerous partner.”

Stakeholder

“It will be interesting to see how MVM deals with the different responsibilities given to it. These are projects that aren't easy individually but, taken together, they are just about financially impossible.”

Stakeholder



Conclusion

Conclusion

- Half (51%) of the public support South Stream.
- Whilst some stakeholders are supportive, others are ambivalent.
- Trust in many of the organisations involved in the project is relatively low, posing a challenge for any communications.

Conclusion

Moreover, **serious concerns remain**, and in order to build on existing support and win over doubters, a number of questions need to be addressed:

1. How can stakeholders' concerns about a lack of diversity of supply sources be addressed?
2. How can concerns about increasing Russian influence be addressed?
3. How can Gazprom and the Hungarian government ensure that Hungary sees tangible economic benefits from South Stream?
4. What is the best way to address the lack of trust in many of the organisations involved in the pipeline?