

Chancellor Merkel's visit in Budapest: The Great PR Hoax

Summary

- The Hungarian government desperately tries to present Angela Merkel's visit as a great success. From a diplomatic aspect, the joint press conference by the German chancellor and the Hungarian prime minister revealed some disagreements over the concept of illiberal democracy, the treatment of NGO-s and the media. Speaking about the Ukrainian crisis the chancellor emphasized twice how important it was that Hungary re-started the gas transport to Ukraine.
- Following the political fiasco, the government's propaganda machine resorted a controversial PR stunt to shift the focus from the political criticism to the successful business agreements made during the negotiations. However, the leaked information about a new BMW manufacturing plant and the expansion of the existing Mercedes Benz plant was soon denied by both companies. Sources present at the meeting of the German chancellor and top executives of German companies in Hungary contradicted the government's assessment: company leaders expressed their deep concerns about the business environment in Hungary.
- According to Political Capital, the tone of the chancellor's remarks was more scathing than anticipated. Though the visit was a political failure for the Hungarian government, the German side can claim some clear credits. First, it is very likely that the Hungarian state will buy a bigger stake in a power plant owned by RWE, and the German company can expect a generous offer, similar to the buy-out of MKB bank from Bayerische Landesbank. In the near future, the government plans to amend the controversial truck-tracking system (EKÁER) introduced earlier this year to prevent cross-border VAT evasion.
- It is still not clear whether Siemens would participate in the highly controversial Paks2 nuclear plant project – the company has yet to commented such speculation. Furthermore, if BMW does not choose Hungary as the location of its new plant and the government's leaked information turns out to be a hoax, it will further damage the credibility of the government domestically.
- As far as foreign policy is concerned, it is still opaque whether Orbán is ready to confront Russia and support further sanctions against Russia to regain some of his lost credibility in the West — while a gas deal between Hungary and Russia should be completed this year and it provides the Russian side a comfortable bargaining position for the upcoming Orbán-Putin meeting.

Prior expectations

Chancellor Merkel's visit to Hungary was a highly anticipated event in Hungary. The government, opposition parties and civic organization looked forward to Ms. Merkel's visit with high expectations. The governing Fidesz and the pro-government media emphasized that Merkel's visit to Budapest is part of a secret German diplomatic effort aimed at reconciling Russia with the help of Hungarian PM Viktor Orbán. On the other hand, opposition parties and social movements hoped to hear open and harsh criticism of illiberal tendencies in Hungary.

However, even before Merkel's arrival there were clear signs of a freeze in German-Hungarian relations. German diplomacy has long postponed the visit whose preparation took a very long time. While, as stated by PM Victor Orbán in a January 30th interview aired on public radio, there are no disagreements between Hungary and Germany, there were many signs ahead of Ms. Merkel's visit that the Hungarian side would try to make concession to Germany regarding a number of issues.

- On January 1st Hungary resumed gas deliveries to Ukraine; Ms. Merkel repeatedly praised this step during the joint press conference.¹
- The Hungarian government started negotiations on the disputed advertisement tax with the international media outlet, RTL.
- In a speech on January 26th, Orbán acknowledged Hungary's responsibility for the Holocaust.
- Hungary supported the extension of sanctions on Russia at the European Union foreign ministers meeting in Brussels on January 29th.

All this indicated that the Hungarian government wished to prepare the ground for an amicable visit that PM Orbán could then exploit in domestic politics stating that Hungary is not isolated in Europe and the government may rely on German support. However, statements by the government notwithstanding, Ms. Merkel's visit did not fulfil the expectations of the Hungarian government.

On the contrary, using diplomatic language, Ms. Merkel took the opportunity both at a joint press conference and her speech at the Andrassy University to openly criticise the illiberal tendencies in Hungary. Chancellor Merkel underlined the following points in her speeches:

- Businesses require a predictable economic environment; future decisions on taxes and economic policy shall be made with respect to companies that have a major role in the Hungarian economy.
- Parliamentary majority comes with great responsibility; even in the case of an overwhelming majority, the opposition, independent media and civil society play important roles in a democracy. In her speech at the Andrassy University Ms. Merkel explicitly contradicted Mr. Orbán by stating that NGOs are not foreign agents and advocated respect for all kinds of minorities.
- Ms. Merkel clearly defended the concept of liberal democracy stating that personally she finds the phrase 'illiberal democracy' incomprehensible as her Christian democratic party is built upon liberal traditions as well.

¹ [Official data on gas transfer](#), at the same time, shows a sharp decrease in the amount of gas transferred since 1st February. Péter Szijjártó, minister of foreign affairs and trade stated in a February 3rd interview aired on public radio, that the only reason for this is a decreased demand on the Ukrainian side.

- As far as the Russia-Ukraine crisis is concerned, Ms. Merkel underlined (as did Orbán) that the conflict cannot be resolved by military means, only through peaceful efforts. However, as long as there is no ceasefire and the territorial integrity of Ukraine is not restored, sanctions are necessary. Ms. Merkel praised Hungary several times for having reopened the gas pipeline towards Ukraine.
- Concerning energy policy and energy dependence, Ms. Merkel underlined the need for the diversification of energy sources and supply routes, which also requires greater efforts towards a common European energy market.
- Ms. Merkel also made indirect comments on Mr. Orbán's recent anti-immigration statements by saying that immigration is needed in Europe and terror should be confronted rather by openness instead of xenophobia and discrimination.

The afterlife of the meeting: news about business agreements

Consequently, PM Orbán achieved only few of his goals during Ms. Merkel's visit. In order to change this picture, the governmental side leaked information of questionable credibility to the press about large-scale business investments.

According to internet news portal vs.hu², the following agreements were concluded on German-Hungarian meetings:

- BMW can build a new production plant in Hungary (the company denied this information³).
- Daimler has made a decision to broaden its production capacities (however, comments by a Daimler spokesperson appear to be more cautious: "there is a potential for an extension of the production site in Kecskemet. This is still true. There is nothing to add at this time"⁴).
- Siemens will participate in the management of the Paks Nuclear Power Plant, and participate in building the second power plant in Paks. The second claim is surprising, given that Siemens abandoned the Nuclear Power business in 2011⁵, but it cannot be excluded that some Siemens-delegated experts will participate in the management, and Siemens could contribute to the building of the plant by providing some smaller components for the construction.
- The Hungarian state will acquire a 50% stake in RWE's Mátra Power Plant (currently, state-owned MVM owns 26%).
- The German-French Airbus Helicopters can win the Hungarian helicopter tender (worth EUR 550 million) instead of the American Sikorsky or the Italian-British AgustaWestland.

The aforementioned article also claimed that at their meeting with the Chancellor German corporate leaders downplayed the critical remarks, saying the business environment in Hungary is healthier than presented by the German media. Our sources obviously denied this, saying that the business leaders were strongly critical.

2 <http://vs.hu/kozelet/belpolitika/magyar-gyarat-epithet-a-bmw-a-siemens-beszall-a-paksi-eromube-0203>

3 http://imarketreports.com/bmw-denies-reports-it-will-build-hungary-production-plant.html?utm_source=mandiner&utm_medium=link&utm_campaign=mandiner_201502

4 http://imarketreports.com/bmw-denies-reports-it-will-build-hungary-production-plant.html?utm_source=mandiner&utm_medium=link&utm_campaign=mandiner_201502

5 http://www.nytimes.com/2011/09/19/business/global/19iht-siemens19.html?_r=0

Consequences

On the one hand, Orbán planned to reconcile the differences between his and Ms. Merkel's government and to break out of isolation. The mere fact that the meeting took place allows him to send a message to the public that he is not treated as a pariah in the West. On the other hand, PM Orbán may have hoped to publicly tone down his seesaw politics by explicitly stating that Hungary would follow Germany's path in foreign policy and meet its minimum requirements (e.g. support of extension of sanctions and supplying Ukraine with gas). PM Orbán tried to position himself as a mediator between Russia and Germany – but he appears to have failed in this attempt. Chancellor Merkel clearly left the option of a Eurasian Economic Union in the far future stating that sanctions are necessary until peace is re-established between Russia and Ukraine. By all signs, agreement between chancellor Merkel and PM Orbán is limited to broad issues and remains on the surface.

The German side can claim some clear credits. The government will decrease the burdens on Bertelsmann. János Lázár, the minister leading the Prime Minister's Office, has already announced that the government will make the advertisement tax flat — which will significantly decrease the financial burden on RTL Klub.

It also seems very likely that the Hungarian state will buy a bigger stake in a power plant owned by RWE, and the German company can expect a generous offer, similar to the buy-out of MKB bank from Bayerische Landesbank. In the near future, the government plans to amend a controversial truck-tracking system (EKÁÉR) introduced earlier this year to prevent cross-border VAT evasion.

Chancellor Merkel's visit and the upcoming visit of President Putin to Hungary represent a major challenge for the Hungarian government. After having been criticised openly by chancellor Merkel, PM Orbán might seek relief and respect from President Putin. And Putin will have an immediate blackmail potential given that gas contracts between Hungary and Russia are about to expire, and "cheap energy" is a cornerstone of Orbán's policies. However, that would deteriorate relations with Germany and the EU even more, which, in turn, may backfire in the middle term.