

**ECONOMICS AND  
SECURITY**

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Original: English



## **NATO Parliamentary Assembly**

### **SUB-COMMITTEE ON EAST-WEST ECONOMIC CO-OPERATION AND CONVERGENCE**

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#### **VISIT TO HUNGARY**

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#### **SECRETARIAT REPORT**

**16 & 17 SEPTEMBER 2004**

International Secretariat

26 October 2004

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## **I. REGIONAL ENVIRONMENT CENTER, SZENTENDRE**

Marta Szigeti Bonifert, the Executive Director of the Regional Environmental Center (REC) in Szentendre, Hungary, opened the meeting with a presentation on the work of the REC. The REC approaches environmental challenges in a scientific and politically neutral manner. It engages not only national governments but also regional and municipal authorities as well as business and civil society groups. It is funded by a range of donors including the United States, Hungary, EU member governments, the European Commission and some private sector firms. It makes a conscious effort to work trans-nationally precisely because environmental challenges cannot be contained within national borders. Its singular success in advancing environmental transition in Central and Eastern Europe has made it a model for other regional environmental organisations. The REC is currently focused on sustainable development, climate change, strategic environmental assessments, renewable energy, energy efficiency, environmental investments and advancing the Aarhus convention.

The REC has indeed played an instrumental role in environmental transition, acting as an environmental information-clearing house dedicated to instilling the region with greater sensitivity to environmental protection. It has helped local, regional and national authorities develop capacities to deal with environmental challenges and worked closely with legislators to develop appropriate legislation consistent with the EU *Acquis*. The REC also played a key role in promoting the Aarhus convention, which ensures access to information, public participation and justice in environmental policy making in signatory countries. The REC has also provided vital support to EU candidate countries confronting the Union's highly complex environmental regulations and it has fostered reconciliation efforts in the Sava and Tisza river basins where environmental issues have become inextricably linked to national rivalries. It currently has field offices in Kosovo, Banja Luka and Podgorica. Its staff has worked with Slovakian officials to develop a national strategy for sustainable development, and has supported post-war clean up efforts in the former Yugoslavia. REC experts have helped build capacities that allow officials in transition countries to survey systematically the health effects of environmental conditions in the region and have advised on establishing priority investment programmes.

The Regional Environmental Center has also done pioneering work on developing environmental curricula for school systems in Central and Eastern Europe. Its experts created a "Green Pack" for school systems, which contains a range of teaching materials. Poland has adopted much of this programme, as have a number of local and regional school systems. These are models that can be of great use in the West and in the developing world as well.

The REC model has been so successful that efforts are underway to recreate it in other regions of the world. The REC, for example, has launched a major initiative with Turkey to make use of this collective learning experience as it reinforces its institutional capacity and revamps its legislative and regulatory frameworks in the environmental arena. Moving farther a field, there are also many lessons to be learned by countries in Eastern Europe, the Caucuses and Central Asia that, while not likely candidates for EU membership, nonetheless need to implement stronger environmental controls.

## **II. THE AARHUS CONVENTION**

Magdolna Toth Nagy, Head of the Public Participation Programme at the REC discussed the Aarhus Convention with the NATO PA delegation. She noted that the governments of Central and Eastern Europe as well as the European Union member governments have all signed the UN Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters. This was adopted on 25th June 1998 in the Danish city of

Aarhus at the 'Fourth Ministerial Conference on the Environment for Europe'. The negotiation process itself was highly unique as it engaged civil society groups as well as governments. The Convention entered in force in October 2001. Virtually every European government has signed the agreement and 30 countries have ratified it.

The Aarhus Convention, as it is commonly known, represents an altogether new kind of environmental agreement, linking environmental rights to human rights. It acknowledges, as a starting point, that the present generation owes an obligation to future generations. It links government accountability to environmental protection and delineates the obligations of public officials to their publics in environmental matters. It thus focuses on the democratic interaction between the general public and government authorities and has established a new precedent for public participation in the negotiation and implementation of international agreements. Governments and civil societies now have a powerful tool to advance environmentalism in new and creative ways. Yet, Aarhus only establishes minimum standards and does not prevent signatories from creating even more ambitious, open and participatory structures to undergird environmental policymaking. As a result of the convention the EU has drafted new directives governing public access to environmental legislation although how to frame a European approach to access to justice is still subject to tough debate in EU circles.

The convention sets up a time frame for information sharing and requires governments to respond to information requests from NGO's, the media and the public within one month of the request. If the government decides to deny the public information request it is obliged to state this in writing along with the reasons why. Public authorities can only refuse to share information if it is determined that to do so would have an adverse on the public interest. It also calls for strict pollution inventories, although a number of governments allow companies to conduct these inventories. But governments, in turn, will need to audit closely these reports.

The convention's justice provisions thus extend to citizens the right to challenge government decisions with environmental effects if their own rights to environmental protection are infringed. The convention requires that citizens have access to an appeal system through which transparent, timely, equitable, inexpensive, adequate and effective remedies are available. One of the bottlenecks to implementation of these obligations is the lack of properly trained legal experts. Efforts are now underway at the REC to inculcate lawyers and judges in the finer points of Aarhus and the precise implications for domestic law.

The ratification of the convention has only been a first step; governments are now obliged to establish procedures and legislation to make the system work along the lines agreed at Aarhus. This has not been easy and has required a degree of capacity building, public and administrative education and much trial and error. Doubtless the standard of transparency laid down in Aarhus will invariably conflict with the natural proclivities of certain ministries, and there have already been incidents in which Environment Ministries have been pitted against other government agencies in struggles over whether certain information should be made public.

The discussions at the REC also touched upon the problem of waste management as well as sustainable development in general. Efforts are needed throughout Central and East Europe to work with manufacturers to reduce packaging waste, which poses a great headache for municipal authorities responsible for dealing with discarded plastics etc. Another option is to find new uses for industrial waste, for example, by using slag in cement products. The total cost for acceding state compliance with the waste management directive is estimated to be €13 billion. The Rotterdam and Stockholm conventions both outline guidelines for dealing with persistent pollutants. A key challenge here involves translating international decisions to local policy choices while ensuring that local concerns are understood at the national level. In other words, top down and bottom up approaches are needed.

### **III. CLIMATE CHANGE AND KYOTO**

Zsuzsa Ivanyi next spoke on the REC's climate change initiative. She noted that the general objectives have been to assist Central Europe to meet the requirement of the Kyoto protocol, to spark a more concrete dialogue among stakeholders on these issues and to strengthen capacity in Central Eastern European (CEE) countries. The effort extends to the national, regional and international levels.

The key areas in which work has been needed include general climate policy formation, concrete measures to mitigate climate change, access to information, capacity needs to comply with the convention and particularly in the area of green house gas inventory keeping and the development of policies favouring renewable energies. None of this is a top priority for candidate countries where there is also lack of information and human capacities in this area and where responsibilities are not clearly assigned, and legal frameworks are sometimes inadequate.

Most of the countries of the region are currently below Kyoto targets for green house gas emissions because 1990 is the baseline year and de-industrialisation has simply reduced the absolute level of emissions since then. The problem is that this has reduced the incentive to take structural initiatives that would lower green gas emissions relative to output. The region as a whole needs to channel investment to more sustainable development projects. Central and Eastern Europe rank far behind Western Europe in terms of tapping into renewable energy sources. The new members must also prepare for the EU's emissions trading schemes, which will go into effect even if Kyoto does not. Finally, inventory taking will be a critical state responsibility that will require an important degree of capacity building.

### **IV. ENVIRONMENT AND SECURITY**

Steven Stec discussed the security - environment link. He noted that the REC has been dealing with a range of security issues with important environmental implications. The relationship is particularly evident in the Balkans where war aggravated the region's already grave environmental degradation. Yet, because of shared trans-border stakes in environmental clean up, the environment can also provide the foundation to restore dialogue and cooperation. This has been the case, for example, in the Sava River Basin initiative in which several countries - Slovenia, Croatia, Serbia and Montenegro and Bosnia Herzegovina - signed a framework agreement to begin to cooperate on river water management, flood control and navigation issues. The REC has undertaken a similar effort with its Tisza River Basin Development Initiative, which is designed to improve trans-border cooperation along the Tisza as well as to preserve natural habitats along its shores. The initiative has conducted a diagnostic audit and experts are looking at legislation and the policy framework for deepening cooperation. Speakers from REC pointed to the irony in the fact that while no armed conflict has occurred around the Tisza, it has proven more difficult to build cooperative links there than along the Sava where there has been a war.

Environmental rehabilitation projects can thus bring together old rivals. This has been the case in the Balkans, where, in the wake of the terrible wars that tore apart that region, environment represented one policy area on which agreements could be hammered out early on. In this sense, regional environmental initiatives can play a critical role in fostering regional reconciliation. In cases of post-conflict reconstruction, therefore, the international community should recognise this dynamic and include environmental rehabilitation as a core priority area. This is particularly the case when the health of thousands may depend on proper water treatment facilities.

## **V. MINISTRY OF ENVIRONMENT**

The Committee had an opportunity to meet with the Hungarian Minister of the Environment, Miklós Persányi, who provided a broad overview of the work of his Ministry and the complexity of introducing the EU's environmental acquis to Hungary. Much of the country's legislation and standards now comply with the acquis. The Minister noted that Hungary, like other transition states, has inherited quite a few environmental hazards but has also made significant progress addressing these problems.

40% of the wastewater flowing into the Danube from Budapest is untreated. The state, however, is currently building a huge water treatment facility that will address the problem, but the cost is high and the financial outlays are occurring at a time of serious budgetary tensions in that country. Hungary's Environment Minister told members of this committee that water treatment and improving water quality have been particularly difficult challenges and that a number of water treatment facilities will have to be built at great cost.

Hungary has closed one third of the 1300 municipal dumpsites in the country. The goal is to keep only 42 open. This suggests that Hungary faces a large challenge and is essentially in the midst of creating an entirely new waste management system, something that requires significant support from the EU. Between 10 and 20% of this undertaking will be financed by municipalities. Restructuring the liquid waste treatment system is equally daunting and will also be very expensive.

Hungarian air quality has improved dramatically due to the decline of old industry and the fact that the car fleet is far less polluting, although it remains relatively old. New regulations, however, are making it more difficult to import highly polluting used cars into the country. The goal is to meet all of the EU's major emission standards by 2010.

Hungary receives 95% of its water supplies from abroad and is thus dependent on water quality measures taken in other countries. It is a downstream region of the lower Carpathian basin. Hungary is working with its Romanian neighbours to create a framework for trans-boundary water issues. The government is currently very concerned about a gold mine that the Romanians are planning which could increase the risk of water pollution. Hungarian officials however also acknowledge that Hungary itself is a major polluter of the Danube.

Indeed, Hungary recently had a water emergency of its own making when a hazardous waste plant leaked material from a reservoir tank which eventually reached the Danube and then struck the drinking water supply. Environmental authorities have fined the company. The incident has led authorities to re-examine a range of industrial safety issues. The parliament has also implemented a load fee system, which will assess emissions fees to polluting plants.

Flood control is another critical issue for the Hungarian people. The country has 4000 km of dikes as opposed to 700 in Netherlands. There are some transborder tensions here as well particularly with regard to a proposed Slovakian dam system. This is a fifteen-year-old argument, which has implications both for the energy and environmental sectors.

## **VI. MEETING IN PARLIAMENT**

The delegation then met with parliamentary leaders to discuss a range of environmental, economic and political issues. Gyorgy Podolak of the parliament's economic committee suggested that the economic growth has moved from being a consumption oriented

phenomenon to one driven by exports. Exports have indeed been rising, and the national leadership is focused on moving the country higher up the value chain. Investment has grown by 20% this year and much of these increase are in manufacturing.

He suggested that although Hungary will soon have a new Prime Minister, the government's economic policy is not slated to change. The budget deficit poses the largest policy challenge at present. The government hopes to adopt the Euro by 2010, but it will need to make more progress on the deficit in order to meet the conditions for membership. The Central Bank's base interest rate is currently 11% and exceeds inflation by 4%. High interest rates and a strong Forint, in turn, could undermine the country's competitiveness.

István Józsa spoke about the challenges facing the parliament's environment committee. He suggested that Hungary has made great progress in environmental policy making over the last decade. He noted, for instance, that Hungary will be in a position to sell carbon emissions trading rights because it is well under its Kyoto quota. He noted, however, that Hungary is lagging behind in waste management, wastewater management and water quality issues.

## **VII. MINISTRY OF FOREIGN AFFAIRS**

State Secretary András Bárony spoke with the Committee about Hungary's international policies. He suggested that Hungary is at a political crossroads. It's fundamental policy goal for the past 15 years has been to be a full-fledged member of the EU and other western organisations. Now it has achieved this, but the integration process is never ending.

Iraq has been a particularly trying issue for Hungary, which has found that its Atlanticism and its European identity are not always easy to square. This is partly a reflection of how complex the post-Cold War world has become. Hungary now has to think globally. This is why it is supporting coalition missions beyond Europe and accepts the idea that NATO has potentially global set responsibilities. NATO however needs to develop its partnerships with other key international players including the UN.

Hungary supported the US mission to Iraq from the beginning. There were legal disputes about whether this was a unilateral decision, but the Hungarian position was close to that of the US and UK. Mr. Bárony rejected the idea that there were new divisions in Europe. He indicated that the international community was eventually going to have to do something about Iraq. Taking action now has meant that the problem is not being left to the next group of international leaders.

Hungary strongly advocates deeper and more structured cooperation between the EU and NATO. The philosophy and aims of the two organisations are generally complementary, but there have been too many barriers to strong cooperation. The two bodies, for example, need to have a common strategy and cooperation with countries like Russia and Ukraine, which lie beyond member borders. The governments also need to find a way to reform the alliance in a way that the consensual mechanism should serve the unity of the Alliance.

## **VIII. MINISTRY OF ECONOMICS**

The Committee also met with the Minister of Economic Affairs and Transport, István Csillag who spoke on a range of issues related to Hungary's recent accession to the EU and its competitiveness in the global economy. He suggested that the key for the Hungarian economy is to move up into higher levels of technological capacity and increase technology's share of exports. Currently more than 20 % of Hungarian exports are in high technology products. This is a high

figure suggesting that there has been a major structural change in the economy. This is largely due to the influx of direct foreign investment. Previously investors were looking for cheap labour and this attracted investors. Some foreign firms have left the country in search of cheaper labour. But Hungary does not consider its comparative advantage lying in cheap labour but rather in highly skilled labour. Hungarian officials want to create new jobs with higher technology and higher added value. Hungarian officials are working to encourage continued inward investment but Hungary is also increasingly exporting capital. Last year Hungary imported €3.4 billion of capital while exporting €1.3 billion. Officials see this as a positive trend.

Hungary's GDP growth rate in the first half of this year was 4.1% and industrial exports grew by 16%. Officials expect a long-term boom in that sector. They also foresee a downward trend in inflation that has already started in the last few months.

Hungary boasts a relatively low rate of unemployment at 5.8% in comparison to an EU average of 8%. Nevertheless there are major structural problems here as well. Many older workers simply cannot be retrained for the global economy. Hungary's company sector is in debt as is the state sector. The government has sought to exercise greater control over consumption to cope with the problem but this obviously threatens its popularity.

Hungary has a number of critical infrastructure projects it needs to finance. Rail and road investments are particularly important because of the country's position at the crossroads of South-Eastern and Central Europe. The government has sought to use EU cohesion funds to support infrastructure investment. Hungary also has a rail development strategy focused on improving long distance and suburban connections. The government wants secondary lines developed by regional companies. Financing these expenditures will invariably create fiscal tensions, and this is why there must be a central role for private capital. The M5 and M6 highways are being developed through such public private partnerships. In the rail area, track maintenance is considered a public service while freight is considered as a business or a profit making activity. These distinctions however have triggered fierce fights over rail contracts. On that contract the state tends to finance certain activities and not the whole company as such.

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