UNINTENDED CONSEQUENCES: HOW THE EU'S ELECTRIC VEHICLE BATTERY STRATEGY SUPPORTS AUTOCRACIES

ANDREA ÉLTETŐ
INSTITUTE OF WORLD ECONOMICS, CENTRE FOR ECONOMIC AND REGIONAL STUDIES, HUNGARIAN ACADEMY OF SCIENCES

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Abstract

In coherence with the EU's electric vehicle strategy, Hungary shot forward in the race. Asian companies build enormous capacities in the country, but at large cost for local people. The entanglement of Hungarian and Chinese autocracy within the EU is not without dangers.

Many observers have argued that the European Union (EU) has helped the formation and sustainability of illiberal, autocratic systems in Hungary and Poland. Kelemen describes this as an "autocratic equilibrium" based on the characteristics of the EU's internal politicisation, Foreign Direct Investments (FDI) and financial transfers, and emigrants' remittances. In 2022, following the Russian aggression against Ukraine and the fifth re-election of the Orbán government (once again gaining a parliamentary supermajority), the European Commission's attitude began to show some changes: conditions on financial transfers to Hungary were hardened in reaction to corruption and the declining rule of law situation. Patience and trust towards the Orbán regime has decreased, and Hungary has become politically more and more isolated in the EU. Orbán, however, tries to play the ace up his sleeve given to him by a central aim of the EU's star economic policy: electromobility. Climate change and decarbonisation have required strict and comprehensive measures from the decision-makers in the EU, a part of which is the sale of new vehicles to electric-only vehicles (EV) from 2035 and the Fit-for-55 package. Consequently, all European automotive companies strive for the mass production of electric vehicles, which makes the mass production of EV batteries vital.

Establishing European battery production chains is a priority of the EU's industrial policy, two common Important Projects of Common European Interest concern this area with the cooperation of several Member States. Priority is given to European-developed products and innovations, but the battery sector is still Asian (Chinese) dominated. Technological and market leadership is in the hands of Chinese firms (CATL and BYD together have 52% world market share).

Hungary soon realised the importance of EV batteries. Since 2018, large South Korean battery cell producers (Samsung SDI and SK On) have been active in, and exporting from, Hungary. In 2020, the EIT InnoEnergy prepared, with the involvement of Hungarian experts, a strategic background paper on the development of the battery sector in Hungary. The official aim of the Hungarian government is to have a leading position in the European race and make the country the second largest battery power in Europe, increasing the capacity to 215 GwH and exporting to European automotive companies. To fulfil this aim, the Orbán government has lured many Asian (mostly Korean and Chinese) companies to the country, covering almost the whole EV battery chain from basic material production to recycling. They received huge amounts of public money as state aid (Chinese CATL for example receives EUR 800 million for its EUR 7.4 billion investment).

Is there any problem with all this? Yes, from several aspects.

The dark side

1. The functioning South Korean EV battery factories in Hungary do not respect environmental and safety regulations. Illegal procedures, accidents, noise, air and water pollution are documented in the alternative investigative press and also by local authorities. Factories and authorities often classify or delay the release of information, and investigations are not always thorough enough. Factories are fined very small amounts (in high contrast to their huge profits) for non-compliance because the legal background makes it possible. As a usual practice in autocratic Hungary, civil protests are oppressed, proofs are ignored, and rules are changed overnight (for example in April 2023 the government issued a decree stating that public hearings can be held without the participation of the public). All these are classified as "priority investments of national economic importance" and subject to fast-tracked, simplified procedures and lighter regulations (e.g. no environmental impact assessment was required for the Samsung and SK cell plants, or for the electrolyte plant of Dongwha), and municipalities have no say in the decisions. Natura 2000 areas have been harmed by construction too. The handling of battery waste also proved to be scandalous. In the recycling plants of the South Korean SungEel, workers were endangered and made ill by the consequences of repeated irregularities. Even the controlling officers got skin and throat irritation. Nevertheless, Orbán lets foreign battery companies loose on regulations, because it is an additional "locational advantage" for them besides financial state support. At the same time (following Sajó's principle of "ruling by cheating") the official mantra is that "the government expects and even demands that all investments, including battery investments, in Hungary should be carried out in compliance with the strictest possible environmental standards".

2. The necessary conditions for a Hungarian "battery superpower" are just not available now, and will be created at a high cost. Before the decision to make Hungary a battery superpower was made, no cost-benefit calculations, feasibility plans, or coordination with professional organisations took place. The head of the Tiszántúl Water Directorate, who later called for caution, was removed. EV battery production needs lots of water. Although the South Korean plants are by the Danube, their increased water needs will be largely supplied from underground karst water basins nearby (because it is cheaper). Another battery hub is next to the BMW factory in Debrecen (Eastern Hungary) where there isn't even a river, further decreasing underground water reserves and causing future hydrogeological problems. Hungary depends on energy imports, and, because battery production is highly energy-intensive, will need to import much more (from Russia?). Building three Combined Cycle Gas Turbine power plants, energy stations, and infrastructure, all to serve Asian multinationals, is very costly to Hungarian taxpayers. Finally, the labour shortage remains huge in Hungary, Orbán himself announced the need for 500 000 new workers, "preferably Hungarians", but the reality is the opposite: working permissions have been eased for foreigners several times in the past years, so any additional labour force is stemming mainly from Asia (the Philippines, Vietnam, India, etc.). Local people, thus far convinced by the longstanding and strong anti-migrant propaganda of the Hungarian government, suddenly find themselves surrounded by Asians everywhere (ruling by cheating).

3. The investors which have been announced are mostly Chinese (Catl, Sunwoda, Eve Power, BYD, Semcorp, Huayou Cobalt), and are making opaque contracts with the Hungarian government. The construction of buildings, storehouses and utilities, cleaning, and catering are usually carried out by the same Hungarian crony companies. The land and logistics are usually provided by the National Industrial Park Management and Development Ltd. owned by people close to the government. Asian investors do not worry much about corruption and crony capitalism… Professional Hungarian companies do not have a chance to be suppliers to Asian factories, which bring their own Asian suppliers.

4. Becoming a battery power is a means to attract FDI. According to the economic development minister, EUR 5-6 billion should be received every year as FDI, replacing missing EU funds and increasing the Gross Domestic Product (GDP). GDP growth is something Orbán can refer to as a success, it looks good towards the rating agencies, and it improves all economic indicators compared to GDP (like the Maastricht criteria).

5. The autocratic Chinese and Orbán regimes, if bound together, can be a security challenge to the EU and a threat to democratic values. (Orbán recently came out against European values, praising China instead). Playing with international investors is a tactic of "autocratic hedging", as described by Camba and Epstein (2023). Creating interdependences, in other words "connecting East with the West" helps Orbán to keep his power. As the Minister for Foreign Affairs said: "Hungary has become a meeting point for Eastern and Western investment, which is a guarantee for long-term economic growth and a hedge against uncertainties".

A questionable future

As this list shows, the development of the Hungarian EV battery sector is questionable. EU industrial policy-makers do not raise objections. They may even support all of this. The lobbying power of European (German) car makers and the importance of the automotive sector are too large. It is in the interest of European car producers to have a close battery supplier based in Hungary. The Hungarian Foreign Minister told CNBC that "While the German Foreign Minister speaks about decoupling, the CEOs of the German car makers usually call me to convince their Chinese suppliers to come to Hungary". Among others, CATL will supply Mercedes and BMW from Hungary.

In July 2023 the European Commission gave permission for the Hungarian government to provide EUR 2.36 billion in state aid mainly to EV battery producers "enabling the transition to a net-zero economy". The text of the statement first refers to the Russian-Ukrainian war (started in 2022) as a justification. However, as we have seen, the Hungarian EV battery strategy was created in 2020, and negotiations with giant Asian companies had begun even before then. On the other hand, it must be well-known to the Commission that Hungary did not develop battery production from any innovation of its own, rather Asian (Chinese) plants are at the helm, realising the targeted capacities. How can this be reconciled with EU's caution towards China and independence efforts from Asia? EV supply chains will continue to depend on Chinese producers, albeit those situated in the EU.

Apart from that, the huge state aid and accompanying infrastructure projects are funded by Hungarian public money, directed towards Asian companies by Orbán to keep his power. At the same time, important public investments in rail, road, and schools are postponed to cut budgetary expenses. Public healthcare, education, and environmental protection badly lacks resources, and 75% of Hungarians live below the poverty threshold. The disempowered and uneducated are tools in the hands of an autocratic regime.

Because of the Extended Producer Responsibility regulation, used batteries will return to Hungary, making it a toxic waste cemetery via the irresponsible recycling of foreign, crony-capitalist firms. Thus paradoxically, Brussels' benevolent climate aims lead to environmental damage in a Member State, worsening EU's performance too. The negative consequences of the EU's EV battery program are largely burdened on the Hungarian people and nature. In the meantime, Viktor Orbán can happily try to blackmail the EU further, using Europe's dependence on Hungary's (Asian) EV battery production.

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Andrea Éltető is a senior research fellow at the Centre for Economic and Regional Studies, Institute of World Economics in Budapest. She regularly publishes in and reviews for international and local economic journals and coordinates international and national research projects. Her fields of research are: foreign direct investment in Central Europe, global value chains, foreign trade, EU integration of Hungary, the economy of Spain.

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