



HUNGARIAN WATCH

Spring 2017



Masters of Collaboration

Hungarian Watch Spring 2017

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Hungarian Watch is a quarter yearly issued brochure. It contains comprehensive, up-to-date information about Hungary, focusing on breaking news in the fields of law, economics, business and other situations which could have a major impact on the course of Hungarian events.

Hungarian Watch is primarily prepared for those who are thinking about Hungary from an investment point of view. The investment perspective runs through this brochure by leading the reader through the actual Hungarian business climate including current business and investment opportunities.

We hope that Hungarian Watch will keep you regularly informed on relevant Hungarian news, enabling you to know how and when to seize a business opportunity before it vanishes.

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Summary



[Potential of the Hungarian railway sector](#)

[Interview with Mr. Nagy, Project Officer of the European Union Agency for Railways](#)

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[The deal of the century ahead](#)

[Paks II Nuclear Power Plant tenders are coming](#)

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[Best European mega future project in Budapest](#)

[Liget Budapest project to be implemented in 2017](#)

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Potential of the Hungarian railway sector

Interview with Mr. Nagy, Project Officer of the European Union Agency for Railways



The liberalisation process could completely change the landscape of the Hungarian railway market. Also, the Budapest-Belgrade railway construction could be one of the largest railway construction deals ever made in Central Europe and the Balkans. In this edition we interviewed Mr. Kornél Nagy, project officer of the European Union Agency for Railways. Amongst others he is responsible to follow the implementation of EU legal framework by railway undertakings.

We asked Mr. Nagy to share his thoughts about the liberalisation of the Hungarian railway market and the Budapest-Belgrade railway construction.

In Hungary, the railway is still perceived as a state monopoly. But at EU level railway liberalisation is taking off. How do you see Hungary? Is Hungary paving its way towards a new liberalised railway market?

Perception is one thing, while reality is revealing a different situation. According to the website of the Hungarian National Transport Authority there are more than 60 registered railway undertakings (RU) with safety certification and operation licences. Not all of them are active players, but this still illustrates that private capital is already on track and it is feeling good. This is particularly the case in freight forwarding, which is considered as the most lucrative of all rail businesses.

Freight business has a good potential to improve as Budapest is built to be a hub of all south and east bound lines providing the single exit for Romania, Bulgaria and the Western Balkan region to Vienna and further to Europe. In this context, many RU are already authorised to provide cross-border services on the Hungarian rail network from other Member States.

And what could the forth railway package bring for Hungary in this context?

The recently adopted fourth railway package brings clear rules and deadlines for contracting passenger operations by states via the so called Public Service Obligation (PSO) which means to tender all routes where RU are not able to operate with-

More than 60 registered railway undertakings in Hungary

out subsidies. The rest of the timetable will remain for free access operators (FAO) who can operate commercially paying for infrastructure access charges and all other operational costs without any public subsidy.

In both cases (PSO and FAO) new players could shake the position of the Hungarian state owned railway giant, MÁV.

What do you see as the main regulatory/market hurdles in Hungary in the liberalisation process?

I don't think that there are any special difficulties to enter the market in regulatory terms. Hungary is part of the EU and the market as well as technical and operational rules are pretty much in line with EU legislation. In market terms we see the very same landscape as in other EU countries.



Preconditions are set to create Wizzair or Ryanair in railway context

Incumbents – state owned railway giants – will have dominant positions for a long time. We all know the story of telecommunications. Who would have thought 25 years ago that telecommunications would not be limited to landline telephones delivered by a state-owned monopoly, which one would have to wait months just for a connection finally to call your friends abroad with expensive tariffs?

We can expect a similar development here. Railways cannot go virtual, but there is plenty of opportunity to go beyond tracks and develop smart freight and passenger solutions, challenging even the biggest rail giants. Preconditions are set to create the Skype, Wizzair or Ryanair in railway context.

So you think that in spite of MÁV's dominant position new players will sooner or later take their own piece of cake. What kind of new niche markets could emerge in Hungary?

Big players generally focus on the most profitable operations but it does not drive innovations. Small operators need to find their market niche in an environment where rules are traditionally tailored for big companies. It is a huge challenge but the cargo business in Central-Europe shows us there is a place for everyone who can create new supply chains, smart loading solutions and optimise operations. Incumbents have improved a lot, but they will probably never be so flexible as new entrants.

Hungary is an important country for Baltic-Adriatic routes, here I see big interest from Polish and Czech cargo operators, who are already purchasing companies on the Balkans (for example OTC Logistics is currently bidding for both, port Bar and Montenegrin rail freight carrier, Montecargo).

Another closely related matter; the Budapest-Belgrade railway modernisation project which will be one of the largest railway deals in the entire Balkans-CEE region. Do you think that the project could also create room for new market entries?

Yes, absolutely. Modern infrastructure could attract new market players. Freight transport and the whole economy can gain on a good railway connection while passenger patterns can change if there are regular and short journey time connections between two respectably big cities like Belgrade and Budapest. As this section is part of several port bound corridors (Greek ports, Bulgarian ports, Montenegro) and the shortest route to Turkey we can count with significant transit traffic.

Overall, Hungary can reinforce its position as hub for Balkans bound traffic and take the logistical advantage of it in freight as well as passenger terms.

What benefits could this project bring for the European railway market?

This project – if it will provide fast access to Greek ports – could challenge the current flows of goods dominated by Antwerp, Rotterdam and Hamburg ports. It will open a new alternative not only for Central and South-East Europe, but it will compete for customers even in Northern and Western Europe. If there will be a good railway infrastructure, the Budapest-Belgrade line will connect the cheapest and closest ports for ships arriving via the Suez Channel. It has the potential to logistically reposition the whole region.

The Budapest-Belgrade line could reposition Central Europe

The Budapest-Belgrade railway line constitutes part of Trans-European Transportation network (TEN-T). Does this mean that the new railway line will also need to include the installation of the European Railway Traffic Management System (ERTMS)? What challenges would this present to the construction phase?

To rebuild a railway line being part of the TEN-T Corridor demands compliance with all interoperability requirements foreseen by EU railway legislation. These requirements are defined by secondary legislation acts the so called Technical Specifications for Interoperability (TSI). Apart from TSI, ERTMS is very important element to ensure compatibility of vehicles, train operation and train drivers in two different countries.

There are still more than 20 train control systems, each working on a standalone basis, which creates technical barriers to cross-border settings. ERTMS seeks to standardise national train control and command systems across Europe. This is a challenging task. Technical requirements are costly to implement and requires a niche market knowledge known by only a few specialists of the railway manufacturing industry.

This will be completely new in Serbia, while in Hungary the full benefit would be to interconnect the Budapest-Belgrade segment with the Budapest-Vienna line where elements of ERTMS are already implemented.

The Budapest-Belgrade railway modernisation should be perceived in a broader context as the financing party, China wants to ensure swift transit of Chinese good, from Piraeus to Western Europe. Is it realistic to connect all four countries (Hungary, Serbia, Macedonia and Greece) with a modern railway in the next few years?

China has wonderful results in railway construction, especially in high-speed railways, but questions remain about their contribution to this project. After the privatisation of Greek ports by China Ocean Shipping Company, it is obvious that it is in the

best interest of the Chinese to connect these countries and to ensure a modern and standard railway to Central Europe.

As we could read in the media, Chinese financing is secured by state loans and not by direct investments to infrastructure building. This means that there is no formal control over infrastructure building and management, however financing such a huge project in four different countries would not be possible without a high degree of political commitment.

Epilogue – VJT & Partners:

The potential of the Hungarian railway sector is huge. The dominant position of the Hungarian state owned giant could be shaken by new players ready to take their piece of the cake in the cargo business such as Rail Cargo Hungaria, GYSEV-CARGO, or CER. Also, the Budapest-Belgrade modernisation project could attract not only the biggest players of railway construction – such as Kozgep, Swietelsky, Strabag – but also players specialising in ERTMS such as Alstom, Thales, Siemens, Bombardier or CAF. All this could sooner or later completely change the landscape of the Hungarian railway industry.

New market break-
throughs

The deal of the century ahead

Paks II Nuclear Power Plant tenders are coming

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In our previous editions we reported that Hungary plans to grant investment support for the construction of two new reactors on the Paks site in Hungary (Paks II). The aim of the Paks II project is to replace the four reactors currently operating in Paks which were built in the 1980s and provide approximately 50% of the domestic electricity production.

Hungary considers that the construction of new nuclear reactors is inevitable considering the constantly growing capacity of demand. According to the prognosis, energy consumption increases 1% per year which cannot be met by the current outdated power plants.

While the details of Paks II were confidential, it became public that the main contractor for the project would be Rosatom and that the Hungarian Government borrowed EUR 10 billion from Russia to finance the construction. No wonder that Paks II was considered “the deal of the century” in Hungary.

The fate of Paks II was uncertain for a long time because the EU Commission was investigating whether Paks II project distorted competition in the energy market as a result of Hungarian state support.

Finally, in March 2017 the Commission cleared Paks II project on the basis of Hungarian commitments to limit distortion of competition. Also, Paks II has recently received all the necessary Hungarian operational permits (such as site permit and environmental impact permit) to launch the construction work.

Now that Paks II has finally received a green light for implementation, Atomstroyexport (subsidiary of Rosatom) may announce the tender for suppliers of the project. The official language of the tenders will be Russian, but this should not present an obstacle as US and European companies usually participate in tenders of Atomstroyexport. It is expected that a total of 6000 items may be purchased/supplied via tenders.

The countdown for the deal of the century has started. Stay tuned.

EUR 10 billion
project

6000 items to be
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Best European mega future project in Budapest

Liget Budapest project to be implemented in 2017

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The Hungarian capital gained international recognition of the global real estate community. Liget Budapest project was among the finalists of the MIPIM Awards in the 'Best Futura Mega Project' category along with Japanese, Brazilian and Russian fellow competitors. This is a great success taking into account that there were 214 nominations from 46 countries. As the real estate industry's equivalent of the Oscars, the recognition will surely give a boost to the construction works of Liget Budapest in the near future.

The Liget Budapest project is a development plan of the nearly 200-year old city park, Városliget, including the complete rehabilitation of its green areas and the establishment of a museum quarter similar to those of Vienna and Berlin. The development is realized with the participation of Japanese star architect studios such as SANAA and Sou Fujimoto Architects.

After years of preparation, the construction work may finally start this year. The tenders for the best European mega future project may come soon. Stay tuned.

Liget Budapest project, the only European finalist of the MIPIM Awards

About VJT & Partners

The Firm

VJT & Partners is a Hungarian commercial law firm advising international and domestic corporate clients and entrepreneurs. The firm was founded by János Tamás Varga, who has created a highly successful team based on values including inspiring leadership, striving for perfection, commitment, courage and harmony.

VJT & Partners is recognised as one of Hungary's leading commercial law firms and also as an excellent collaborative partner, working hand-in-hand with its clients. Clients value the firm's absolute commitment, leading to effective and enduring relationships. The firm combines the highest degree of professionalism, the efficient delivery of legal services with dynamism, flexibility, responsiveness and personal attention.

Lawyers in the firm have developed an in-depth understanding of both the legal and the commercial realities of business. The firm prides itself in giving direct, honest and practical advice, tailored to its clients' needs. The shared values of VJT & Partners are at the very core of the creativity and 'fresh thinking' approach of the firm.

As a member of the EU, but not the single currency, Hungary has a unique language and business culture and a complex legal system bringing particular challenges. All lawyers at VJT & Partners have extensive experience of working with international and domestic companies alike, to help navigate these challenges and to achieve their objectives in Hungary, and to ensure appropriate regulatory approvals.

The leading legal directories rank VJT & Partners highly across a range of practice areas.

VJT & Partners is a full-service law firm that satisfies the needs of clients across a broad range of industries and professions. The firm's legal services include aviation, commercial contracts, competition, corporate M&A, data protection, dispute resolution, finance, immigration, employment, intellectual property, outsourcing, private equity, real estate, regulatory, restructuring and insolvency, and technology.

Practice Areas

The firm is especially active and highly ranked in the following areas:

Corporate mergers and acquisitions

VJT & Partners believes that advising on M&A transactions is to provide more than just legal advice. Understanding the logic and dynamics of the industry sector in which the client and other participants operate is a prerequisite for success.

We advise clients on international and Hungarian M&A transactions including acquisitions, disposals, mergers and demergers, from deal inception through due diligence and negotiations to post completion. The expertise of our multi-disciplinary team in the areas of corporate, commercial, competition, real estate, employment and regulatory enables us to provide excellent service.

Employment

The highly-rated employment lawyers at VJT & Partners have a wealth of experience in all aspects of contentious and non-contentious employment matters. Fully appreciated for understanding their clients' business goals, lawyers design structures and procedures that are watertight and defensible in many court proceedings.

We regularly advise employers on general employment matters including drafting employment agreements, internal policies, termination agreements, termination notices and complex mass dismissal structures as well as employee incentive schemes. We have particular expertise in managing work permit and business immigration applications as well as advising on the different employment and labour related issues which arise with commercial transactions such as outsourcing.

Our team has successfully represented employers and executive employees in all types of court proceedings in Hungary. In particular, we represent clients in disputes concerning issues which include unlawful termination, overtime payment and bonus claims.

Technology

Understanding our clients' underlying technical and technological ideas and objectives, while providing clear, concise and practical advice lies at the heart of our work. The phenomenon of convergence and the rapid proliferation of innovative services inspire our Information, Communications & Technology (ICT) team to continue to build unique expertise in a wide range of technology matters.

Our lawyers have particularly strong track record in commercial IT arrangements such as software licensing, call centre and hosting services as well as hardware procurement, online and e-commerce matters such as setting up web-shops. We also regularly advise on sector-specific regulatory issues concerning communications services such as licensing, interconnection and carrier-pre selection.

How We Work

Lawyers at VJT & Partners are encouraged to develop, to enjoy their work and to become real 'Masters of Collaboration'. Clients comment on the firm's cooperation, communication and its absolute commitment to what they are trying to achieve.

In turn, we find that this leads to effective and enduring relationships. We combine the highest degree of professionalism and the efficient delivery of legal services with dynamism, flexibility, responsiveness and personal attention.

Our Values

The values that lie at the heart of our business ethos are the building blocks of our business. Nurturing the following values brings the 'hearts and minds' of VJT & Partners' lawyers together as one successful team. We would be happy to talk you through them, what they mean to us, to our business and our clients:

- Inspiring leadership
- Striving for perfection
- Commitment
- Courage
- Harmony

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