

## MNI POLITICAL RISK ANALYSIS-EU & Hungary Set For Showdown On Ukraine Aid At EUCO

*by Tom Lake*

National leaders from the 27 member states of the European Union meet for a special European Council (EUCO) [summit](#) on 1 February. The meeting comes as the result of a stand-off between the Union and Hungarian Prime Minister Viktor Orbán over Budapest's vetoing of a multi-billion-euro package of aid and financial assistance for Ukraine. The package is intended to be supplied over several years, with funds coming from the EU's multiannual financial framework (MFF, the long-term budget).

Orbán refused to back the package in the December 2023 EUCO summit, insisting that Kyiv must apply for the funding on a yearly basis to ensure proper EU oversight of where the money is going. Many see the main reason for the veto being unrelated to the war in Ukraine. Instead, they see the veto as Orbán seeking to force the EU's hand in unfreezing EUR23bn in funds allocated to Budapest but held back by the European Commission regarding rule-of-law concerns. Much to the chagrin of some member states, the Commission unfroze around EUR10bn in December having ruled that substantial efforts had been made in reforming the Hungarian judiciary. Opponents argued that this amounted to the EU giving in to Orbán's 'blackmail'.

The so-called 'Ukraine facility' comprises EUR50bn in long-term funding for Ukraine, with EUR17bn in grants and EUR33bn in loans. Orbán has insisted that rather than the funding being approved by the EU only once and then distributed on an annual basis, that Ukraine must come to the EU each year or mid-way through the disbursement period. Many in the EU have disavowed this compromised, arguing that it will simply give Orbán another opportunity to 'hold the EU to ransom' at the time of the next review.

### **Work Arounds**

The main reason that the EU has stated it does not want annual reviews of the funding is to ensure stability for Ukraine in its funding needs but also to demonstrate to Kyiv that Brussels is committed to long-term support. This is seen as particularly important due to the difficulty the Biden administration is having in getting its USD100bn+ supplemental – which includes Ukraine aid – through Congress, and the potential for most or even all military aid to Ukraine being halted in January 2025 in the event Donald Trump regains the US presidency.

There has been speculation that a 26-member state plan could be implemented in the event that Hungary's veto is not lifted. This would see the Ukraine facility taken off the books of the MFF, and instead aid would come individually from each member state on separate voluntary, bilateral bases with Kyiv. Ukraine has spoken of this being a sub-optimal outcome as it could lead to further delays and a fragmented disbursement period.

### **EU Could Raise Stakes with Article 7, Threats To Economy**

In the event of Hungarian intransigence, Brussels could resort to 'nuclear options' in an effort to force Orbán's hand. One would be the long-mooted use of Article 7 of the Treaty of the European Union (TEU) to remove Hungary's voting rights at the European Council level.

Several MEPs have written to petition the Council to use Article 7 to do so, but so far there has been little move towards this position.

There are ways in which the EU could use Art. 7 to alter Hungary's stance. There are two sections to the Article. Art. 7 (2) suspends the voting rights for member states "seriously and persistently" going against EU norms. This requires a unanimous vote. There is speculation that with Orbán-ally Robert Fico becoming Prime Minister of Slovakia for a third time, the two CEE nations could act as an assurance for one another to block any attempt to invoke the vote-suspension section of Art. 7.

However, Art. 7 (1) would be a first step towards the suspension of voting rights. Here, with a four-fifths majority in the Council voting that there is a "clear risk of a serious breach of [EU] fundamental principles", with the EU then empowered to "address appropriate recommendations" to the member state. EU Observer [describes](#) the use of each section of Art. 7, comparing the use of Art. 7 (2) as the use of a nuclear weapon, but Art. 7 (1) as a deterrent, formalising that the 'nuclear option' is just one vote away.

Aside from Art. 7, there has also been speculation that the EU will use the withholding of further funding to Hungary as a threat to the country's economic outlook. As the FT [reported](#) on 28 January, in a document seen by the outlet that if Hungary vetoes Ukraine aid again "*...other heads of state and government would publicly declare that in the light of the unconstructive behaviour of the Hungarian PM . . . they cannot imagine that EU funds would be provided to Budapest. Without that funding, "financial markets and European and international companies might be less interested to invest in Hungary", the document stated. Such punishment "could quickly trigger a further increase of the cost of funding of the public deficit and a drop in the currency".*

It should be noted that while it may appear the EU has the upper hand with regards to Article 7 and the withholding of funds from Hungary, there are several potential impediments. Viktor Orbán has served as prime minister since May 2010, and is the longest-serving national leader in the Union. During that time he has developed an almost unrivalled ability to extract concessions from the EU with brinksmanship, as well as driving wedges between EU member states. While rhetoric from EU institutional leaders can often be forceful and indicate unity, when it comes down to the risk of impediments to other EU projects that Hungary could impose, member state leaders have proved less willing to implement the measures hinted at by those within EU institutions.

### **EUCO Leadership Becomes An Issue In Itself**

This special EUCO summit also comes as the first since Council President Charles Michel engaged in an abrupt U-turn on his stated ambitions to leave the Council presidency and become a member of the European Parliament. Given that he would have topped the party list for the centrist French-speaking Reform Movement (MR) in his native Belgium, Michel would have been all-but-guaranteed to win a seat in the upcoming June EP election. With MEPs taking their seats from July onwards, this would have left the Council presidency open if a new president had not been agreed upon by that point.

The Council president's term runs until December, an intended delay that allows the various political groups of the European Union to negotiate and horse-trade after an EP election while still having a Council president in place. The likelihood of a new Council president

being agreed upon in the weeks after the June election was very slim, which in turn would have left the presidency vacant. In this scenario, the chair of the rotating presidency of the Council of the European Union (CoEU) would take on the responsibilities of the Council president at EUCO summits. By chance, in H224 Hungarian PM Viktor Orbán holds the CoEU rotating presidency. A scenario in which Orbán holds the EUCO and CoEU presidency would give him notable discretion in calling meetings and summits and directing their agendas. This in turn would be a nightmare scenario for many EU liberals, who have since his announcement put pressure on Michel to drop his EP bid and maintain the EUCO presidency until December at the earliest.

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