



Press Meeting Niedermüller/Weidenholzer/Sippel
„Accusations against Hungary - embezzlement of EU funds“
Wednesday, 13th July 2016 – European Parliament Brussels

PRESS MEETING

„Accusations against Hungary - embezzlement of EU funds“

13/07/2016 11h00-12h00 - PHS 00B001 (glass room)

hosted by: Josef Weidenholzer, S&D Vice President „Citizens‘ Europe“, AT
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Premise:

Over the last years, there have been a number of reports from Hungary, that money from European funds that had been allocated to different projects in infrastructure and training, was not used efficiently. Examples show that large proportions of the sums have been used for the administration of those projects and research studies.

In 2015 the OLAF-report finds 17 cases in Hungary which present the suspicion of fraud. In 14 cases there is the justified suspicion of embezzlement of EU funds. OLAF recommends that the Commission should ask Hungary for a refund.

Between 2008-2015 there were a total of 22 official recommendations for investigation to the Hungarian law enforcement agencies, but the Hungarian prosecution service looked only into four cases, three of which it decided to not investigate further.

The European Parliament has the responsibility to make sure that the taxpayers‘ money is used in an accountable and efficient manner. Therefore, a group of MEPs from several political groups, including the hosts of this press meeting, will prepare a parliamentary question in order to ask the European Commission about its conduct regarding the accusations of embezzlement of EU funds and corruption.



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Inventory of 10 corruption cases concerning Hungary

OLAF Report on the situation of Hungary

According to the report released by the European Anti-Fraud Office (OLAF) in 2015, altogether 17 cases with suspicion of fraud had been concluded and out of this number in 14 cases it had established misuse of EU funds. In consequence, OLAF recommended the repayment of the funds to the European Commission. Under the recently published report of 2015 Hungary's results were at the third place in two investigations within the Member States of the European Union, however excluding the SAPARD data of results of Romania and Bulgaria, the misuse of funds is the highest in Hungary in the whole European Union according to the 16th report disclosed by OLAF. In connection with structural and agricultural funds in Hungary, OLAF had concluded 29 suspicious cases in the past 3 years with a recommendation of returning the funds, which has represented 3, 5 % of the EU funds in question. Such average was the second highest average in the EU, after Slovakia.

Altogether 22 times were judicial recommendations addressed to Hungarian prosecution authorities between 2008 and 2015. However, the Hungarian public prosecution took judicial actions only in 4 cases, and out of this 4 cases in 3 cases it found unnecessary to prosecute. Such 25% rate is one of the lowest average in the whole EU. In 14 additional cases, judicial investigations are still ongoing, moreover in other 4 additional cases no comments have been received from the Hungarian prosecution authorities.

Further, OLAF reported that Hungarian authorities reported the misuse related to EU funds only once, while in 20 additional cases it was reported by private individuals. *"You report something, but you are far below the average. I leave the answer to you if you are on average more saintly than Europeans or you are more exposed to the temptation of not reporting,"* said Giovanni Kessler the Director-General of OLAF in December 2015.



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1 - The vintage railway of the prime minister

The tale of the nostalgia train has quite a symbolic interpretation. At one end of the train line, there is Felcsút, with the countryside home of the prime minister and with the football stadium, which was established by him, however financed by tax payers. The length of the railway is less than 6 kilometres, however costs EUR 1.9 million financed by EU funds. The Hungarian government claimed that 2,560-7,080 passengers would use the line daily in its original funding application, but only 30-50 passengers by day were actually counted.

The prime minister have admitted that the recently renewed railway was right next to his childhood house. He added that he has always been dreaming about playing on it. 'If the nostalgia train is criticized, it must be prolonged until Bicske, and if it will be still cursed, then until Lovasberény' - reacted Orbán to the critics against his nostalgia train.

2 - Employment program for Roma

The National Roma Self-Government won a tender of EUR 16 million to support Roma entering the labour market. According to the briefing of the tender, out of the money a hundred thousand new jobs should had been created to Roma via the establishment of an employment cooperative. As it was finally revealed, none of these jobs have been created. On the contrary, light had been shed on extraordinary high administrative expenses concerning the management of the program. An office had been bought for EUR 700 000 in one of the most elegant neighbourhood of Budapest, which had been renovated for an additional EUR 100 000. Opel Corsa vehicles were leased for EUR 1600 per month; EUR 2000 were spent on office furniture per working stations. More than EUR 300 000 were spent for studies, with the average cost of EUR 320 per page.

The founder of the Fidesz supporter Lungo Drom Roma association, Flórian Farkas was the chair of the National Roma Self-Governance at the beginning of the tender, and his confidantes managed the tender too. Many Roma leaders alleged that Mr. Farkas backs the misuse of funds, and OLAF initiated his interrogation in the case. However, Mr. Farkas is still a member of the parliament at the side of Fidesz, and a ministry commissioner responsible for the inclusion of Roma. Viktor Orban confirmed his unbroken confidence toward Farkas after the scandals were brought to light.

3 - The son-in-law of the prime minister and the public lightning

Elios Zrt. owned by the son-in-law of the prime minister has become the most important winner of the public procurement tenders in the recent years. Elios has won under a relatively short period almost in 20 medium sized cities the tenders on the replacement of the regular public lightning to LED lighting. The amount won exceeds EUR 200 million, 2/3 of it from the



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funds provided by the EU. According to professionals on the field, the projects are overpriced; meanwhile the quality of the lightning is even worse than it was before. Elios estimated a seven to ten- year long, while independent professionals a 25-30 year long return-rate on the projects.

In most of the public procurement tenders Elios was the only contender, only one or two other companies applied. Since the procurement tenders were considerably tailored to fit the company, Elios won the tenders without exemptions. In most cities the tender application was supported by the the same consulting enterprise, which probably influenced the decision, since the owner of the consulting enterprise used to be the superior of one of the directors of Elios. Though the son-of-law of the prime minister has quit the company, the enterprise is still winning the public procurement tenders one after the other.

Due to the testimony and evidences provided by a former member of the local municipality, in certain cases investigations have been launched, however the police closed the cases without results.

4 - Controversies around the Foundations of the Central Bank of Hungary

Viktor Orbán has appointed his former Minister for National Economy, György Matolcsy as the head of Central Bank of Hungary in 2013. It turned out in 2014 that the profit the Central Bank was making from exchange rate fluctuations was spent on establishing 6 foundations, worth altogether EUR 840 million, instead of being paid in the government budget. The persons in leading positions of the foundations are the colleagues and confidantes of György Matolcsy.

Attention was first drawn to the foundations after they started buying fine art and premium real estate; investigative journalists started to be inquisitive about the foundations from the beginning of 2016. As a consequence, the Parliament adopted an act on the matter under accelerated procedure, which stated that funds handed over to the foundations were no longer public in nature, thus the act on transparency of public data is no longer applicable to them either. According to the ruling of the Constitutional Court this act was not in compliance with the Basic Law, therefore it had to be declared null and void.

The foundations had been finally obliged by the court decision to disclose data on their management, and as a result, a quite extensive and controversial practice was revealed. Among others, an online journal owned by one of the cousins of György Matolcsy was supported by more than EUR 1,6 million, or professional think-tanks supporting the propaganda of the government have gained considerable funds for publication. Moreover, the publication of a book written by the former secretary of György Matolcsy was supported with EUR 150 000, including translations to Romanian, Czech, Polish and Ukrainian. Meanwhile, the former working place of Secretary of State for Education, László Palkovics has



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had benefits from the adverse practice as well, since the development of the College of Kecskemét to a university level was funded with EUR 1 million too. There are also intriguing details about a law firm that benefited from the money of the foundations, which had been coincidentally established and partially owned before the suspension of his law practice by the Minister of Justice László Trócsány. Not to mention the financial support for the construction companies closely linked to Lőrinc Mészáros businessman, confidante of Viktor Orbán and Elios Zrt. The list is long with further numerous both legally and morally contestable items issued by the foundations.

Though a number of criminal reports had been made, the Office of Public Prosecutor only initiated procedures because of a minor breach of the Act on Public Procurement, which ended with a fine of EUR 700 per foundation. Meanwhile, during the peak of the whole scandal György Matolcsy and the Chief Prosecutor of Hungary, Péter Polt had lunch together in a public place. Furthermore, the wife of the Chief Prosecutor is the Director of Personnel of the Central Bank of Hungary and the president of the supervisory committee of one of the foundations.

In addition, a suspicion of illicit budgetary financing occurred, since the foundations invested the majority of their assets into buying government bonds. This issue is currently investigated by the European Central Bank.

5 - The privatisation of public land

The new Land Act permits the sales of public land. Initially, the government was planning to sell agricultural lands up to 380.000 hectares. This is more than the $\frac{3}{4}$ of the half million hectares of agricultural land belonging to state property, altogether 52.000 estates.

Just as the tenders for land lease before, the auctions were scandalous all over the country, since in numerous cases the winners were unknown, agriculturally not qualified persons, typically landlords and other persons belonging to the circle of interest of Fidesz. In addition, in various cases the Fidesz related politicians and their relatives could seize the lands for prices clearly under the market price, without any competition.

Investigative journalists have processed in a detailed manner the data of Fejér County. The region is considered to be special since it is close to the heart of the prime minister and his confidante Lőrinc Mészáros, who got ahold of huge amounts of land in the region, and became a member of the top 100 wealthiest man of Hungary since the parliamentary elections of 2010.

Lőrinc Mészáros and his relatives won in total the most land in the county with 1425 hectares, which makes the 8,3% of the total area of the county. Moreover, Mészáros and his wife purchased Talentis Group Zrt., gaining an additional 3960 hectares through that company, so that the field owned by them altogether amounts to 6500 hectares. Fejér country is also special,



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since that is the county where the partner and business partner of the former Governmental Secretary of State, László L. Simon seized a piece of public land of 278 hectares. In addition, the family of János Flier, childhood friend of Viktor Orbán, business partner of the wife of Orbán, Anikó Lévai seized a land of 201 hectares. Not to mention the son-in-law of the prime minister and his relatives: the Tiborcz family purchased altogether a land of 299 hectares.

During the height of the land sales, the Secretary of State responsible for the auctions was seen in a café in Budapest having a meeting with Lőrinc Mészáros. Right after, the National Land Fund cancelled the public sale tenders in cases of lands that are currently leased by Mészáros and other entrepreneurs close to Fidesz. The reason is clear: due to restrictions on the specific pieces of lands, purchase of the them is not possible, therefore the renters have strong interest in the maintenance of state ownership.

6 - Education development programs

Numerous abuses have become public knowledge concerning the use of funds dedicated to educational development too. Just to mention one project, EUR 45 million were spent on the renovation of 52 classrooms, nearly EUR 900.000 per rooms. Out of this amount less than EUR 7 million was the real cost of the renovation, the rest was spent on considerably overpriced studies and management costs. In several cases different sources were used for the very same purpose. Likewise, light was shed on the abuse regarding the programmes targeted at education of disadvantaged children where for instance more than ten thousand euros were accounted for the development of a book, which was actually the translation of an American course book. In certain cases investigations were launched, and certain municipalities were obliged to reimburse the money received, however no liability has been established.

7 - Motorway M4

In this case amount of EUR 430 million was earmarked by the government for a project of a 29-kilometer long motorway without the European Union's consent. The National Development Agency demanded the modification of the call for tender on 29 points due to compliance with European Union rules. Like in all significant infrastructural projects between 2010 and 2014, the winner of the procurement was a company of Lajos Simicska, entrepreneur strongly linked to Viktor Orbán. In the spring of 2015, the European Commission made it clear that due to suspicion of cartel, the project cannot be financed from European Union funds. Meanwhile, the relationship of Lajos Simicska and Viktor Orbán was spoiled and as a consequence the government terminated the contract with the investor. A decision will soon be made on the enterprise continuing the constructions.



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8 - Industrial Parks

A call for tender of EUR 190 million has been published with the purpose of the development of industrial parks. The tender was later modified, so that the costs incurred do not have to be supported by documents, and the compliance with market prices should not be investigated either. In practice it means that the payment application shall not be accompanied by the document confirming the incurrence of costs to the competent authority, neither should it be recorded separately at the location of the project. Under the national laws on accounting the invoice must be kept by the beneficiary, however the granting and monitoring authorities do not inspect such documents during the on-the-spot checks either.

9 - The new regulation on public procurement

Referring to the obligations toward European Union, thus to reduce corruption risk, a new act on public procurement has been adopted in 2015. According to the report of the Corruption Research Centre Budapest the law in force has changed the previous law on 25 points, out of this number in 11 cases the corruption risk has not been changed, in 9 cases the risk of corruption has elevated, and only 5 cases have been identified where the possibility of corruption has been diminished.

In the light of corruption it is especially adverse and problematic that thresholds have been increased, which means that in case of tenders in services under EUR 58.000 net, and in case of tenders in construction projects EUR 322.000 net is not legally compulsory anymore to publish the tender. In addition, a specific call for tender must be sent to only 3 tenderer. Moreover, deadlines have shortened, thus other important guarantees has disappeared too: while under the previous act a minimum period of tendering is 15 days, the new act does not contain such deadlines at all. Such provisions are obviously in favour of those tenderers who have been previously informed about the call for tender. Lastly, in case of procurements under EUR 80.000 the official procedure of public procurement can easily be avoided by a decision of the government.

Moreover, the new Act on Public Procurement also has a questionable amendment: if the person holding public office in Hungary does not share a common household with the tenderer, the tenderer can apply to any public procurement procedure despite their family relations. Before the amendment, the relative of a person holding public state office was excluded from such procedure regardless of their residential status.

10 - Transparency of the data of public interest



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Since nowadays in Hungary the public authorities do not prosecute in effect against corruption cases linked to the government, it is only the investigative journalists who take real and effective steps in order to protect public and EU funds. Since entering office, the government of Orban has been consistently trying to restrict access to public data. Access to such data is only possible for the journalists after a long and bitter litigation process, and they are being intimidated by prohibitively high fees from requesting the data.

The act on the 2017 budget further restricts access to information. “Business, financial, technical, commercial and market” data of state-owned energy companies, so basically almost all data shall remain classified for a minimum of 5 years. For up to 30 years, disclosing such data is subject to the discretion of the company in question. The justification for this decision is national security, collective financial and foreign affairs grounds.

In addition, according to the new law, the request for such data can be lawfully refused if the company in public property suffered any disadvantage, even in an indirect manner, upon disclosing such data. An enterprise in state or municipal property can also deny disclosing data regarding its operations if the disclosure would indirectly endanger the market interests of the company. This practically means that from the entering into force of the new act state- or municipality-owned companies can refuse to disclose data based on any ad-hoc reasons.