

Developments in Hungary



APRIL 9, 2019

**Briefing of the
Commission on Security and Cooperation in Europe**

Washington: 2020

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ABOUT THE ORGANIZATION FOR SECURITY AND COOPERATION IN EUROPE

The Helsinki process, formally titled the Conference on Security and Cooperation in Europe, traces its origin to the signing of the Helsinki Final Act in Finland on August 1, 1975, by the leaders of 33 European countries, the United States and Canada. As of January 1, 1995, the Helsinki process was renamed the Organization for Security and Cooperation in Europe (OSCE). The membership of the OSCE has expanded to 57 participating States, reflecting the breakup of the Soviet Union, Czechoslovakia, and Yugoslavia.

The OSCE Secretariat is in Vienna, Austria, where weekly meetings of the participating States' permanent representatives are held. In addition, specialized seminars and meetings are convened in various locations. Periodic consultations are held among Senior Officials, Ministers and Heads of State or Government.

Although the OSCE continues to engage in standard setting in the fields of military security, economic and environmental cooperation, and human rights and humanitarian concerns, the Organization is primarily focused on initiatives designed to prevent, manage and resolve conflict within and among the participating States. The Organization deploys numerous missions and field activities located in Southeastern and Eastern Europe, the Caucasus, and Central Asia. The website of the OSCE is: <www.osce.org>.

ABOUT THE COMMISSION ON SECURITY AND COOPERATION IN EUROPE

The Commission on Security and Cooperation in Europe, also known as the Helsinki Commission, is an independent U.S. Government commission created in 1976 to monitor and encourage compliance by the participating States with their OSCE commitments, with a particular emphasis on human rights.

The Commission consists of nine members from the United States Senate, nine members from the House of Representatives, and one member each from the Departments of State, Defense and Commerce. The positions of Chair and Co-Chair rotate between the Senate and House every two years, when a new Congress convenes. A professional staff assists the Commissioners in their work.

In fulfilling its mandate, the Commission gathers and disseminates relevant information to the U.S. Congress and the public by convening hearings, issuing reports that reflect the views of Members of the Commission and/or its staff, and providing details about the activities of the Helsinki process and developments in OSCE participating States.

The Commission also contributes to the formulation and execution of U.S. policy regarding the OSCE, including through Member and staff participation on U.S. Delegations to OSCE meetings. Members of the Commission have regular contact with parliamentarians, government officials, representatives of non-governmental organizations, and private individuals from participating States. The website of the Commission is: <www.csce.gov>.

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APRIL 9, 2019

	Page
PARTICIPANTS	
Erika B. Schlager, Counsel for International Law, Commission on Security and Cooperation in Europe	1
Paul Massaro, Policy Advisor, Commission on Security and Cooperation in Europe	17
Melissa Hooper, Director of Human Rights and Civil Society, Human Rights First	3
Dr. Dalibor Rohac, Research Fellow, American Enterprise Institute	8
Susan Corke, Senior Fellow and Director, Transatlantic Democracy Working Group, German Marshall Fund	12
APPENDIX	
Prepared statement of Melissa Hooper	23
Prepared statement of Dr. Dalibor Rohac	30

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Commission on Security and Cooperation in Europe Washington, DC

The briefing was held at 10:00 a.m. in Room 1539, Longworth House Office Building, Washington, DC, Erika B. Schlager, Counsel for International Law, Commission on Security and Cooperation in Europe, presiding.

Panelists present: Erika B. Schlager, Counsel for International Law, Commission on Security and Cooperation in Europe; Paul Massaro, Policy Advisor, Commission on Security and Cooperation in Europe; Melissa Hooper, Director of Human Rights and Civil Society, Human Rights First; Dr. Dalibor Rohac, Research Fellow, American Enterprise Institute; and Susan Corke, Senior Fellow and Director, Transatlantic Democracy Working Group, German Marshall Fund.

Ms. SCHLAGER. Good morning, ladies and gentlemen. I'm going to start very promptly this morning because I know one of our panelists has a particularly tight schedule. So I will go ahead and open our briefing this morning on "Developments in Hungary."

My name is Erika Schlager. And I serve as counsel for international law with the U.S. Commission on Security and Cooperation in Europe, informally known as the Helsinki Commission. On behalf of the commission, I'd like to welcome everyone who is here today. At the other end of the table is my colleague Paul Massaro, who is the Helsinki Commission's policy advisor on economic issues, including corruption. The Helsinki Commission is an independent commission of the U.S. Federal Government charged with monitoring and implementing the 1975 Helsinki Accords, and advancing U.S. policies regarding the Organization on Security and Cooperation in Europe.

In recent years, Hungary has received quite a bit of attention, both from the administration and from Congress. I think it is fair to say that those Members of Congress who have spoken about or in some other way addressed the situation in Hungary are motivated by a deep respect for the Hungarian people and a desire to strengthen the United States' relationship with Hungary based on the concept of comprehensive security. As President George H.W. Bush in 1992 underlined when he signed the Helsinki Human Rights Day Proclamation, those countries participating in the Helsinki process recognize respect for human rights is an essential factor for the attainment of peace, justice, and cooperation among nations. This briefing is organized in that spirit.

We welcome the engagement by Secretary of State Michael Pompeo and other administration officials. I'd like to recap briefly Secretary Pompeo's points after meeting Minister Szijjártó for the first time last May. The secretary underscored the importance of maintaining a vibrant civil society. The secretary also emphasized the urgent need to help Ukraine in the face of Russian aggression, including the importance of facilitating and supporting Ukraine's engagement with NATO and the need to counter Russian malign influence in Central Europe. Both sides agreed that Europe should diversify its sources of energy and discussed increasing U.S. investment in Hungary.

The secretary and foreign minister committed to concluding a defense cooperation agreement in the days ahead and, as many of you know, that defense cooperation agreement was signed just a few days ago, so it was very welcome. We have made available a package of statements by the Department of State, including Ambassador Cornstein's recent remarks in Budapest on the 70th anniversary of the establishment of NATO. Those materials should be in the packets that you received as you came in.

Now, I'd like to also briefly read one additional point from Secretary Pompeo, from his trip to Slovakia, Hungary, and Poland earlier this year, February. At one point, Secretary Pompeo was asked by a student: What role do small countries play in international relations these days? And I really liked his answer and would like to share it with you here.

"Every nation," he said, "that raises its voice for liberty and democracy matters—whether that's a country that is as big as the United States and with as large an economy as we have in America, or a smaller country. They are each valuable. Each time one falls, each time a country no matter how small, each time it moves away from democracy and moves toward a different system of governance the capacity in the world to continue to deliver freedom for human beings is diminished. And so I would urge every country, no matter its size, to stay focused and maintain its commitment."

Now, before introducing our panelists I do have a couple of small administrative notes. First, this event is streaming live on the Helsinki Commission's Facebook page, as well as on our website. Second, if you are tweeting please use the Helsinki Commission handle, which is @HelsinkiComm, C-O-M-M. Third, please silence your cellphones or any other electronic device you may have. And finally, for our panelists, please be sure to speak closely into the microphone. You'll need to have the red button on, as I struggled to do at the outset here. [Laughter.] That will facilitate the clarity of our broadcast, especially for those watching through the webcast. And I am told there are a couple people who are watching from afar right now. We want to make sure that everyone can hear every word that you're saying. Of course, this event is on the record, and there will be a transcript produced at the end.

With that, I would like to introduce our three panelists. Their longer bios are on the table as you came into the room. I encourage everyone to read them in their entirety. First up will be Melissa Hooper. Ms. Hooper is a lawyer, a rule of law expert, and director of human rights and civil society at Human Rights First. After that, Dalibor Rohac will speak. Dr. Rohac is a research fellow at the American Enterprise Institute. And finally, we will hear from Susan Corke, a senior fellow and director of the bipartisan Transatlantic Democracy Working Group with the German Marshall Fund of the United States based in Washington, DC. And I had the privilege of working with Ms. Corke when she was at the State Department—so very glad you could be with us here today.

So with that out of the way, please, Melissa.

Thank you.

Ms. HOOPER. Okay, great. Yes, we're on. Okay, very good.

Since coming to power with a supermajority in 2010, the Fidesz Party and Prime Minister Viktor Orbán have used their power to hollow out democratic institutions to such a degree that Hungary has been called a “Franken-State,” an illiberal mutant composed of ingeniously stitched-together imitations of Western liberal democratic elements. While the Obama-era policy of limited high-level engagement precluded some of the Hungarian Government’s controversial actions, it did not appear to motivate fundamental change. The Trump-era policy of transactional engagement devoid of values has fared no better.

The U.S. should, therefore, reexamine its policy toward Hungary, such that the administration becomes more vocal, critical, and active in opposing consequences when fundamental values are undermined, not only as an attempt to ameliorate Hungary’s flagging democracy, but also as a method of reinvigorating democratic values in the region. The U.S. Government should also consider taking specific actions to hold the Hungarian Government accountable and support local civil society.

In April 2018 Orbán and Fidesz won the third election in a row, maintaining a supermajority after winning only 50 percent of the vote. The OSCE, which monitored the election, criticized the xenophobic, anti-Semitic, and intimidating rhetoric used by the government, the undue advantage given the ruling party through the use of state-funded resources for its campaigns and messaging, the politicization of media ownership and limits on media freedom, and a lack of transparent campaign financing.

Since last year’s election Orbán and Fidesz have continued to undermine, hollow out, and even attack fundamental tenets of democratic governance. Free media is nearly nonexistent in Hungary and outside the capital, it is, indeed, extinct. Fidesz has consolidated media to such an extreme degree through nefarious deals, schemes and pressure—for example, the shutdown of independent outlet Népszabadság, through irregular and illegal procedures that are regularly rubber stamped by government agencies such as the media authority and anti-monopoly agency.

The overwhelming majority of outlets now reside in the hands of a few close associates of the Fidesz government, such as Lorinc Mészáros and Árpád Habony. The “voluntary” consolidation of 476 of their media holdings into a single major government-run conglomerate did nothing to mitigate the problem. On the contrary, the consolidation allows the government to spread its propaganda efficiently, even with Russian disinformation—especially since nearly 100 percent of regional media is now controlled by pro-government outlets. Independent journalists, on the other hand, have been placed on published blacklists as so-called mercenaries, labeled threats to the state and banned from parliament.

Upon coming into power, Fidesz rewrote the constitution to consolidate power in the executive and politicize formerly nonpolitical offices. They also expanded the definition of “cardinal laws,” that require a supermajority vote. This was, according to Orbán, to bind not only the next administration but the next 10. Fidesz engaged in an ongoing dismantling of judicial checks and balances soon after taking power in 2010, and recently ramped up its latest phase.

Early moves involved the takeover of the constitutional court, forcing out judges likely to disagree with the party. While the European Court of Human Rights eventually ruled the forced retirements illegal, the fact that the court’s decision came a year after

the retirements meant the remedy was confined to monetary damages. Orbán also appointed a close associate, Tünde Handó, as the head of the National Judicial Council, giving her veto power over judicial appointments. When the council alleged she was abusing her power, the complaining judges suddenly left their posts in rapid succession within a single week.

Most recently, the government created a parallel justice system through development of a new administrative court that is designed to hear cases concerning designated topics. While the topics are not completely identified yet, these topics are the most politically charged or expedient for the ruling party. They include civil liberties cases—such as legality of assemblies—election disputes, cases involving immigration and refugee issues, police brutality, media-related cases, transparency of government information, and taxation and procurement. Tax and procurement-related irregularities have been cited by the EU anticorruption agency—OLAF—as the source of millions in suspect deals involving Orbán’s family and friends, many of which also involve Russian state actors.

On March 15th, the Council of Europe’s Venice Commission expressed serious concerns about the overwhelming power given to the Minister of Justice [MOJ] over the new hermetically sealed court system. Of particular concern was the MOJ’s complete power over judicial selection. In response, on April 1st Fidesz passed a law that it argued vitiated these concerns. It did not. The new law modified the process for appointing judges only after a nearly year-long transition period, during which the MOJ will oversee the transfer of a third of the judges from the old system and will appoint another one-third of the judges, so as long as the MOJ acts relatively soon, the future quasi-limitations on its power will not have a large effect.

In addition, the new laws allowed the MOJ to select individuals without judicial experience. In fact, the new law gives a leg-up to candidates coming from public service who lack any judicial experience, making it more likely that Fidesz officials from agencies whose decisions are being challenged through this new system will be appointed to review and decide those challenges. The rule allowing appointment of individuals lacking any judicial experience also applies to selection of the chief administrative judge. This is contrary, by the way, to the Venice Commission’s opinion.

A 2017 law, given the politically charged title of “Stop Soros” by the government, requires that NGOs register as “foreign agents” if they receive more than 24,000 euros of foreign funds. This is similar to the infamous Russian foreign agent law passed in 2012. Another 2018 law taxes foreign funds at 25 percent if the organization “directly or indirectly supports immigration.” A constitutional amendment in 2018 made it illegal to, quote, “support illegal immigration,” but defined the term so broadly as to criminalize providing information regarding the legal process of seeking asylum to asylum seekers, or even preparing that information for dissemination.

These same amendments made it illegal to settle foreign populations within Hungary. The Venice Commission roundly criticized these laws, and the European Commission launched an infringement proceeding based on their interference with freedom of association and expression.

Over 60 NGOs were loudly and publicly subjected to “criminal investigations” that included home searches, police raids, and computer seizures in 2014. They were ordered by the prime minister himself. Not a single allegation resulted in an actual charge against the organizations. However, the government continues to campaign against the “Soros empire,” including it as a major theme in the last election. Now NGOs that challenge the

government's stance on rule of law, treatment of civil society and migration believe the next step will be to subject them to tax proceedings that could threaten their activities.

The 2017 law referred—to as Lex CEU [CEU]—because it essentially applied only to the Budapest-based dual Hungary-and U.S.-accredited institution Central European University, required that CEU maintain a campus in the United States. After the university complied by opening a campus in New York, the Hungarian Government refused to sign an agreement with the university by December 1st of last year, which would have allowed the university to remain in Hungary. CEU is now in the process of moving its campus and its programs to Vienna. While the Hungarian Government claims that CEU may continue to operate in Budapest without this agreement, this is not true. It's true for only 20 percent of the university's programs, which are Hungarian accredited. The remaining 80 percent of American-accredited programs—presumably, the more sought-after—cannot operate in Budapest absent the agreement.

During a March meeting in Budapest, Manfred Weber, the leader of the European People's Party in the European Parliament—of which Fidesz is a member—suggested that the University of Munich and BMW may offer support to the university, restructuring it as a European institution no longer subject to Lex CEU. This development is still in process.

Orbán and Fidesz have repeatedly relied on state processes and funds to implement anti-Semitic and racist campaigns and so-called national consultations that involve mailing questionnaires containing disinformation to nearly every household in the country. During the most recent presidential election in April 2018, Orbán campaigned on an anti-migration and anti-refugee platform, referring to a mythical “Soros plan,” which alleges that Hungarian-American financier George Soros aims to overwhelm Hungary with migrants and “Muslim invaders.” Orbán conveniently then declared himself the protector of Christian Europe.

Campaigns like this easily saturate the geographic space outside the capital, where independent media does not exist to counter this messaging. Orbán openly threatened non-governmental watchdog groups and personally targeted Soros, stating that after the election Fidesz will “take revenge—moral, political, and legal” against real and perceived enemies of the Hungarian State.

In April 2018, pro-government magazine *Figyelo* published a list of 200 anti-government “mercenaries,” whose goal is allegedly to topple the government. The list included a number of investigative journalists, academics from CEU, entire staffs of watchdog organizations such as Transparency International, and members of NGOs that challenge the government's limitations of freedom of assembly and rule of law. The “Soros mercenaries” phrase has been in regular use in government rhetoric for the last several years, where it is used to discredit NGOs that criticize state policy.

A second blacklist was published in June highlighting academics considered a threat to Hungary. Most were affiliated with the Academy of Sciences. This was followed by a defunding of the academy itself in 2019—a move that was met with significant protests. The magazine publishing these lists was purchased by Maria Schmidt, a long-time friend of Orbán, in 2016. Since then, as with most formerly independent media, it has adopted a decidedly pro-government tone. Schmidt, a controversial historian labeled by many credible academics as a distorter of Holocaust history, has also been awarded stewardship of the government-backed “House of Fates” museum. The Yad Vaschem, the U.S. Holocaust Museum, and the leaders of Hungary's Jewish community have each warned that the

“House of Fates” appears to be a concerted effort on the part of Schmidt and the Hungarian Government to rewrite the country’s World War II-era history.

Orbán is currently campaigning in the European Parliament elections on a platform that seeks, in his view, to preserve “Europe for Europeans.” As in the past, he’s employed a billboard campaign depicting the image of George Soros to convey the threat posed by outsiders and immigrants. This time, the billboard inexplicably links Soros to European Commission President Jean-Claude Juncker. On the billboard, Juncker’s nose has been altered to look larger and, presumably, more Jewish.

In August 2018, the Hungarian Government stopped giving food to asylum seekers it has placed in detention while they appeal their cases. The government also prohibited others from delivering food to asylum seekers and prohibited them from purchasing their own food—essentially attempting to starve them until they abandon asylum proceedings. This decision was the latest in a string of policies that violates Hungary’s obligations with respect to treatment of refugees under international law. An infringement proceeding regarding these policies is ongoing.

In September 2018, the European Commission finally launched a proceeding against Hungary under Article 7 of the Lisbon treaty. However, the lack of forceful negotiations between the EU and Hungary in the past is likely to make this proceeding ineffective. More success may be seen in the EU’s attempt to restructure its upcoming budget from 2021 through 2027, such that compliance with rule of law may be linked to state budgetary awards. The infringement proceedings in the European Court of Justice also present an opportunity, as has been seen in the case of Poland.

Despite these concerning and, in some cases, decidedly authoritarian policies, the Trump administration has maintained a relationship of non-criticism, often citing the need for solidarity against foes, such as Russia and China. The U.S. has expressed “concern” regarding the NGO law. It expressed “disappointment” when CEU was forced out of the country. However, the government then continued to reward Orbán and Fidesz with high-level visits that legitimized their policy decisions, and with gas and defense deals that underscored that legitimacy.

For his part, Ambassador Cornstein issued a public statement that he had not seen or heard any evidence of democratic backsliding and had not been told of any. This was after he had met with prominent members of Hungarian civil society who described to him exactly that. The administration’s former assistant secretary for Europe was seen as such a champion of the Hungarian Government that last week he was given an award by the Hungarian Ministry of Foreign Affairs.

In October 2017, in light of a dangerously deteriorating situation for media in the country, Chargé d’Affaires David Kostelancik devoted an entire speech to the issue. Following the speech, the State Department Bureau of Democracy, Human Rights, and Labor announced a notice of funding opportunity for \$700,000 to “support media outlets operating outside the capital in Hungary to produce fact-based reporting and promote independent media.” However, this funding opportunity was canceled in July 2018 without explanation. While Secretary Pompeo mentioned during his February 2019 trip to Budapest that the U.S. is providing mentorships and training for journalists in the region, and last May told his Hungarian counterparts that a vibrant civil society is important, there’s no evidence of any U.S.-supported programs operating in Hungary that support independent journalism or civil society. And my own contacts in civil society reported that they know of none.

The U.S. commitment to its values of a free press, rule of law, and protection of democratic institutions in the region has been, at best, unclear. Having not expressed alarm regarding the Hungarian Government's movement toward authoritarian governance, Orbán and his associates now believe that limiting free speech and assembly, erasing checks and balances, and employing rampant corruption is perfectly acceptable to its ally, the United States.

This, in turn, communicates to other NATO allies that these actions are acceptable within NATO, setting a dangerous precedent in light of broadening attacks on democratic institutions and governance by Turkey, Poland, Romania, and others. In order to retard or even reverse this progression, the U.S. must take decisive action to send a message that these policies are unacceptable when instituted by a democratic ally—though, admittedly it must do so while continuing to engage. If the U.S. is concerned about the decline in perceived support for democracy in Hungary and the region and it seeks to “compete for positive influence,” a goal cited both by former Assistant Secretary Wess Mitchell and Secretary Pompeo himself, the U.S. response to the concerning situation in Hungary must be clear and more resolute.

First, and most importantly, the U.S. should reinvest in democracy promotion. In Hungary and in the region, lofty speeches about democracy won't turn things around. Meaning, the U.S. cannot send Americans to reinvigorate democracy in places like Budapest, Debrecen, or Pecs. It must support Hungarians who are already engaged in pro-democracy work—such as investigative reporting on corruption, assisting victims of xenophobic violence and hate crimes to combat radicalization, and challenging threats to rule of law.

Second, in doing so, the U.S. should announce publicly that it is reintroducing support for civil society in the region, and specifically in Hungary, due to a decline in the government's ability to or interest in protecting democratic institutions. A reintroduction of democracy funding would offer support to the institutions and pro-democracy innovators that are currently resource-starved, while an announcement explaining why would send a message to the Hungarian Government that the U.S. is more than “concerned” about developments in the country; it is ready to act. The recent notice of funding for independent media was canceled, at least in part, apparently because the Hungarian Government expressed displeasure with the idea. Announcing the reintroduction of democracy funding will cause some bruising in Budapest, yes, but it will not rupture the relationship, and I believe it can strike the right tone between getting the government's attention while not driving it away from engagement.

Third, Congress should be more vocal and pointed in expressing its concern and even alarm at Hungary's antidemocratic movement and expressing support for individuals such as journalists or members of watchdog organizations that are targeted by government campaigns or blacklists. This could come in the form of a bipartisan resolution or a letter to the government. Statements on the floor of Congress would also be welcomed by those that fear government targeting. Congress could also take a more active role in expressing concern to the Ambassador that his statements are out of line—or, when his statements are out of line with objective reporting regarding factual developments in the country.

Finally, the U.S. should not shy away from applying targeted sanctions, such as via the Global Magnitsky law, when clear lines are crossed. When visa bans were used against some officials in 2014, they hit home in Hungary. The message reverberated both inside the government and throughout Hungarian society. Application to individuals that

are taking the lead in wiping out independent media, erasing rule of law, and employing state processes for their own corrupt deals should be held up as examples of those who have crossed the line.

Thank you very much.

Ms. SCHLAGER. Thank you, Melissa.

Dr. ROHAC. Thank you, Erika. Thank you all for coming, ladies and gentlemen. It is a real honor to be with you this morning. There's been a lot of talk of Hungary in recent years, including on the political right, where I'm spending most of my intellectual time. I work at the—I don't work for the Open Society Foundation or any of the other organizations that could be sort of dismissed by the authoritarian government as being bedfellows of the political left. And on the political right, much of the talk of Orbán's Hungary has been quite positive. People appreciate the Euro-skepticism of the government. People appreciate its attitudes toward traditional values and defending national unity, and curbing illegal immigration, et cetera, et cetera.

And I have some degree of appreciation for why many of my friends on the political right are essentially seeing Viktor Orbán and Fidesz and today's Hungary as not necessarily an example to avoid, but rather as an example to emulate across Europe. But I think that attitude is the deeply misguided because it misses what is a part of current developments in Hungary, namely its turn toward authoritarianism. There is no avoiding that conclusion.

One can only—you know, if you want you can go back to the 2014 speech that Viktor Orbán gave in Băile Tușnad in Romania at the Fidesz summer school, where he singled out Turkey and Singapore and China as stars of international analysts, and he touted the idea of illiberal democracy as an example for Hungary to follow. He urged Hungary to part ways with Western dogmas of individual freedom, the idea, I quote, "that people have the right to do anything that does not infringe on the freedom of the other party." So that's the direction that's been announced. And that's the direction the country has been moving in.

We've heard about the court packing. We've heard about the tightening of restrictions on civil society, concentration of media ownership in few hands of oligarchs connected to the ruling party. And also, the mobilization through government propaganda of public opinion against real or imagined external enemies. So what I would like to do in my remarks is talk about three dimensions of this problem. One is the measurable decline of various indicators of governance and rule of law that we can look at. I'd like to look at the patterns of politically organized corruption. And then finally, I would like to touch on what these developments in Hungary mean for the United States and its interests in the region.

Last year, Freedom House, I believe, famously downgraded Hungary from free to partly free territory and that prompted ire from the Hungarian Government. Government spokesperson Zoltán Kovács—who, by the way, tweeted about our panel this morning calling it "brazenly one-sided"—I hope he's watching this morning. [Laughter.] Essentially he accused Freedom House of double standards. He called its methodology politically motivated. And he blamed the results on George Soros' machinations in the background. You know, fair enough. We can have a debate about Freedom House and its methodology. But the reality is that the steady erosion of freedom and rule of law and quality of governance can be observed on any indicator you pick.

So, you know, the World Bank has been publishing for many years the Worldwide Governance Indicators, which are seen as the gold standard for students and scholars of governance and institutional economics, and rule of law. I think you have a few of those graphs in your handouts, in the package you could have picked up at the entrance. But there, where you look at the rule of law metric, country of corruption metric, voice and accountability metric that the World Bank puts together—you know, a technocratic institution that does not have a dog in this fight—you see a very clear, very steady decline.

If you look at indices produced by organizations such as the Heritage Foundation or the Cato Institute, certainly not in bed with George Soros and the Open Society Foundation—well, in its index of economic freedom, the Heritage Foundation places the protection of property rights in Hungary in the mostly unfree territory. That has to do with the seizing of pension fund assets at the beginning of the Orbán administration, at the beginning of this decade, but also with a number of other cases of sort of concentrated ownership that typically ends up in the hands of Fidesz-connected oligarchs. The same index notes a marked decline in government integrity measure, again, placing Hungary into the oppressed territory on those sub-indices, with a dramatically worse score than in 2009.

Remember, that much of what Fidesz has been doing in terms of policy changes has been motivated by this idea that they are trying to rectify all the corruption and all the debt that accumulated over the previous governments. The Cato Institute has been producing a very thoughtful metric called Human Freedom Index, which includes measures of economic freedom and other sort of attributes of rule of law and political freedom, personal freedom. Where on that—on that index, Hungary took a plunge from 28th to 44th place in the first 5 years of Viktor Orbán's rule. We'll have to sort of wait for another sort of years of data to see the new version of the index, but the dynamic is clear.

It's also a fairly known fact that Central Europe, including Hungary, relies quite heavily on the inflow of new funds. A lot of public investment in Hungary, and in other Central European countries, is funded through European taxpayers' money. In Hungary, it's I think almost 80 percent of all public investment that's being funded by the EU. It accounted for close to 4.6 percent of GDP over the 2006–2015 period. And throughout the region, these EU funds have been, it has to be said, a mixed blessing. When you shower money on countries that are not perfectly governed, where the rules of the game are not always clear, you sometimes end up with corruption, with problematic procurement practices.

But even there, Hungary has been an outlier in many ways. First of all, it concentrates much of the decisionmaking authority over EU funds in the prime minister's office, unlike other countries. It relies heavily, in comparison to other countries of the region, on unannounced, unadvertised negotiated procedures through which the government can just strike a deal with a company without having to go through the usual hassle of open competition and bidding. And even on open tenders, the highest rates of procedures involve just one bidder. In OLAF, the EU's anticorruption office, when it reviewed all of its projects in Hungary between the years 2011 and 2015, they found irregularities in all of them. And over that period, large amounts of money had to be repaid by the Hungarian Government.

You know, for the new metro line in Budapest, the government had to return 283 million euros. Last year, the OLAF announced that it would seek to recover 40 million it gave for municipal lighting projects, which happened to be awarded to a company

owned by Viktor Orbán's son-in-law, István Tiborcz. And some of these examples have become really well known even beyond Hungary's borders. Lorinc Mészáros, which is the mayor of Felcsút, which is Viktor Orbán's home village, he's a gas engineer by training, and he is also the eighth-richest man in Hungary, who owns 121 different companies with his wife. His wealth tripled in just one year, between 2016 and 2017, to 392 million, according to the *Forbes* magazine. When he was asked once to what he owed his success he said, "God, luck, and Viktor Orbán." Eighty-three percent of his company's earnings are believed to come from EU funds.

Now, corruption is a problem across Central Europe, across post-communist countries. But what really makes Hungary's case stand out is the extent to which this has been embedded into the political system—the extent to which corruption has been centralized, has been connected to the party, and has also served as a mechanism of political patronage and political mobilization.

Such corruption has affected U.S. companies as well. There's a famous case dating earlier this decade of a New York City-based company called Bunge, which makes cooking oil, which noticed the widespread fraud related to value-added tax in Hungary, where companies are pretending to export foodstuffs and then getting their VAT paid back by the government. So it started lobbying the government to reduce the rates to eliminate the source of such fraud. They were told by a businessman close to Fidesz, Péter Heim, that such a policy change would be only possible if Bunge made substantial contributions to Fidesz's political foundation, Századvég. As a result, in 2014 the Obama administration famously put Heim on a visa ban list together with a number of other officials, including the head of Hungary's Central Tax Authority.

Melissa touched a little bit on this really blasé attitude that the Trump administration has toward authoritarian practices in Hungary. I have to say that this is partly a problem in Europe as well, where Fidesz is still a part of the EPP political family, in spite of its temporary suspension. There is a certain degree of complacency in both Europe's and—Europe's political class, and also on this side of the Atlantic as well. But the reality is that this embrace of crony authoritarianism by Hungary is a direct threat to U.S. interests in the region and to the West's interests more broadly.

The idea that competing for positive influence in the region means that we should not hold our allies to high standards I think is one that's enormously detrimental because it's precisely the authoritarianism, the graft, the cronyism that opens ways for foreign revisionist powers to enter Hungary and influence the country and pull it away from the West. In many cases, it could be in that regard, suffice it to mention the nuclear power plant Paks that was awarded—its reconstruction was awarded or its expansion was awarded to the Russian nuclear monopolists Rosatom without an open tender, financed through loans from Russia. China has been visible in the country as well. And so that's a space that needs to be watched very closely.

Now, one directly related example is Hungary's deteriorating relationship with Ukraine. So if you consider Hungary to be a U.S. ally and we're working closely on matters of mutual interest, you have to wonder how come it was Hungary that sought to exclude Ukraine from 2018 NATO Summit. After Russia cut off natural gas supplies to Ukraine in 2014, Hungary followed suit, notwithstanding the EU's concerted efforts to provide Ukraine with energy through reverse gas flows.

Last year Hungary's government refused to extradite two suspected arms dealers, Vladimir Lyubishin Sr. and Vladimir Lyubishin, Jr., to the United States. So these two

are suspected of organizing arms shipments to Mexican drug cartels, including fairly advanced missile systems, and also are suspected of trafficking cocaine to the United States. So, if extradited, they could face a jail time of 25 years in U.S. prisons. They are Russian nationals. When they were arrested by Hungarian authorities, they awaited the decision on the extradition to the United States. In the meantime Russians submitted their own extradition request, which the Hungarian Government decided to honor, turning down the U.S. extradition request. And on August 10th, 2018, these two were dispatched to Moscow.

In February, the Hungarian Government concluded an agreement with the International Investment Bank. If you're wondering what the International Investment Bank is, it is a relic of the cold war. It's a quasi-multilateral institution that includes Russia, a handful of Central European countries, and then countries such as Vietnam, Cuba, and Mongolia. It's currently based in Moscow and is going to move, under the terms of this agreement, its headquarters to Budapest. Russia is the one that sets the tone for the organization, which is totally insignificant when it comes to infrastructure financing in terms of the volumes of the finances it provides. Clearly, it is an instrument primarily of Russian power projection and sort of way of driving Eastern Europe away from the West, and from the EU in particular.

And what that means is that under the terms of the agreement concluded, the IIB will have all the immunities and privileges that are given to international organizations—the World Bank, the IMF—in the city. So it will be able to bring in any advisors it will want to bring in, including potentially—I mean, that's sort of murky territory; we'll see when we get there—what happens when it will seek to bring in people who are on various sanction lists to the Schengen space. We'll see what happens when it tries to do business and provide loans to projects that involve Russian entities that are also sanctioned. But it's very easy to imagine how this could further strain the relations between Budapest, Brussels, and Washington.

Overall, this really is a challenge to America's interests in the region. The U.S. stood by Central European nations as they liberated themselves from communism in the 1990s, in the nineties when they joined the ranks of self-governing free nations of the West. And the idea that the U.S. should now be either silent or a cheerleader for policies that are now driving Hungary away from the West strikes me as a particularly misguided one.

At the very minimum, what we need is a bipartisan work on a resolution that will make it clear where the two parties in this city stand on this, that creeping authoritarian practices are not acceptable to Democrats and Republicans. And we need more clarity in terms of U.S. companies operating in Central Europe to know that they have the backing of the U.S. Government when they encounter corrupt practices. The administration should not shy away from imposing sanctions on local officials that have been demonstrably involved in corrupt dealings.

And, yes, I'm all in favor for getting back into the business of democracy promotion, adapted to the reality of the 21st century. We just celebrated NATO's 70th anniversary, and it was in many ways a happy occasion. But it also should be, I think, a time for a serious debate about how this organization can be changed from a one-way ratchet to a two-way street. Countries that have diverged from the organization's shared values have to face a credible mechanism of escalating sanctions, culminating in their expulsion, potentially, if they adopt a radically different political model. It's not just a question of institutional changes or institutional design but more importantly, I would argue, of polit-

ical leadership in Washington. And my hope is that this conversation today can help catalyze that in a helpful way.

Thank you.

Ms. SCHLAGER. Thank you, Dalibor.

Susan.

Ms. CORKE. Thank you. It's hard to follow Melissa and Dalibor, but I'm really happy to be here today. The Helsinki Commission has been a moral center for the Euro-Atlantic vision of a comprehensive security, where protecting human rights is an essential and co-equal pillar—along with hard security, the economy, and the environment. I've worked with Erika for many years, and I know that we're lucky to have experts like her, who create continuity in a changing U.S. political landscape. The fact that the commission is bipartisan and bicameral enables us to have sensitive discussions like the one today about challenges to our alliance.

As we assess the past decade, when we talk about threats to liberal democracy in Europe the conversation always starts and ends with Hungary. Hungary is actually the prequel reason for our group, which I'll talk about, the Transatlantic Democracy Group, and why it came together. I'm going to go back in the time machine briefly. After the fall of the Berlin Wall and Soviet control, Hungary was a promising example of democratic development. But its roots were weak, and we in the Western community underestimated the kind of sustained attention that would be necessary to solidify the gains and match backsliding on democracy with appropriate support.

Hungary had a history over centuries of authoritarian influence. The 2008 global financial crisis was a pivotal period. It exposed that the roots of democracy were not very deep or strong in many places. And in the wake of that economic crisis, cracks in the foundation of Hungary's weak democracy started to widen. With people feeling the harsh effects of the crisis, people started to question what democracy was bringing concretely to their life that was better. And those are valid questions, ones that we need to do a better job thinking about.

We, as a democratic community, need to constantly be assessing what we can and should be doing better. But as people felt left behind economically, nationalism and xenophobia were rising, and into this arena came Viktor Orbán in 2010—not as a new actor. He was previously prime minister. And he was also previously a supporter of NATO, the European Union, and had been a fellow with George Soros' organization, and my own. So he was somebody who initially, you know, was seen as having democratic—promising.

I was in the State Department covering Europe and democracy issues—and I see my old boss, Tom Meliacoal, out here—at the time that Orbán came to power. And I can attest that it was hard to get senior level attention to the early signs of Hungary's decline. When I left the State Department 2011 for the human rights NGO world, I joined a small chorus of those who saw in the rise of the openly anti-Semitic Jobbik party in Hungary, and the growing authoritarianism of Orbán and his party Fidesz a dark shadow coming over the trajectory for democracy in Hungary that did not bode well for the neighborhood.

Human Rights First, with a few other organizations, started a Hungary working group, which I was a part of while at Freedom House, and then when I moved over to Human Rights First. A part of this was the resurgence of anti-Semitism in Hungary, which was seen as a canary in the coal mine, a sign that there was a sickness at the core. Soon, though, the brand of ethno-populism and authoritarianism that Orbán was

such a trailblazer on started to effect a broader trend of far-right populism based in fearmongering of “the other.”

The scope expanded. We were no longer just looking at Hungary or Central Europe. We started looking at France, and Italy, Germany. And then, here in the United States in January 2017, we saw the same divisions that we’d been monitoring in Europe and the same hateful rhetoric being used as political weapons were fueling a divisive climate in the United States. The D.C. policy community was hampered in its ability to respond effectively due to paralyzing domestic partisan divisions. Our little Hungary working group decided we needed to broaden our scope.

We came together out of alarm that if we didn’t put aside our partisan bickering and stand together for democratic principles and institutions, and address threats—not only external ones, but antidemocratic forces and trends within our Euro-Atlantic ranks—our transatlantic security was at risk. We decided that whatever our political differences, we must put those aside. We are in a moment in history where we needed to fight for the vision that brought Europe and America together 70 years ago. Our power and security in the world is enabled and strengthened because of our democratic principles and alliances.

Quick sidebar—last week for the 70th anniversary of NATO, our group put out a public statement. And it was sounding the alarm, that we feel that NATO is at risk, and that it is time to reaffirm our commitment to democracy. I joined with 70 signers for NATO’s 70th, all former leading voices on Europe.

Our group launched publicly in 2018 as a bipartisan response to address this democratic erosion and concern about lack of U.S. leadership to address it. We assembled a dedicated group of experts and former officials from all of the leading policy, human rights and academic institutions across the political spectrum to stand together as a coalition to support core values, institutions, and alliances. We agreed to join together and not just talk about the issues, but to try to do something together. Our first course of action was last year around the NATO Summit. We really wanted to revive the conversation about the importance of democracy as inextricably linked to our security.

It was not really a coincidence that our launch coincided with the Hungarian election. In April 2018, Orbán’s party Fidesz won the Hungarian elections with 49 percent of the vote. This translated into a commanding two-thirds majority in Hungary’s Parliament, which—you know, on some levels it was an election, but—you know—that was relatively fair on election day itself but Orbán had stacked the playing field well beforehand.

And we knew that with this new mandate, that Orbán planned to implement at an increasing pace repressive plans for his illiberal democracy. The executive director of Transparency International Hungary said that long before they secured this powerful majority, Fidesz had reengineered the public arena, and that Hungary is a captured state.

At times, those who wish to minimize the importance of these issues will ask me: Why is your group so concerned about Hungary? It’s a small country. Don’t you have bigger things to be worried about? They ask me: Why did we fight for the renowned Central European University in Hungary? And the answer to the Central European University and broader questions, we view Viktor Orbán’s campaign against the Central European University, which as Dalibor talked about was a joint American-Hungarian institution, as a highly symbolic move against a vital institution that was founded to promote

the transatlantic values of democracy, openness, and equality of opportunity, and posed a direct challenge to the United States.

Another major geopolitical reason to worry about what is happening in Hungary is that Moscow is using Hungary and other NATO members as back doors of influence in Europe—Dalibor provided a lot of really good examples of that—which is fueling distrust, allowing corruption to spread, exploiting and enabling the rise of nationalist populism throughout the continent. So this is all very central to the mission of our Transatlantic Democracy Working Group.

And Hungary's strong corruption is not an internal problem for Hungary. It is part of a macro problem that is destabilizing on the world stage. As both Melissa and Dalibor talked about, in Hungary you have a centralized top-down state, both politically and economically, which has enabled an increasingly centralized system of corruption. Again, quoting Transparency International, they said Hungary seems to be a kind of laboratory of transparent corruption, because the government has actually made legal many of the conditions to enrich themselves. So it shows that transparency is a necessary, but alone insufficient, condition to fight corruption.

Our group had Tom Firestone, who's one of the preeminent experts on corruption in the region, come speak to us last week. And he said, Kleptocracy is the new cold war, and it is a very difficult foe to fight. Dalibor also talked a little bit about the funds, how they go directly into the pockets of Orbán's cronies. You know, Orbán—Hungary receives on average 4 to 7 percent of its annual GDP from the European Union. So they're essentially co-opting European Union funds, while at the same time being Euro-skeptical, and it's going directly into the pockets of Viktor Orbán, while he's criticizing the EU. I mean, there's a real problem with that.

Dalibor also talked about the Russian International Investment Bank opening its headquarters in Budapest, and why we should be concerned about that. There's an additional concern that I don't think he mentioned, but the bank's chairman has longstanding ties to Russian intelligence agencies. There are concerns that Moscow could use that as a base for a European intelligence operation. So essentially, putting Moscow within a NATO member country, could have a new base.

The contemporary threat, though, is not a new one. But I do think that 2019 could be a pivotal year for the liberal world order, for the European project, for our transatlantic alliance.

We have a new Congress, though, that is increasingly playing its oversight role, which is a hopeful sign. You know, I think a lot will ride on the European Parliament elections. [Laughs.] Don't even get me started about Brexit. But we also have the symbolic anniversaries for NATO and fall of the Berlin Wall. This could either help fuel the right-wing populist wave, or it could provide opportunities for opponents to build momentum for democratic renewal.

Clever authoritarians implement antidemocratic threats stealthily and slowly. Each move may not seem threatening. It is when you connect the dots you realize how democracy has been dismantled. Orbán is trying to co-opt the European project and use its funds to celebrate his vision of an illiberal democracy. And he's providing Russia a playground for destabilizing Europe, NATO, and therefore American security. We must not let that happen.

I'll quickly end on a few things that I think could be done. But the challenge is large, and it requires action from all of us. The first one, NATO must use this year—NATO and NATO allies must use this year, the 70th, to make commitment to democracy among members a priority, and find a way to exert pressure for those who go against it. No. 2, the EU must—the EU should, not must, and they are considering this—adopt rule of law conditionality for structural funds for member states.

No. 3—and, you know, usually I would also be calling for the U.S. administration, and I still am, but their record has been uneven, at best, on these issues—thus, we're really looking to the U.S. Congress, as the Helsinki Commission is doing now, to really exert its oversight role, with hearings, resolutions, introduction of legislation. Melissa talked a lot about the need for funding for civil society. And I heartily endorse that recommendation. I also think that there should be consideration of really developing a new model with a theory of change. The old model is outdated. It was based on a graduation model, with a linear progression of democracy. And now the trends that we're seeing are very much cross border and require new thinking.

The State Department has implied that they do have money and a strategy in place. Melissa said that there's no evidence on the ground yet of that. So we should hold their feet to the fire. I encourage Congress and those in the NGO community to be asking them to, you know, provide evidence that they really are putting a new strategy into place.

And then on corruption, Melissa talked about the need for more Global Magnitsky sanctions. U.S. businesses should also be held accountable. And we should be carefully monitoring what Russia and China are doing, and holding them accountable, to the extent that there is any leverage.

And then finally, to go back to our Transatlantic Democracy Working Group, that is, you know, one modest effort for a group of those who really care about the transatlantic alliance and the advancement of democracy to come together and fight for it. So I encourage other similar initiatives.

Thank you.

Ms. SCHLAGER. Thank you to all of our panelists. This has been a really great session, and you have given us an enormous amount to chew on. At the same time, I feel like we have barely touched on the surface. There is so much that we could be going through. I would say, as someone that follows Hungary fairly closely, I was struck, Dalibor, by your comments on the weakening protection of property rights. I think that is something that is really an interesting thing to delve into a little bit more and pay attention to, and the observation that corruption has been embedded into the political system as part of local patronage. And that may be something also to look at a little bit more closely.

I'm going to invite my colleague, Paul Massaro, who is our expert on corruption, to ask the first question. And then I'll open it up to others who might want to make a brief comment or very concise questions.

Mr. MASSARO. Yes, terrific. Well, thanks, Erika. And thanks so much to all of you. I'm obviously very excited that corruption has come up so much. I'm also sorry that it has come up so much. You know, I absolutely echo Tom Firestone's comments. In sort of the circles I run in we say, Corruption is the new communism. And I think we're seeing that more and more, that it is just as destructive—and in many ways more destructive—to societies. And on that note, I kind of wanted to hone in a little bit on where the Hun-

garian people are in the anticorruption fight. And specifically with regard to the European Public Prosecutor's Office.

So you've spoken a lot, Susan, about sort of the EU models. And in Brussels, you know, they're thinking a lot about what you do with the fact that you have this fraud in EU funds. And their sort of result has been to set up a European Public Prosecutor's Office that would be able to bring cases against individuals that have, you know, done fraud with EU funds. Hungary, of course, said no. [Laughs.] You know, we're not going to join that model. But then there was sort of an upswell of support in the form of a referendum that has garnered, you know, 100,000-plus signatures for Hungary to join this. And just wanted to see if you, Dalibor, Susan, and maybe Melissa, would like to make any comments on what this sort of says about where the Hungarian population is on some of these policies, especially with regard to corruption.

Ms. HOOPER. I'm sure Dalibor will go have some—[background noise]—technology!—I'm sure Dalibor will have some thoughts on this. But I think that the OLAF proceedings from a year-plus ago really brought this to the forefront. When OLAF was able to identify this 40 million, you know, related to the lighting projects that they said showed irregularities. And then OLAF went to the Hungarian Government, as it is supposed to do, and it said: Please take a look at this. Please investigate. And Hungary said, Looks all good to us and, you know, backed away from it.

And I think that that publicly happening, that—we were watching that here in the United States. So it gained enough attention so that I think that ignited some concern within Hungarian society, which in my experience as, you know, I've been going to Hungary recently, is fully aware of the corruption, as Susan mentioned, it's happening in—you know, in daylight.

But it's just kind of the belief that is just going to happen. Like, we are—we're not sure what we can do. But having this, I think, publicized some greatly has maybe ignited something. And so I think that you are seeing some movement as a result.

Dr. ROHAC. I agree that this is the key issue around which opposition could mobilize itself. Politically, the problem is that it is facing an uphill struggle doing that. And it lacks sort of organization and leadership resources, faces a media environment that's not exactly favorable.

But I want to reiterate the sort of deeper underlying point, which is that this corruption is endemic across post-communist countries. But there is something special about the nexus of sort of legal patronage and graft and authoritarianism. The two cannot be separated. And that's not just an example recently, but an example of authoritarian hybrid regimes all around the world. The way these operate is by providing benefits to sort of politically connected, politically aligned groups. And that's exactly what Viktor Orbán is doing.

You know, can the EU push back more effectively? Of course it can, and it should. OLAF, for example, honestly, has been always very forthcoming when it comes to information related to these various corruption scandals and tenders. So there are—you know, we learned that this amount of money has to be returned. Obviously, that procedure has not been perfectly compliant. But we rarely learn what exactly the details were. And that places the burden on civil society, on local activists to sort of dig deeper and do the local investigative work, which might be difficult in a place like Hungary.

The other structural flaw of all this is that the EU is not—is not a federal government. It's not a supranational entity. It rests, ultimately, on the consent of the EU's member States. I mean, that's—you know, that's a good thing in many ways, but it also restrains the ability of European institutions to push back effectively. So right now we have three countries that are sliding toward some form of—you know, hybrid forms of governance in Europe. We have Romania, Poland, and Hungary. And so those three can effectively team up and push back against attempts to scrutinize their decisions, and I think that's partly the problem with this debate about conditionality for EU funds. I mean, there is a heated debate underway right now in the EU about the next multiyear financial framework which will revolve around that. And there is—there is an opposition to that from some member states. So it's far from clear to me which way it will go in the next sort of 7-year financing period.

Ms. CORKE. Well, Melissa and Dalibor gave pretty comprehensive answers, so I'll answer it in a little bit different way. But, I mean, the fact that, as I mentioned in my remarks, that there is a structural and increasingly legalized method for corruption, you know, does give the population the sense that's very hard to fight, that there's a sense of despair. So having a public airing with the European Union and an external accountability, I think that gives the population something that they feel that they can hang onto.

You know, I also want to note that, looking at other countries where systemic corruption has been a problem—like in Russia with Navalny, that to the extent that there has been successful activism breaking through, it's been on issues of corruption. The recent Slovakia election was very much about the public's rejection of the corruption amongst the elite and wanting an outsider who was a crusader against corruption, and the environment, and other issues. And in Ukraine, to some extent, too the election was about that. So I do think if the population feels that there is a way to have these issues out in public and have external accountability, it gives hope.

Mr. MASSARO. Thank you.

Ms. SCHLAGER. Thank you.

I'd like to open it up now for some questions from the audience, if there are any, and in particular—Zsolt, then did you have a question or a comment?

QUESTIONER. Yes. A couple of them. Definitely.

Ms. SCHLAGER. Okay, please. I would first, then, actually give the floor to my colleague from the Embassy of Hungary, the deputy chief of mission, Zsolt Hetesy.

Thank you for being here and listening to us. And please, brief comment.

QUESTIONER. Thank you very much. Thank you very much for your kind words. And thank you for the panel.

One of you had mentioned that Kovács Zoltán might be watching you—could be. [Laughter.] He indeed made a reference of the panel being one-sided and I do believe that it is a fair statement, that the three of you are one of the most staunchest critics of Hungary. Now, I thought that it would be nice for all of us in the room to have somebody on the panel who would speak for the administration; for example, why the administration has chosen a new path. And that didn't happen, so that much about one-sidedness.

But actually I have a couple of questions. One is, you have mentioned the issue about weakening protection for property rights. Now, the example that you have used came in 2010, okay? I remember because I was also affected, okay? It is not definitely right but, yes, that was a case that was criticized by many.

However, if you take a look at the current numbers—and numbers matter—Hungarian FDI, bringing money into Hungary, surpasses all the average—surpasses the average of the European Union and many of the—most of the countries, including the United States, where you have, I think, 1,700 companies investing and reinvesting in Hungary.

Hungary does—U.S. is second-biggest investor in Hungary. I know that nowadays it's not the best argument with the administration, but still it is true that a lot of invest money is ticking in and—ticking in, in Hungary. So it seems to me that although you are talking about economic freedom problems, the companies are feeling otherwise. Otherwise it would not be the case.

Second, on Russia, many, many—most of you, I think all of you, have mentioned that Hungary is providing some kind of a back door for Russian interests. Now, how do you reconcile that with the fact that we had, for example, open criminal cases against Russian interference already in 2014–2015, months before the 2016 elections here in the United States? Both of them had to do something with the far right in Hungary, and one of them actually had to do with a European Union member, a Parliament member of Jobbik.

Second, if you think that Russia is economically a back door of Hungary, how do you reconcile that with the fact that Russia—Hungary is providing an economic back door for—sorry. Hungary is providing an economic back door for Russia. How do you reconcile that fact with—or that allegation with the fact that it is not Hungary that comes to the Hill and comes to the administration to lobby for Nord Stream, for example, or the Rusal case. It is not Hungary that has the biggest intertwined economic interest with Russia, but many of the Western European countries? Why is Hungary that you are harping on, and why it is not the other countries? Why IIB is important for you, if you see that Western European banks are laundering Russian money in the billions? IIB is a bank with five NATO members that has a capital of \$350 million U.S.

Anti-Semitism. Have you seen the EU watchdog agency, its report, FRA [Fundamental Rights Agency], about anti-Semitism? It is a 2018 report. I'll speed up. I have two more issues to mention; actually, one more only. If you take a look at that report, in Hungary—this is—this is a survey of Jewish people in European Union countries. And in that report, it is very clear that Hungary is the safest country for the Jewish community. They feel extremely safe. They can wear and they wear the kippahs and all of their religious symbols openly in Hungary. There are no cases of physical abuse against Jews in Hungary. How can it happen if you think that there is—or, if you allege that there is an anti-Semitic government that is winning elections on anti-Semitic campaign? How can you reconcile that?

Last point, Ukraine. I don't want to get into this, but you are the Helsinki Commission. It should be about human rights and minority rights. None of you have mentioned—none of you have mentioned that those rights are under attack constantly in this new Ukrainian regime or government. None of you have mentioned that there are 70 institutions—Hungarian-language educational institutions—that can be closed because of the Ukrainian law.

Ms. SCHLAGER. Thank you for—

QUESTIONER. Thank you very much.

Ms. SCHLAGER. I appreciate that you were here today to hear the panel.

QUESTIONER. Very good. Thank you. Last sentence.

Ms. SCHLAGER. And I'd like to see if there are any other—

QUESTIONER. Thank you very much. Last sentence. I think that there is a systemic problem in these kind of briefings. You have 1 hour and 15 minutes to criticize Hungary, and you give me five. This is not a dialog. This is not a normal briefing.

Thank you.

Ms. SCHLAGER. Thank you.

I'll turn it back to any other questions, if there are any, before we have to close. And I know Dr. Rohac has to leave very shortly. I do want to note that there have been quite a number of events in Washington, including one on the Hill just a week ago, organized by the Hungarian Government. I think there are many opportunities for the government to get its message heard. And we really appreciate that you were here today to hear this panel. Certainly within Hungary, where the prime minister's office is the largest purchaser of advertising space, I think the government has a highly robust communications team to get his message out. And certainly that is well known, I think, to everyone here in this room.

Are there—yes. So I will turn for a question from—

Ms. HOPE. Thank you so much. We have a question via social media from Clay Fuller.

What, if anything, can be done to address issues of transparency in Hungary, the EU and abroad, defined as, quote, “credible information about the economy and politics”?

Ms. SCHLAGER. Okay, thank you.

Do we have any other questions that I should take before—okay, I think there's one way in the back of the room. So let me take that and then do—

QUESTIONER. Good morning. My name is Conner Clark. I'm a grad student at the University of Maryland.

I just wanted to ask, because I've—based on some anecdotal evidence I've heard from a friend in Hungary, how does the—is there a similar urban-rural divide, as Americans might think of, in Hungary that manifests itself in politics? You know, the economy, changes in technology?

I'm wondering if it's anything at all similar to what we might—what we might be familiar with in the States or something very different—say, reflected into their broader assessment of the European Union, you know, which can be seen as very technocratic, very cosmopolitan, very urbanized?

Ms. SCHLAGER. Thank you.

So, panel, I will turn back to you for a lightning round to respond to anything that we've heard just now, and also to wrap up.

Thank you.

Ms. HOOPER. I think, in terms of Clay Fuller's question of increasing transparency, that is an easy one for me. It is about increasing support to civil society, investigative journalists that are trying to do that. And that are having a very difficult time. And I think that that also ties into the urban versus rural divide question, in that there may be some resources, even very small, in Budapest, but there are very few resources for civil society outside of Budapest. And so, to the point made by both Dalibor and Susan that we need to be rethinking democracy promotion by the U.S., we should be thinking about how we can support those that are outside the capital in particular and looking at transparent—issues of transparency and corruption and prioritizing those.

Ms. SCHLAGER. Thank you.

Dr. ROHAC. So full disclosure: Clay Fuller is a wonderful colleague of mine at AEI who works precisely on this nexus of money and authoritarian politics. And I would urge everybody to follow his work. I think it's a subject for a longer conversation.

Part of the story is what Melissa touched on. I think another part of the story is also holding Western countries to high standards. There is a difficult tradeoff between financial privacy and transparency. But we do know that a lot of stolen laundered money ends up in the West in, you know, Florida real estate, and in Mayfair, London, and other places. And so I think there is a sort of debate that ought to take place in Western capitals as well.

Yes, politics in Hungary in some ways bears resemblance to the politics everywhere else right now, the sort of cleavages—the same cleavages are there that you would recognize in other countries. That's why I think Viktor Orbán has been successful in speaking to Western Anglo-Saxon, if you will, conservatives. So I would very much sort of stress that, in those dimensions, Hungary is not a sort of different planet or a world of its own.

And finally, to the remarks by the gentleman from the embassy—you know, I wouldn't say that this panel was one-sided in the sense that it would be keen to paint a pessimistic or sort of one-sided, black picture of the country. And, you know, we all understand that the reality is nuanced. We are all keen to praise Hungary's government when we can, when it is deserved. We are all likewise keen to criticize and call out others when they don't live up to the same standards and expectations. And so the sort of rhetoric that was actually presented to us was known, I think from the cold war era, as "whataboutism." 'Well, you know, there are these other things that we haven't discussed we could have discussed, but we didn't.' And it's—I think, to me, it's quite poignant that you haven't touched on the issues that we did discuss.

And I'll stop there.

Ms. CORKE. Thank you for very good questions. And Melissa and Dalibor answered them very well. So I would mainly underscore a couple of things.

On the increasing transparency, it is very important to increase funding for independent media. But alongside the funding for independent media is also rebuilding trust, understanding that there has been—particularly with the rise of online media sources and that, you know, it's a much more polarized environment. We need to be investing in the digital environment as well and understanding how there's been an exploitation of and undermining of trust in the media and that there's a need to build that back.

So there's also, I would argue, need for support in terms of civic education in schools, and teaching people—teaching young people how to be critical consumers of information, and to really value the role that a free press plays in society.

There's a need for increased multilateralism, for transparency. You know, within, like, the Organization for Security and Cooperation in Europe, it is an organization where each member State—each participating State has taken on commitments to hold each other accountable. So, you know, today we're talking about Hungary. On another day we could be talking about Italy. And it—one of the requirements of being a member of the OSCE is that countries should welcome criticism as an opportunity to learn. Does it—you know, and debate and talk about solutions together.

There's—[laughs]—I think if you look at my record, I have criticized a lot of countries over the years. And the framework for the Transatlantic Democracy Working Group is not

explicitly focused on Hungary. We are looking at where we see democratic institutions going in the wrong direction, where we see concerns about rule of law, we can see concerns about the ability to exercise fundamental freedoms, and in particular where those declines are within countries of the NATO alliance and that's starting to pose security risks. And we come together as a bipartisan group to discuss and debate which issues are the ones that we think are really going to matter and which ones would make a difference if we stood up on together.

I would also—on the question of, you know, just focusing on Hungary, the issue of corruption itself is multi-country, multi-stakeholder. It's private sector. It's government. It's wealthy individuals. It's a very complicated problem. You know, we're looking today at Hungary and where there's systemic corruption, but there are many actors. And we need to focus on the demand side as well. And, you know, American banks have also been implicated in this laundromat scandal. So this is not an attempt to focus on another country and not be calling for transparency on what the U.S. is doing wrong, because this is—a lot has been exposed about American wrongdoing as well.

Finally, on anti-Semitism, I—you know, that was—before my current position that's what I was focusing on. And there—you know, Hungary has a very small Jewish population. The things that you—

QUESTIONER. Second-largest in Europe.

Ms. CORKE. Hmm?

QUESTIONER. Second-largest in Europe. That's all.

Ms. SCHLAGER. Please continue.

Ms. CORKE. Yes. And, you know, the campaign against George Soros using explicitly anti-Semitic imagery, funded through government funds, you know, is very troubling. There's been historical revisionism. So—and I wouldn't say—we are concerned when we see anti-Semitism being stoked as a way to create fear of the other. I am also concerned about it in the United States. I think when there is coded anti-Semitism used in the public space, it creates the sense of fear amongst the affected communities.

And I'll end with that.

Ms. SCHLAGER. Unfortunately, I think we are out of time for the session we have right now, so we are going to wrap it up.

I do want to thank all of our panelists for your presence here today, the contributions you have brought forward, and particularly your thoughtful recommendations about what we can do going forward. Again, I thank my colleague from the Hungarian embassy also for being here and hearing us out.

The goal of this briefing today was to enhance the information that may be useful to Congress in considering how we go forward, how we can strengthen the relationship with Hungary. And I hope that we have contributed to that goal. I know that there were a number of things that we didn't get to today, including issues relating to identity document security or other extradition matters. Maybe we can get to those at another event. Also some other voices that we didn't have here today just because of the constraints of time. I do want to mention briefly the Brookings report on democracy disorder, which is a great resource for folks looking at this. Okay, very convenient. Thank you, Melissa.

Ms. HOOPER. I happened to have that.

Ms. SCHLAGER. The work of PEN America, the American Bar Association, others who are really looking to illuminate this work more fully. One of the resources that was in

the packet when you came in was the United States Holocaust Memorial Museum fact sheet on the Holocaust in Hungary. That is an evergreen resource. And so I hope it will be useful to folks going forward.

So, again, thanks to everyone for being here today.

Thank you. [Applause.]

[Whereupon, at 11:31 a.m., the briefing ended.]

APPENDIX

Statement of Melissa Hooper
Human Rights First
Helsinki Commission Briefing on Hungary

April 9, 2019

Since coming to power with a supermajority in 2010, the Fidesz party and Prime Minister Viktor Orban have used their power to hollow out democratic institutions to such a degree that Hungary has been called a “Frankenstate” – an illiberal mutant composed of ingeniously stitched-together imitations of western liberal democratic elements.¹ While the Obama-era policy of limited high-level engagement precluded some of the Hungarian government’s controversial actions, it did not appear to motivate fundamental change. The Trump-era policy of warm embrace and transactional engagement devoid of values has fared no better. The U.S. should therefore reexamine its policy toward Hungary such that the administration becomes more vocal, critical, and active in imposing consequences when fundamental values are undermined – not only as an attempt to ameliorate Hungary’s flagging democracy, but also as a method of reinvigorating democratic values in the region. The U.S. government should also consider taking specific actions to hold the Hungarian government accountable and support local civil society.

I will review some of the major policies that demonstrate the extent of democratic deterioration, with an emphasis on recent developments, and note how the U.S. can bolster democracy in the region, protect its own interests, and impose consequences when movement toward authoritarian governance crosses a line.

In April 2018, Orban and Fidesz won a third election in a row, maintaining a supermajority after winning only 50 percent of the vote (largely due to recent changes to election laws that gave the ruling party significant political advantages). The OSCE, which monitored the election, criticized the xenophobic, antisemitic, and intimidating rhetoric used by the government, the undue advantage given the ruling party through the use of state-funded resources for its campaigns and messaging, the politicization of media ownership and limits on media freedom, and a lack of transparent campaign-financing.²

Since last year’s election, Orban and Fidesz have continued to undermine, hollow out, and even attack fundamental tenets of democratic governance.

Eliminating independent media and threatening journalists

Free media is nearly non-existent in Hungary, and outside the capital it is indeed extinct. Fidesz has consolidated media to an extreme degree through nefarious deals, schemes, and pressure – for example the shutdown of independent outlet Nepszabadsag through irregular and illegal procedures -- that are regularly rubber stamped by government agencies such as the media authority and anti-monopoly agency. The overwhelming majority of outlets now reside in the hands of a few close associates of the

¹ Ivan Krastev and Stephen Holmes, “Imitation and Its Discontents”, *Journal of Democracy*, vol. 29 n.3, July 2018, <https://www.journalofdemocracy.org/articles/explaining-eastern-europe-imitation-and-its-discontents-2/>.

² Office of Democratic Institutions and Human Rights (ODIHR), Limited Election Observation Mission Final Report, Parliamentary Elections, Hungary, June 27, 2018, <https://www.osce.org/odihr/elections/hungary/385959?download=true>

Fidesz government, such as Lőrinc Mészáros and Árpád Habony.³ The “voluntary” consolidation of their media holdings into a single major conglomerate did nothing to mitigate the problem. On the contrary, the consolidation allows the government to spread its propaganda efficiently (and do so with Russian disinformation as well), especially since nearly 100% of regional media is now controlled by pro-government outlets.⁴ Independent journalists, on the other hand, have been placed on a published blacklist of so-called mercenaries, labeled “threats” to the state, and banned from parliament.

Eliminating checks and balances

Upon coming to power, Fidesz rewrote the constitution to consolidate power in the executive and politicized formerly non-political offices. They also expanded the definition of “cardinal laws” that require a supermajority vote. This was, according to Orban, to bind not only the next administration, but the next ten.

Fidesz engaged in an ongoing dismantling of judicial checks and balances soon after taking power in 2010, and recently ramped up its latest phase. Early moves involved a takeover of the Constitutional Court, forcing out judges likely to disagree with the party. While the ECHR eventually ruled the forced retirements illegal, the fact that the court’s decision came a year after the retirements meant the remedy was confined to monetary damages. Orban also appointed a close associate, Tunde Hando, as the head of the National Judicial Council, giving her veto power over judicial appointments. When the Council alleged that she was abusing her power, the complaining judges suddenly left their posts in rapid succession within a single week.

Most recently, the government created a parallel justice system through development of a new administrative court that is designed to hear cases concerning designated topics. Notably, these topics are those most politically charged or expedient for the ruling party. They include civil liberties cases such as legality of assemblies, election disputes, cases involving immigration and refugee issues, police brutality, media-related issues, transparency of government information, and taxation and procurement. Tax and procurement-related irregularities have been cited by the EU anti-corruption agency – OLAF – as the source of millions in suspect deals involving Orban’s family and friends, many of which also involve Russian state actors.

On March 15, the Council of Europe’s Venice Commission expressed serious concerns about the overwhelming power given to the Minister of Justice over the new hermetically-sealed court system; of particular concern was the MOJ’s complete power over judicial selection. In response, on April 1, Fidesz passed a law that it argued vitiated these concerns. It did not. The new law modified the process for appointing judges only after a nearly year-long transition period, during which the MOJ will oversee the transfer of 1/3 of judges, and will appoint another 1/3 – so as long as the MOJ acts relatively soon, the future quasi-limitations on his power will not have a large effect.

³ “An Illiberal State in the Heart of Europe”, paper produced by the following: Eotvos Karoly Policy Institute, Hungarian Civil Liberties Union, Hungarian Helsinki Committee, K-Monitor, Mertek Media Monitor, October 2017, https://www.helsinki.hu/wp-content/uploads/AnIlliberalState_online_final.pdf.

⁴ Attila Batorfy, “This is how government-friendly news outlets dominate the Hungarian media,” *Atlatzo*, November 22, 2017, <https://english.atlatzo.hu/2017/11/22/this-is-how-government-friendly-news-outlets-dominate-the-hungarian-media/>.

In addition, the new laws allow the MOJ to select individuals without judicial experience. In fact, a new law gives a leg up to candidates coming from public service who lack any judicial experience, making it more likely that Fidesz officials from agencies whose decisions are being challenged through this new system will be appointed to review and decide those challenges. The rule allowing appointment of individuals lacking any judicial experience also applies to selection of the chief administrative judge.

Criminalizing NGO activity

A 2017 law, given the politically-charged title of “Stop Soros” by the government, requires that NGOs register as “foreign agents” if they receive more than 24,000 Euro of foreign funds. This is similar to the infamous Russian foreign agent law passed in 2012. Another 2018 law taxes foreign funds at 25% if the organization “directly or indirectly supports immigration.” In addition, a constitutional amendment in 2018 made it illegal to “support illegal immigration” but defined the terms so broadly as to criminalize providing information regarding the legal process of seeking asylum to asylum-seekers or even preparing that information for dissemination. The same amendments made it illegal to “settle foreign populations” within Hungary. The Venice Commission roundly criticized these laws, and the European Commission of the EU launched an infringement proceeding based on their interference with freedoms of association and expression; the proceedings are ongoing.

These laws turns the work of Hungarian NGOs that assist the population in accessing rights into a false security threat, undermining trust in a significant democratic institution.

Over 60 NGOs were loudly and publicly subjected to “criminal investigations” that included home searches, police raids, and computer seizures in 2014, ordered by the Prime Minister himself. Not a single allegation resulted in an actual charge against the organizations. However, the government continues to campaign against “the Soros empire”, including as a major theme in the last election. Now NGOs that challenge the government’s stance on rule of law, treatment of civil society, and migration, believe that the next step will be to subject them to tax proceedings that could threaten their activities.

Kicking out an American university

A 2017 law – referred to as Lex CEU because it essentially applied only to the Budapest-based, dual Hungary- and U.S.-accredited institution Central European University (CEU) – required that CEU maintain a campus in the United States. After the university complied by opening a campus in New York, the Hungarian government refused to sign an agreement with the university by December 1 of last year, which would have allowed the university to remain in Hungary. CEU is now in the process of moving its campus and programs to Vienna.

While the Hungarian government claims that CEU may continue to operate in Budapest without this agreement, this is true for only 20% of the university’s programs, which are Hungarian accredited. The remaining 80% of American accredited programs, presumably the more sought-after, cannot operate in Budapest absent the agreement.

During a March meeting in Budapest, Manfred Weber, the leader of the European People’s Party in the European Parliament of which Fidesz is a member, suggested that University of Munich and BMW may

offer support to the University, restructuring it as a European institution no longer subject to Lex CEU.⁵ This development is still in process.

Spreading government-sponsored xenophobia and antisemitism

Orban and Fidesz have repeatedly relied on state processes and funds to implement antisemitic and racist campaigns and so-called “national consultations” that involve mailing questionnaires containing disinformation to nearly every household in the country.

During the most recent presidential election in April 2018, Orban campaigned on an anti-migration and anti-refugee platform, referring to a mythical “Soros plan” which alleges that Hungarian-American financier George Soros aims to overwhelm Hungary with migrants and “Muslim invaders”; he conveniently then declared himself the protector of “Christian Europe.”⁶ Campaigns like this easily saturate the geographic space outside the capital where independent media does not exist to counter this messaging. Orban openly threatened non-governmental watchdog groups, and personally targeted Soros, stating that after the election Fidesz will “take revenge – moral, political and legal” against real and perceived enemies of the Hungarian state.

In April 2018, pro-government magazine Figyelo published a list of 200 anti-government “mercenaries” whose goal is allegedly to topple the government. The list included a number of investigative journalists, academics from CEU, entire staffs of watchdog organizations such as Transparency International, and members of NGOs that challenge the government’s limitations on freedom of assembly and rule of law. The “Soros mercenaries” phrase has been in regular use in government rhetoric for the last several years where it is used to discredit NGOs that criticize state policy.

A second blacklist was published in June that highlighted academics considered a threat to Hungary. Most were affiliated with the Academy of Sciences. This was followed by a defunding of the Academy itself in 2019, a move that was met with significant protests.

The magazine publishing these lists was purchased by Maria Schmidt, a longtime friend of Orban, in 2016. Since then, as with most formerly-independent media, it has adopted a decidedly pro-government tone. Schmidt, a controversial historian labeled by many credible academics as a distorter of Holocaust history, has also been awarded stewardship of the government-backed “House of Fates” museum. Yad Vashem, the U.S. Holocaust Memorial Museum, and the leaders of Hungary’s Jewish community have each warned that the “House of Fates” appears to be a concerted effort on the part of Schmidt and the Hungarian

⁵ Florin Zubascu, “EU Presidential hopeful Manfred Weber behind push to keep Central European University in Budapest,” *Science Business*, March 14, 2019, <https://sciencebusiness.net/news/eu-presidential-hopeful-manfred-weber-behind-push-keep-central-european-university-budapest>.

⁶ Joanna Kakissis, “Hungary has a xenophobia problem”, *NPR*, April 27, 2018, <https://www.npr.org/sections/parallels/2018/04/27/602375067/hungary-has-a-xenophobia-problem>; Griff Witte and Jason Aldag, “Once fringe Soros conspiracy theory takes center stage in Hungarian election,” *Washington Post*, March 17, 2018, https://www.washingtonpost.com/world/europe/once-fringe-soros-conspiracy-theory-takes-center-stage-in-hungarian-election/2018/03/17/f0a1d5ae-2601-11e8-a227-fd2b009466bc_story.html?utm_term=.aa905efcc991

government to rewrite the country's WWII-era history, in order to absolve the Hungarian people of their role in the Holocaust.⁷

Orban is currently campaigning in the European Parliament elections on a platform that seeks, in his view, to preserve "Europe for Europeans." As in the past, he has employed a billboard campaign depicting the image of George Soros to convey the threat posed by outsiders and immigrants, this time the billboard inexplicably links Soros to European Commission President Jean Claude Juncker. On the billboard, Juncker's nose has been altered to look larger and presumably more Jewish.

In August 2018, the Hungarian government stopped giving food to asylum-seekers it has placed in detention while they appeal their cases. The government also prohibited others from delivering food to asylum-seekers, and prohibited them from purchasing their own food, essentially attempting to starve them until they abandoned asylum proceedings.⁸ This decision was just the latest in a string of policies that violates Hungary's obligations with respect to treatment refugees under international law. An infringement proceeding regarding Hungary's policies related to migration is ongoing (instituted in December 2015), and the ECHR issued an emergency decision to require that the government provide food to those it detains.

In September 2018, the European Commission finally launched a proceeding against Hungary under Article 7 of the Lisbon Treaty. However, the lack of forceful negotiations between the EU and Hungary in the past are likely to make this proceeding ineffective. More success may be seen in the EU's attempt to restructure its upcoming budget for 2021 through 2027 such that compliance with rule of law will be linked to state budgetary awards. Infringement proceedings in the European Court of Justice also present an opportunity, as has been seen in the case of Poland.

U.S. interest and U.S. influence

Despite these concerning, and in some cases decidedly authoritarian policies, the Trump administration has maintained a relationship of non-criticism of Hungary, often citing the need for solidarity against foes such as Russia and China. The U.S. government has expressed "concern" regarding the NGO law that is similar to Russia's foreign agent law and the law that criminalizes assistance to refugees. It expressed "disappointment" when CEU was forced out of the country. However, the government then continued to reward Orban and Fidesz with high-level visits that legitimized their policy decisions, and with gas and defense deals that underscore this legitimacy. For his part, David Cornstein, current U.S. ambassador in Budapest, issued a public statement that he had not seen in Hungary any evidence of democratic backsliding, and had not been told of any, this was after he had met with prominent members of Hungarian civil society who had described exactly that. He has also gone on the record to say that no one in Hungary has complained of antisemitism. The administration's former Assistant Secretary for Europe

⁷ Human Rights First, Factsheet: "Why is the Hungarian Government Promoting a New Ahistorical Holocaust Museum Designed by a Holocaust Distorter?", November 2018, <https://www.humanrightsfirst.org/sites/default/files/House-of-Fates-Fact-Sheet%20.pdf>.

⁸ Camila Domonoske, "Hungary Intentionally Denying Food to Asylum-Seekers, Watchdog Groups Say," *NPR*, August 22, 2018, <https://www.npr.org/2018/08/22/640849555/hungary-intentionally-denying-food-to-asylum-seekers-watchdog-groups-say>

was seen as such a champion of the Hungarian government that last week he was given an award by the Hungarian Ministry of Foreign Affairs.

In October 2017, in light of a dangerously deteriorating situation for media freedom in the country, Charge d’Affaires David Kostelancik devoted an entire speech to the issue.⁹ Following this speech, the U.S. State Department Bureau of Democracy, Human Rights, and Labor (DRL) announced a Notice of Funding Opportunity for \$700,000 to “support media outlets operating outside the capital in Hungary to produce fact-based reporting” and promote independent media.¹⁰

However, this funding opportunity was cancelled in July 2018, without explanation. While Secretary Pompeo mentioned during his February 2019 trip to Budapest that the U.S. is providing mentorships and training for journalists in the region, and last May reportedly told his Hungarian counterparts that a vibrant civil society is important, there is no evidence of any U.S.-supported programs operating in Hungary that support independent journalism or civil society, and my own contacts in civil society reported that they know of none. The U.S. commitment to its values of a free press, rule of law, and protection for democratic institutions in the region has been, at best, unclear.

Having not expressed any alarm regarding the Hungarian government’s movement toward authoritarian governance, Orban and his associates now believe that limiting free speech and assembly, erasing checks and balances of government power, and employing rampant corruption linked to NATO foes is perfectly acceptable to its ally the U.S. This in turn communicates to other NATO allies that these actions are acceptable within NATO, setting a dangerous precedent in light of broadening attacks on democratic institutions and governance structures by Turkey, Poland, Romania, and others. In order to retard or even reverse this progression, the U.S. must take decisive action to send a message that these policies are unacceptable when instituted by a democratic ally of the U.S. though admittedly it must do so while continuing to engage.

If the U.S. is concerned about the decline in perceived support for democracy in Hungary and the region, and seeks to “compete for positive influence”— a goal cited both by former Assistant Secretary Wess Mitchell and Secretary Pompeo himself, the U.S. response to the concerning situation in Hungary must be clear and more resolute.

The U.S. can and should act both to send a message to the Hungarian government and to practically attempt to retard the harmful effects of Fidesz rule. The U.S. should voice support for the EU as it works to hold Hungary accountable, but it can also wield its own power.

First, and most importantly, the U.S. should re-invest in democracy promotion, in Hungary and the region. Lofty speeches about democracy won’t turn things around in Budapest, Debrecen, or Pecs. And the U.S. cannot send Americans to reinvigorate democracy in these places. It must support Hungarians who are

⁹ U.S. Embassy Budapest, “Freedom of the Press: Enduring Values in a Dynamic Media Environment,” U.S. Embassy in Hungary, October 17, 2017, accessed April 5, 2019, <https://hu.usembassy.gov/slide/freedom-press-enduring-values-dynamic-media-environment/>.

¹⁰ “Bureau of Democracy, Human Rights and Labor (DRL) Notice of Funding Opportunity (NOFO): Supporting Objective Media in Hungary,” U.S. Department of State, November 7, 2017, accessed April 5, 2019, <https://www.state.gov/j/drl/p/previouscalls/275396.htm>.

already engaged in pro-democracy work such as investigative reporting of corruption, assisting victims of xenophobic violence and hate crimes to combat radicalization, and challenging threats to rule of law.

Second, in doing so, the U.S. should announce publicly that it is reintroducing support for civil society in the region, and specifically in Hungary, due to a decline in the government's ability to or interest in protecting democratic institutions. A reintroduction of democracy funding would offer support to the institutions and pro-democracy innovators that are currently resource-starved, while an announcement explaining why would send a message to the Hungarian government that the U.S. is more than "concerned" about developments in the country; it is ready to act. The recent Notice of Funding for independent media in Hungary was cancelled, at least in part, apparently because the Hungarian government expressed displeasure with the idea. Announcing the reintroduction of democracy funding will cause some bruising in Budapest, yes, but it will not rupture the relationship and I believe can strike the right tone: getting the government's attention while not driving it to disengage.

Third, Congress should be more vocal and pointed in expressing its concern and even alarm at Hungary's anti-democratic movement, and in expressing support for individuals, such as journalists or members of watchdog organizations that are targeted by government campaigns or placed on "blacklists", or suffer threats to themselves or their families due to government disinformation campaigns.

This could come in the form of a bipartisan resolution or letter to the government. Statements on the floor of Congress would also be welcomed by those that fear government targeting. Congress could also take a more active role in expressing concern to the Ambassador that his statements are out of line with objective reporting regarding factual developments in the country.

Finally, the U.S. should not shy away from applying targeted sanctions, such as via the Global Magnitsky Law, when clear lines are crossed. When visa bans were used against some officials in 2014, they hit home in Hungary, and the message reverberated both inside the government and throughout Hungarian society. Application to individuals that are taking the lead in wiping out independent media, erasing rule of law, and employing state processes for their own corrupt deals – often at the same time inviting in Russian influence – should be held up as examples of those who have crossed the line.

Conclusion

At a time when democratic norms and values face threats both from outside the EU and NATO, and from within, the United States must fully engage in reversing democratic decline where it is taking place and shore up democratic institutions. A lack of commitment to liberal democratic principles must have consequences. If the U.S. does not take more resolute and decisive action in Hungary, it may very well see any remnants of its influence in the region dissipate, to the detriment not only of U.S. interests, but the interests of democracy and the freedoms it entails.

Notes for the Helsinki Commission Briefing on Hungary, April 9, 2019

Dalibor Rohac, American Enterprise Institute

THIS VERSION: April 5, 2019

Since its decisive electoral victory in 2010, Fidesz has embarked on a distinctly *authoritarian* political project, as articulated in Viktor Orbán's speech on July 26, 2014 in Romania. There, he singled out Singapore, China, India, Turkey, and Russia as "stars of international analysts"; touted the idea of illiberal democracy; and suggested that Hungary needed to part with Western European "dogmas," especially with the liberal notion that people "have the right to do anything that does not infringe on the freedom of the other party."¹

Fidesz policies have been consistent with the message of that speech. They have pushed Hungary down the path of kleptocratic authoritarianism along the Turkish and Russian lines: packing of courts, a gradual tightening of restrictions on civil society organizations, mobilization of public opinion against imaginary external enemies, and the concentration of media ownership in few hands close to the ruling party. True, Fidesz relies on strong popular support – yet the party received only 50 percent of the popular vote in the most recent elections of 2018, which translated into a two-thirds supermajority in parliament thanks to quirks of Hungary's electoral law.

Moreover, even the openly autocratic governments of Turkey and Russia rely on substantial popular support.² Popular support does not justify crude majority rule, dismantling checks and balances, attacking civil society, distorting markets, and concentrating power in the hands of a narrow political elite. This note focuses on three aspects of Hungary's development: (1) measurable decline in institutional quality, (2) patterns of politically organized corruption, (3) instances in which Hungary's government has openly defied the US interests in Central Europe.

The unflattering trends

Freedom House has famously downgraded Hungary from "free" to "partly free" last year, prompting ire from the Hungarian government. The government's spokesperson, Zoltán Kovács, accused the organization of double standards, called its methodology politically motivated, and blamed the result on George Soros' machinations.³

¹ Viktor Orbán, "Prime Minister Viktor Orbán's Speech at the 25th Bálványos Summer Free University and Student Camp" (speech, Romania, July 26, 2014), <http://www.kormany.hu/en/the-prime-minister/the-prime-minister-speeches/prime-minister-viktor-orban-s-speech-at-the-25th-balvanyos-summer-free-university-and-student-camp>.

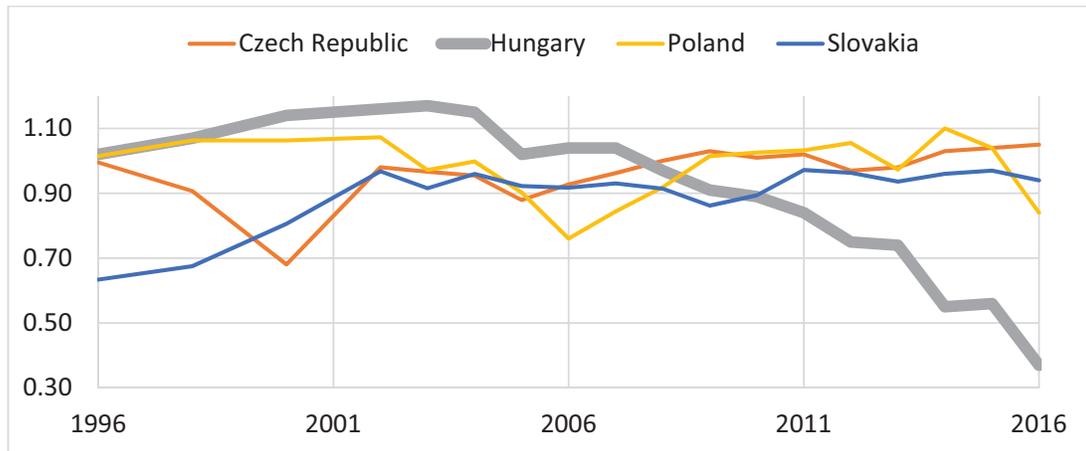
² Furthermore, just like in Turkey and Russia, the most recent parliamentary election in Hungary had a number of irregularities. See, for example, Eva S. Balogh, "Widespread Suspicion About Electoral Fraud in Hungary," *Hungarian Spectrum*, April 10, 2018, <http://hungarianspectrum.org/2018/04/10/widespread-suspicion-about-electoral-fraud-in-hungary/>.

³ MTI, "Kovács Zoltán: Egy Újabb Soros-Szervezet Intézett Nyílt Támadást Magyarország Ellen," *Magyar Idők*, January 16, 2018, <https://www.magyaridok.hu/belfold/kovacs-zoltan-egy-ujabb-soros-szervezet-intezett-nyilt-tamadast-magyarorszag-ellen-2688142/>.

However, the steady erosion of governance and political freedom can be observed in a variety of other data sources, which appear immune to such criticisms. Those include not only the Worldwide Governance Indicators (WGI) published by the World Bank—an organization that takes a notably technocratic approach towards questions of institutions, rule of law, and governance—but also metrics developed by right-of-center organizations such as the Heritage Foundation and the Cato Institute.

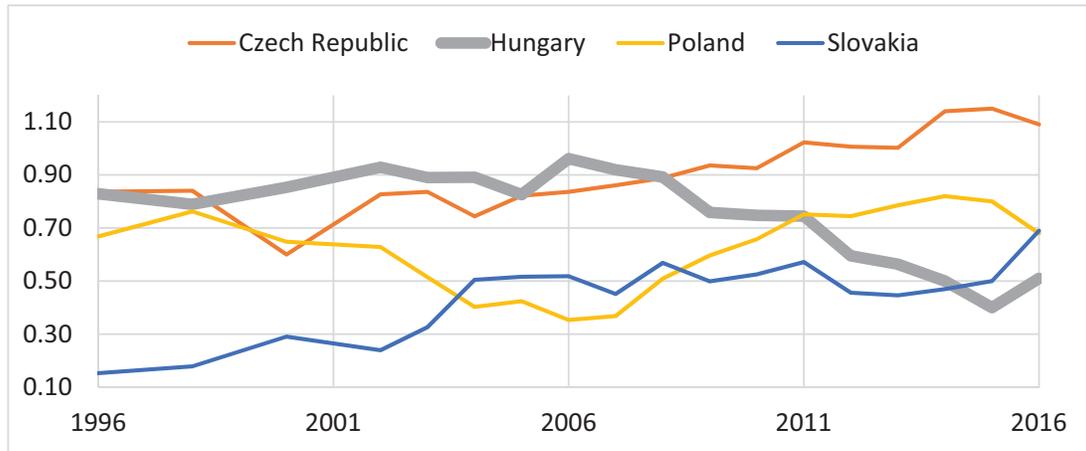
Figures 1–3 show a steady deterioration on voice and accountability, rule of law, and control of corruption, placing Hungary firmly at the bottom of the region.

Figure 1. Voice and Accountability



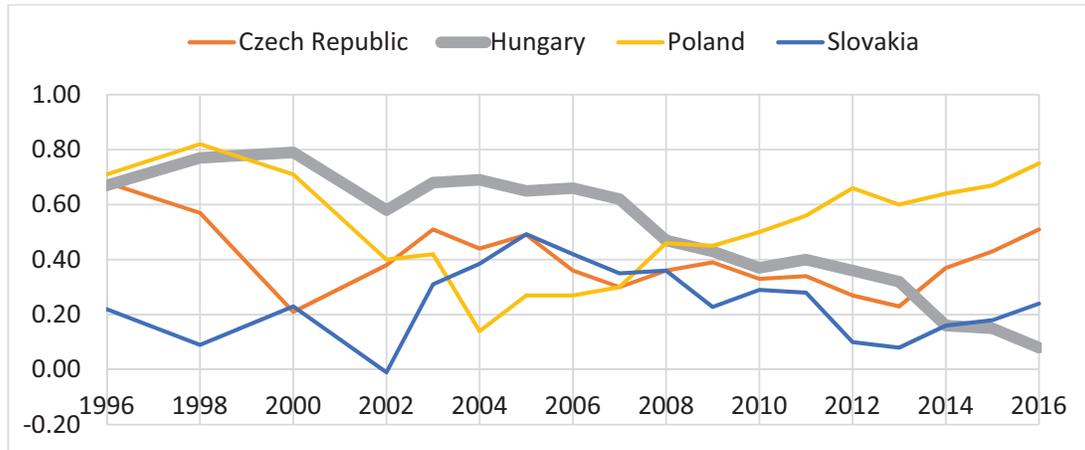
Source: World Bank.

Figure 2. Rule of Law



Source: World Bank.

Figure 3. Control of Corruption



Source: World Bank.

In its Index of Economic Freedom, the Heritage Foundation, hardly a bastion of pro-Soros sentiments, now places the protection of property rights in Hungary and Poland in or near “mostly unfree” territory.⁴ The same index suggests a decline in its government integrity measure in both countries over the past year, placing Hungary well into “repressed” territory, with a dramatically worse score than it had in 2009.

Or consider the Human Freedom Index, published by the pro-free-market Cato Institute, which measures personal and economic freedoms. There, Hungary took a plunge from 28th to 44th place between 2010 and 2015.⁵ PiS-led Poland does not share the extent of Hungary’s entrenched patronage and corruption, but evidence from the World Justice Project suggests the beginning of a similar downward slide on metrics

Corruption

Economic growth across Central Europe depends heavily on the inflow of EU funds. In Hungary’s case, those account for 4.6 percent of GDP over 2006–15—the most from all member states—and for 80 percent of public investment. EU funds have been a mixed blessing throughout the region.⁶ In Hungary, this has been doubly so because of the poor procurement rules and the concentration of decision-making authority over disbursement of funds in the prime minister’s office.

When it comes to procurement, Hungary is the only EU country that still relies heavily on unannounced “negotiated procedures.”⁷ Those allow the government to strike a deal with any company without going

⁴ Heritage Foundation, *2018 Index of Economic Freedom*, 2018, <https://www.heritage.org/index/visualize>.

⁵ Cato Institute, *Human Freedom Index: Country Profiles*, 2017, <https://object.cato.org/sites/cato.org/files/human-freedom-index-files/2017-hfi-country-profiles-2.pdf>.

⁶ See Dalibor Rohac, “How the European Union Corrupted Eastern Europe,” *National Review*, May 26, 2014, <https://www.nationalreview.com/the-agenda/how-european-union-corrupted-eastern-europe-dalibor-rohac/>.

⁷ European Commission, “Hungary Country Profile,” in *Public Procurement—A Study on Administrative Capacity in the EU* (European Commission, 2016), http://ec.europa.eu/regional_policy/sources/policy/how/improving-investment/public-procurement/study/country_profile/hu.pdf.

through an open competition. And even on open tenders, the highest rates of procedures involve only a single bidder. Evidence of rampant corruption and political patronage is strong.

The EU's anti-fraud office, OLAF, routinely recalls funds for irregularities and fraud. In fact, irregularities were found in all 35 projects that OLAF reviewed in Hungary between 2011 and 2015.⁸ Prominently, the government was ordered to repay €283 million for a new metro line in Budapest.⁹ Earlier in 2018, OLAF announced it will seek to recover more than €40 million for overpriced municipal lighting projects, awarded to a company owned by Viktor Orbán's son-in-law, István Tiborcz.¹⁰

Other prominent examples of graft include Lőrinc Mészáros, the mayor of Felcsút, Orbán's home village. A former gas engineer, he is the eighth-richest man in Hungary and owns 121 companies with his wife. In 2017, his wealth tripled to \$392 million, according to *Forbes*.¹¹ Eighty-three percent of Mészáros' family companies' earnings are believed to come from EU funds.¹² When asked once to what he owed his success, he responded: "God, luck and Viktor Orbán."¹³

Such cases are not isolated incidents. Although corruption remains a problem across modern democracies, Hungary's government, with its explicit aim of building a politically loyal class of domestic businesspeople, has turned corruption into official policy. Even a new idiom has appeared in everyday Hungarian: "Fidesz-közeli cég," meaning "a near-to-Fidesz company."

Political corruption has affected US companies operating in the country as well. The New York State-based company Bunge Ltd., which produces cooking oil in Hungary, has noticed the widespread fraud surrounding VAT collection in Hungary. Reportedly, it started lobbying the Hungarian authorities to reduce the VAT rate and therefore curb such illegal practices. But Péter Heim, a businessman close to Fidesz, told Bunge that it would be possible only if Bunge made a substantial contribution to Fidesz's political foundation, Századvég.¹⁴ As a result, in 2014, the US Department of State put Heim on a visa ban list, together with Ildikó Vida, head of Hungary's Central Tax Authority (NAV).

⁸ *Hungary Today*, "EU Anti-Fraud Office Accuses Orbán's Son-in-Law of Corruption in Lighting Contracts," February 14, 2018, <https://hungarytoday.hu/eu-anti-fraud-office-accuses-orbans-son-law-corruption-lighting-contracts-57635/>.

⁹ Justin Spike, "Anti-Fraud Office Calls for Hungary to Return EUR 283 Million of EU Development Fund," *Budapest Beacon*, December 22, 2016, <https://budapestbeacon.com/anti-fraud-office-calls-for-hungary-to-return-eur-283-million-worth-of-eu-development-funds/>.

¹⁰ *Hungary Today*, "EU Anti-Fraud Office Accuses Orbán's Son-in-Law of Corruption in Lighting Contracts."

¹¹ Benjamin Novak, "Forbes: Lőrinc Mészáros' Personal Wealth Estimated to Be HUF 105 Billion," *Budapest Beacon*, October 31, 2017, <https://budapestbeacon.com/forbes-lorinc-meszaros-personal-wealth-estimated-huf-105-billion/>.

¹² Katalin Erdélyi, "Companies Connected to PM Orbán's Friend Won Public Tenders Worth €1.56 Billion, Most of It Funded by the EU," *Atlatzo*, January 16, 2018, <https://english.atlatzo.hu/2018/01/16/companies-connected-to-pm-orbans-friend-won-public-tenders-worth-e1-56-billion-most-of-it-funded-by-the-eu/>.

¹³ Jennifer Ranking, "How Hungarian PM's Supporters Profit from EU-Backed Projects," *Guardian*, February 12, 2018, <https://www.theguardian.com/world/2018/feb/12/how-hungarian-pms-supporters-profit-from-eu-backed-projects>.

¹⁴ *Hungarian Spectrum*, "Hungarian Prosecutors Found the Lone Culprit in the Corruption Scandal," December 19, 2018, <http://hungarianspectrum.org/2015/12/19/hungarian-prosecutors-found-the-lone-culprit-in-the-corruption-scandal/>.

Does This Matter to the United States?

Contrary to the blasé attitude of the current administration, Hungary's embrace of crony authoritarianism threatens America's long-standing interests in Europe. Not only do US companies find themselves caught in the crossfire of local political fights,¹⁵ but shoddy governance and corruption have provided new openings for revisionist powers.

In Hungary, for example, the Russian nuclear energy monopolist, Rosatom, was awarded a contract for the Paks nuclear power plant—without an open tender. The details of the contract, worth €10 billion and financed through loans from Russia, are classified.¹⁶ China, too, is known to pursue a similar strategy in the region, leveraging political connections and highly visible investment projects to entrench its influence with the aim of extracting future political concessions.¹⁷

Besides the well-known visible manifestation of this trend has been Hungary's deteriorating relations with Ukraine, placing Hungary at odds with most its NATO allies and European partners. In 2014, after Russia had cut off natural gas supplies to Ukraine, Hungary followed suit, notwithstanding the EU's concerted efforts to provide Ukraine with energy.¹⁸ Hungary's government opposed Ukraine's participation at the NATO summit in Brussels in July of 2018.¹⁹

Hungary's government also refused to extradite two suspected Russian arms dealers, Vladimir Lyubishin Sr. and Vladimir Lyubishin Jr., to the United States on the basis of an existing extradition treaty. The two are suspected of organizing arms shipment to Mexican drug cartels (including advanced missile systems) and trafficking of cocaine to the United States—they could face a jail time of up to 25 years in the United States. While awaiting a decision on their extradition to the United States, Russian government filed its own extradition request. The Ministry of Justice, which has the final word on this matter, decided to honor the Russian request and on August 10, 2018 the Lyubishins were dispatched to Moscow.²⁰

Earlier this year, the government of Hungary concluded an agreement with the International Investment Bank (IIB), a relic of the Cold-War era currently based in Moscow, to move its headquarters to Budapest. Besides Russia, which owns almost one half of the bank's capital, the IIB's membership includes five

¹⁵ Prominent examples include the fine imposed on the US-owned broadcaster TVN24 for its coverage of anti-PiS protests, later canceled by the Poland media regulator. See Reuters, "Poland Annuls 1.5 Mln Zloty Fine on TVN24 over Coverage of Protests in Parliament," January 10, 2018, <https://www.reuters.com/article/poland-politics-tvn/poland-annuls-1-5-mln-zloty-fine-on-tvn24-over-coverage-of-protests-in-parliament-idUSL8N1P55WB>.

¹⁶ EurActiv, "2018 Start for Expansion of Russia-Backed Hungarian Nuclear Plant," August 28, 2017, <https://www.euractiv.com/section/energy/news/2018-start-for-expansion-of-russia-backed-hungarian-nuclear-plant/>.

¹⁷ Dalibor Rohac, "China's Economic Input in Eastern Europe Will Bear Political Fruit," *Financial Times*, November 1, 2017, <https://www.ft.com/content/086c1674-c788-11e6-8f29-9445cac8966f>.

¹⁸ BBC News, "Hungary Suspends Gas Supplies to Ukraine," September 26, 2014, <https://www.bbc.com/news/business-29374151>.

¹⁹ Myroslava Gongadze, "Ukraine to Take Part in NATO Summit Despite Hungarian Objection," *Voice of America*, July 5, 2018, <https://www.voanews.com/a/nato-summit-ukraine/4466125.html>.

²⁰ Panyi, Szabolcs, "Lord of War in Budapest: The DEA busted two Russian arms dealers and Hungary extradited them to Moscow." *Direkt36.hu*, November 23, 2018, <https://www.direkt36.hu/en/ket-orosz-fegyverkereskedot-csaltak-torbe-magyarorszagon-amerikai-ugynokok-de-az-orban-kormany-moszkvanak-adta-oket/>.

current EU and NATO nations (Czech Republic, Slovakia, Hungary, Romania, and Bulgaria), Vietnam, Mongolia, and Cuba.

The perceived benefit to European members lies in providing financing for infrastructure projects that would not get funded through usual EU channels. That financing is tiny, however: IIB has extended €9 billion in cumulative financing over its entire existence.²¹ Such financing comes with risks since the IIB is by no means a traditional multilateral development bank but rather an instrument of Russian power projection – a Trojan horse aimed at driving Eastern Europe away from the West.

Given the IIB's status as an international organization, Hungary will have to allow all "advisors and experts acting in the Bank's interest" to enter the country – and therefore the Schengen Area. But those can include Russian nationals currently included on sanction lists. It is not difficult to imagine how this might strain diplomatic and economic relations between Budapest, Brussels, and Washington. The IIB could extend loans to projects that involve entities sanctioned by either the United States or the EU – not to speak about the possibility that it serves simply as a cover for Russian intelligence operations in Europe.²²

Conclusion

The decline of rule of law, and the rise of corruption and patronage in Hungary, alongside its murky geopolitical allegiances, is a challenge to America's interests in the region. The United States stood by Central European nations as they liberated themselves from the shackles of Soviet rule and communist ideology and joined the ranks of self-governing nations with full-fledged market economies. The United States cannot become a cheerleader for policies that are aiming to undo the progress achieved since 1989—and neither it can afford to stay silent.

As a first step, Congress should recognize the challenge and make it clear, in the form of a bipartisan resolution, that the creeping authoritarian practices—particularly the purges within the judiciary and attacks on civil society and media—do not have friends or supporters in Washington. US companies operating in Central Europe need to know they have the US government's backing when they encounter local corruption. The administration and Congress should not shy away from imposing sanctions against local officials who have been demonstrably involved in corrupt dealings, especially if it involved American companies.

It is also time to see beyond the knee-jerk attacks on George Soros. One does not need to agree with his politics to see that the efforts to "sweep out" organizations funded by him have been deeply damaging to the region—not least by the impact they have had on the New York-incorporated CEU and by feeding anti-Semitism.²³ The CEU's de facto departure from Hungary is a blow to America's cultural pull, intellectual presence, and soft power in the region.

²¹ International Investment Bank, *Basic Facts*, https://iib.int/files/iib_basic_facts_1.pdf.

²² See Clay R. Fuller and Dalibor Rohac, "It is time for America's Eastern European allies to withdraw from Putin's fake multilateral bank." AEI Ideas, March 9, 2019, <https://www.aei.org/publication/it-is-time-for-americas-eastern-european-allies-to-withdraw-from-putins-fake-multilateral-bank/>.

²³ Dalibor Rohac, "Stop Obsessing over George Soros and the Koch Brothers," *CapX*, December 6, 2017, <https://capx.co/stop-obsessing-over-george-soros-and-the-koch-brothers/>.

Most importantly, at the time of NATO's 70th anniversary, it is time to consider seriously reforming the organization from a one-way ratchet to a two-way street. Countries such as Hungary or Turkey, which are deviating from the alliance's shared values, have to face a credible mechanism of escalating sanctions within the alliance, culminating with their expulsion. But that is not only a question of institutional design but also of political leadership from Washington. I hope that today's conversation can help catalyze it.



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