



Hungary: Water and Wastewater Industry

Agnes Pandur-Csiszer
(08/2008)

Summary

In Hungary public water services are provided by state-, municipality- and jointly-owned water utilities. Safe drinking water is available throughout most of the country. However, the EU requires that Hungary improve its drinking water infrastructure, to the tune of about USD 1.2 billion over the next five years. Despite recent upgrades, Hungary's wastewater utilities still lag behind those of advanced EU states. Particularly in the capital, Budapest, as well as other cities and townships, new investments in wastewater are necessary. Hungary plans to spend USD 5.8 billion in sewage treatment programs through 2013.

Market Demand

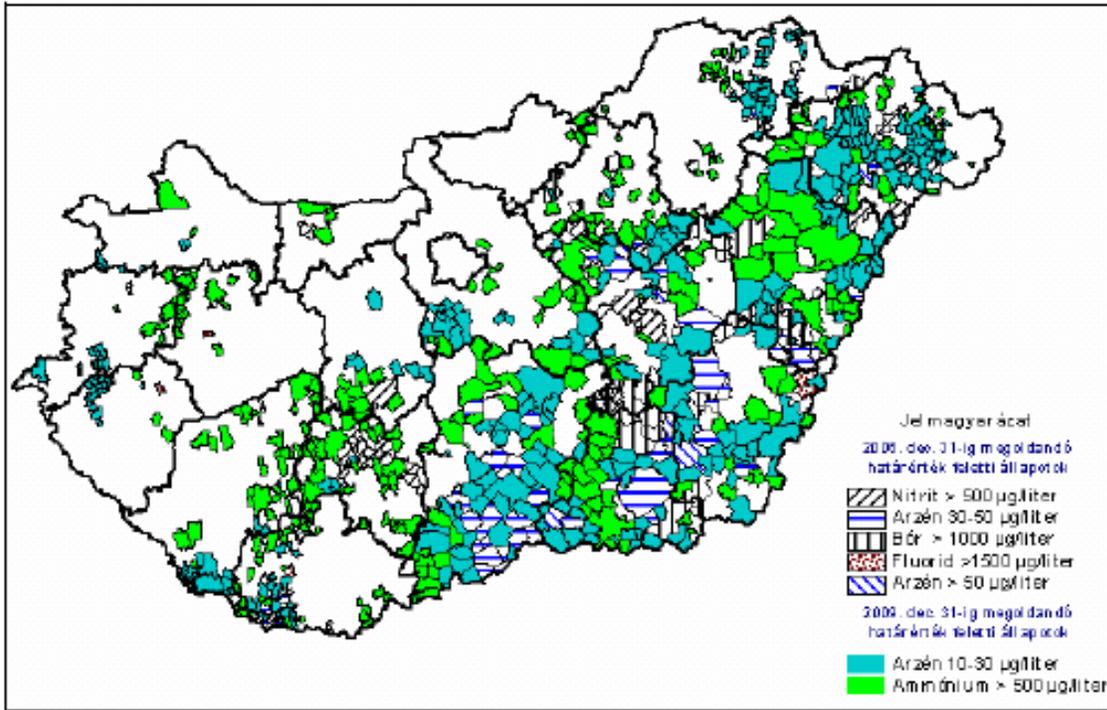
The EU is set to provide 22.4 billion euros (USD 32.7 billion) to Hungary, from 2007-13, to finance infrastructure upgrades, as part of the New Hungary Development Plan. Water and wastewater-related projects are among the areas of focus. These include: wastewater treatment, water quality, waste management, remediation, re-cultivation, Water Framework Directive, nature protection (NATURA 2000 areas, habitat protection, and bird protection), renewable energy, energy efficiency, sustainable consumption and environmental protection. About 200 billion HUF (USD 1.2 billion) and 1,000 billion HUF (USD 5.8 billion) is projected to be spent on water and wastewater, respectively.

Drinking water quality and supply

Drinking water is available in every town in Hungary, with 93.7 percent of households connected to drinking water supply. By 2004 the total pipe network was 64,400 kilometers, 18.6 percent more than in 1991. The annual public utility drinking water supply is close to 560 million m³. However, a considerable proportion of the network does not meet EU or Hungarian standards. About 2.5 million people – 25.1 percent of Hungary's population – in 873 municipalities are supplied by "unsatisfactory" water (i.e., water contaminated with unacceptably high levels of arsenic, nitrite, boron, fluoride or ammonium). Improving this situation is a high Hungarian government priority.

About 97 percent of Hungary's water supply comes from underground sources, and the country has more than 1600 water bases. In addition, there are 75 prospective water base areas that have development possibilities and could be used for strategic reserves. All of Hungary's prospective - and 600 currently operating - water bases are located in ecologically and geographically vulnerable areas. Almost 6 million people are affected by vulnerable water supplies, which is more than 60% of total built up capacity.

Figure 7 Settlements affected by the improvement of drinking water quality, by main water pollutants (Legend: Limit values exceeded and solutions to be found before 31 December 2006 for: nitrate, arsenic, boron, fluoride, arsenic over 50; limit values exceeded and solutions to be found before 31st December 2009 for: arsenic, ammonium)



Source: Environment and Energy Operational Program 2007-2013 of the Hungarian Government

In 2001, the National Drinking Water Improvement Program was established to (a) ensure that drinking water supply fulfills all safety requirements; (b) reduce regional differences in drinking water quality; and (c) improve water level and safety of supply. New investments will continue these objectives, with a focus on a comprehensive drinking water improvement process. Key elements on this initiative will include individual projects, certain settlements (or parts thereof) and future technical interventions, such as building out water treatment technology, switching to other water bases, switching to other water supply systems, reconstructing the existing drinking water pipeline systems and/or a combination of these solutions.

Wastewater Treatment

In 2004, the public utility gap – that is, sewer length per one kilometer of water supply pipe – was still over 30 percent; only 44.3 percent of settlements were connected to wastewater collection systems; and only 66.5 percent of collected wastewater was biologically treated. At the same time, the utilization rate of the treatment capacity of plants is very low, with only 32 percent going through level III cleaning (nutrient removal). In parallel with sewage collection, alternative wastewater treatment solutions – e.g., close-to-nature wastewater treatment, individual wastewater disposal - have not widely spread.

Figure 4: Estimated proportion of inhabitants connected to municipal wastewater treatment level III; level II; level I treatment, in% (source: EUROSTAT)

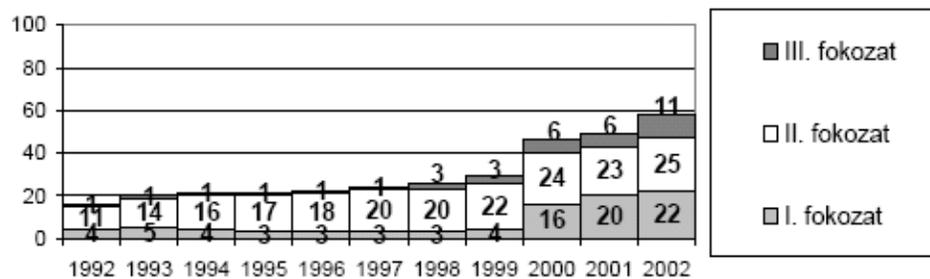


Table 6: Municipal drinking water supply, sewage collection and treatment (2003, 2004)
(source: HCSO, Key data of municipal supply 2004)

Indicator	Country level	central		North HU	North Great Plain	South Great Plain	West Transdanubia	East Transdanubia	South Transdanubia
		Bp.	Pest county.						
Households connected to drinking water supply (%)	93,2	95,9		87,8	92,7	88,0	95,3	96,6	94,7
	93,7	96,3		88,2	93,3	88,6	95,2	96,7	95,9
Households connected to sewage collection network (%)	59,1	78,8		49,6	42,0	38,6	63,2	65,0	54,3
	62,2	81,0		54,1	44,8	41,4	65,8	69,2	58,5
Public utility gap (m) sewer length (m)/drinking water supply pipe (km) without connections	521,7	776,9		518,1	458,5	321,9	599,9	536,0	366,2
	550,8	797,0		541,9	493,0	356,5	601,3	576,1	411,7
		1016,8	638,5						
		1044,9	656,0						

Source: Environment and Energy Operational Program 2007-2013 of the Hungarian Government

In a continuation of the National Municipal Wastewater Collection and Treatment Program, Hungary aims to construct wastewater collection and treatment systems and facilities, including works for the treatment of liquid waste; extend and modernize existing wastewater treatment and wastewater collection systems; develop wastewater sludge treatment and recycling; and, in the framework of diverse and comprehensive technical projects, begin “semi-natural” and “unique” wastewater treatment where sewerage is not justified by environmental or economic reasons.

In addition, at settlements or part of settlements in highly vulnerable areas without a sewer system, where professional, individual wastewater disposal is not an option, the Government of Hungary aims to ensure the transportation of adequate liquid waste (on road), treatment and development of utilization. Hungary also aims to reduce the generation of municipal liquid waste and improve and expand sludge treatment and utilization.

The development of the wastewater collection and treatment systems has to be in harmony with other infrastructure development investments (for example, development of rainwater collection systems), to avoid extra costs caused by repeated operations in the same area (for example, re-pavement). Selection among options – as long as they comply with legal regulations – is based on long-term cost efficiency.

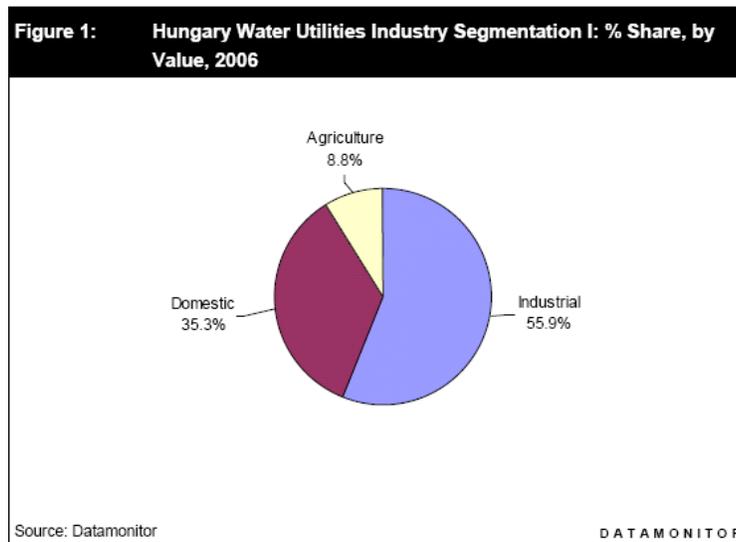
Market Data

According to market research consultancy Datamonitor, the Hungarian water utilities industry generated total revenues of \$3.2 billion in 2006, representing a compound annual growth rate (CAGR) of 3.8% from 2002-2006. The industry is forecast to continue to grow, with an anticipated CAG of 4.2% for 2006-2011 expected to drive the industry to a value of \$3.9 billion by the end of 2011.

Table 1: Hungary Water Utilities Industry Value: \$ billion, 2002-2006			
Year	\$ billion	HuF billion	% Growth
2002	2.7	547.8	
2003	2.8	566.5	3.40%
2004	2.9	585.8	3.40%
2005	3.1	610.0	4.10%
2006	3.2	635.3	4.10%
CAGR, 2002-2006:			3.8%
Source: Datamonitor		DATAMONITOR	

The water utilities industry consists of all water that is collected, treated and distributed to end-users. The industry is valued using average annual end-user prices alongside consumption volumes. All currency has been calculated using constant 2005 annual average exchange rates.

Datamonitor figures show that the industrial segment was the biggest, generating total revenues of \$1.8 billion in 2006, equivalent to 55.9% of the industry's overall value. The domestic segment contributed revenues of \$1.1 billion in 2006, equating to 35.3% of the industry's aggregate revenues. See chart below.



In 2006, investment in the environmental sector was USD 961 million or 4.4 percent of total investment in Hungary. The EU financial support for environmental infrastructure projects will spur growth in this sector in coming years, possibly as much as 15 percent annually. According to Hungary's Central Statistical Office, wastewater treatment now accounts for 43 percent of all environmental spending, protection of soil and groundwater quality for 11 percent.

Best Prospects

The following technologies / equipment is expected to offer best sales prospects in the coming years: (1) technologies to improve the quality of drinking water; (2) alternative wastewater treatment solutions (close to nature wastewater treatment, individual wastewater disposal); and (3) monitoring devices and systems.

Key Suppliers

Major suppliers to the water utilities industry are companies undertaking outsourced activities. A wide variety of business activities are outsourced by water utilities companies, including construction, civil engineering, laboratory services and administrative functions. Such activities are generally provided under a fixed term contract by suppliers providing a degree of power by increasing switching costs for water utilities companies.

Hungary's water industry is dominated by foreign companies. French (Veolia, Suez Environment), German (RWE, Berlinwasser) and Austrian (Purator) presence is especially strong. The most significant U.S. player is GE Zenon, maker of water and wastewater membrane technology. Important consulting and implementation companies include: Vituki Consult Rt., Öko Zrt., Aquaprofit Zrt., Viziterv Consult Kft and Vegyépszert Zrt.

Prospective Buyers

The largest end-users of water pollution control equipment are the water/wastewater works companies. Following the major economic and political changes in 1989, Hungarian local authorities were given ownership rights for about 80 percent of the water works facilities. There are currently five large regional water works companies and more than 300 local, municipality-owned smaller ones. In many cases the smaller plants operate uneconomically, therefore it is likely that they will merge over the long term. Water supply and sewage services are provided often by the same company; however, there are a number of waterworks dealing only with water and there are a few dealing only with wastewater. For example in Budapest there are two service companies: Budapest Water Works provides water supply, while Budapest Sewage Works is responsible for the wastewater management. Dunántúli Regionális Vízmű (Transdanubian Regional Waterworks Co) on the other hand provides water supply, sewage treatment and maintenance of the water infrastructure.

The other major group of end-users of water pollution control equipment includes the chemical, petrochemical, pharmaceutical, energy and food processing industries.

Market Entry

Utilities

For private-sector players, it is not possible to compete directly for end-users; instead, companies must usually bid for contracts to supply all customers within a geographic region. Fixed costs are high, since the water supply industry involves the running of water treatment plants and other large-scale facilities regardless of the revenues generated. Exiting the industry can be costly, especially if a player has invested substantially in infrastructure.

Technologies / Equipment

Environmental products and technologies are marketed in Hungary mainly through local engineering firms and/or agents and distributors of environmental equipment and instruments. It is essential for U.S. firms to have a local affiliate or representative, who keeps contact with key decision makers, knows the local business practices and is

able to provide technical assistance and after-sales service. Forming a joint-venture with a Hungarian company is also an excellent way to penetrate the market

Public Procurement

Once contracting authorities have agreed to support a particular action with the help of EU funds, this project needs to be tendered according to the EU Public Procurement Directives. The type of the project and its total cost will determine whether it falls under the scope of the EU public procurement directives or, if under the agreed thresholds, it is subject to national legislation on public contracts.

Since January 1st, 1996, the United States and the European Union have been party to the Government Procurement Agreement (GPA), which allows U.S.-based firms to bid on certain EU contracts above established thresholds. U.S. firms legally established (ongoing business, paying local taxes) in a Member State of the European Union are accountable as a European company. Those firms may bid on EU public procurement contracts advertised just as any other European firm. However, U.S. companies interested in the Hungarian market should strongly consider partnering with a local firm. The local partner will be able to provide information on local business practices, pertaining rules & regulations, the decision making process and provide technical assistance.

The U.S. Commercial Service at the U.S. Mission to the European Union offers a tool on its website to help U.S.-based companies identify European public procurement opportunities. See:

<http://www.buyusa.gov/europeanunion>

Market Issues & Obstacles

The Hungarian market is open for foreign products and services. With Hungary's accession to the European Union on May 1 2004, Hungary adopted the EU's common external tariff (CXT) rates, resulting in an average tariff level of 3 percent. Tariff assessment and all other customs procedures take place at the first port of entry into the EU. However, Hungary still collects the Value Added Tax (VAT) on all goods with Hungary as a final destination. In 2008, the VAT is 20 percent on most products and services.

Trade Events

Ökotech

October 14-17, 2008, Budapest, Hungary

www.okotech.hungexpo.hu

Öko-Aqua

June 11 – 13, 2008, Debrecen, Hungary

www.oko-aqua.hu

Resources & Contacts

Association of Environmental Service Providers and Manufacturers

<http://www.kszgysz.hu>

Development Directorate of the Ministry of Environment and Water

<http://www.fi.kvvm.hu>

Central Directorate for Environment and Water

<http://www.ovf.hu>

Datamonitor Report: Hungary – Water Utilities
Published October 2007

Directorate-General for Regional Policy: general information on EU Structural and Cohesion Funds
http://ec.europa.eu/regional_policy/index_en.htm

Fact sheets for each EU Member State with eligible regions and financial allocation
http://ec.europa.eu/regional_policy/atlas2007/fiche_index_en.htm

Hungarian Water Utility Association
<http://www.maviz.org>

Ministry of Environment and Water
www.kvvm.hu

National Development Agency
<http://www.nfu.hu>

The Cohesion Fund
http://ec.europa.eu/regional_policy/funds/cf/index_en.htm

TED: Tenders Electronic Daily
<http://ted.europa.eu/>

Related Reports available on the U.S. Department of Commerce on-line library:

EU Cohesion Fund: http://buyusainfo.net/docs/x_7005095.pdf

EU Structural Funds for 2007-2013: http://www.buyusainfo.net/docs/x_5293210.pdf

For More Information

The U.S. Commercial Service in Budapest, Hungary can be contacted via e-mail at:
agnes.pandur-csiszer@mail.doc.gov; Phone: +36-1-475-4198; Fax: +36-1-475-4646; or visit our website:
<http://www.buyusa.gov/hungary/hu>

The U.S. Commercial Service — Your Global Business Partner

With its network of offices across the United States and in more than 80 countries, the U.S. Commercial Service of the U.S. Department of Commerce utilizes its global presence and international marketing expertise to help U.S. companies sell their products and services worldwide. Locate the U.S. Commercial Service trade specialist in the U.S. nearest you by visiting <http://www.export.gov/>.

Disclaimer: The information provided in this report is intended to be of assistance to U.S. exporters. While we make every effort to ensure its accuracy, neither the United States government nor any of its employees make any representation as to the accuracy or completeness of information in this or any other United States government document. Readers are advised to independently verify any information prior to reliance thereon. The information provided in this report does not constitute legal advice.

International copyright, U.S. Department of Commerce, 2007. All rights reserved outside of the United States.