

HUNGARY

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CONCLUSIONS AND RECOMMENDATIONS*

Hungary has been undergoing a major economic transition in the 1990s, marked by a return to democracy and preparation for accession to the European Union. Following the collapse of its traditional export markets, Gross Domestic Product fell nearly 20 per cent. Recovery then began in 1993 and GDP has recently returned to its 1990 level. In 1998, Hungary experienced GDP growth of 5 per cent; 85 per cent of GDP is now generated in the private sector. The macro-economic stabilisation package introduced in 1995 led to reduction of inflation to 14 per cent in 1998. Hungary has received the highest levels of foreign direct investment among Central and Eastern European countries.

During this period, environmental pressures have been substantially reduced. Air pollutant emissions and pollution loads to water have decreased significantly due to both the fall in industrial production in the early 1990s and investment in pollution abatement and control. Further, Hungary has implemented major legislative and institutional changes concerning the environment and the first National Environmental Programme was adopted by Parliament in 1997. Notwithstanding these achievements, emissions of air pollutants per unit of GDP remain high compared with OECD averages, much of the necessary communal sewerage and sewage treatment infrastructure still needs to be created, and waste management remains weak. On several issues, the road towards environmental convergence with other European OECD countries will be a long one.

The challenge is therefore to: i) implement environmental policies and strengthen environmental infrastructure; ii) better integrate environmental concerns in economic decisions; and iii) further the country's international environmental efforts.

This OECD report establishes a baseline for assessing future environmental progress and examines Hungary's environmental performance, i.e. the extent to which its domestic objectives and international commitments are being met, based on environmental sustainability and economic efficiency criteria. A number of recommendations are put forward that could contribute to strengthening the country's environmental performance.

1. Implementing Environmental Policies

Environmental governance and democracy

Although some environmental legislation dates to the mid-1970s, the most important pieces of legislation have been enacted since 1990 and a new set of modern environmental laws was adopted in the mid-1990s. The Ministry for Environment was created in 1987 and is in charge of overall environmental policy planning, as well as co-ordination of environmental policy measures. Other ministries involved in environmental policy implementation are: Transport, Communication and Water Management; Agriculture and Regional Development; Economic Affairs; National Cultural Heritage; Health; and Interior.

The first National Environmental Programme (NEP) covers the period 1997 to 2002. The NEP takes into account the Environmental Action Programme for Central and Eastern Europe, the Fifth EU Action Programme and Agenda 21. The Government Programme for 1998 to 2002 has introduced a legal harmonisation programme with the aim of achieving, by 2002, complete approximation of Hungarian environmental laws with EU legislation.

Environmental policies implemented in the 1990s have contributed to reductions in pollutant emissions and improvement in air and water quality. These policies are largely based on the use of regulatory and economic instruments, and have been accompanied by sizeable environmental investment. However, inadequate enforcement is a major concern. Increasing fines for non-compliance could provide increased resources for inspectorates, while improving compliance with national emission and discharge standards. Hungary's Environmental Impact Assessment (EIA) system has been applied to a range of projects, but there is not yet a comprehensive scheme for the strategic environmental impact assessment of policies, plans and programmes.

* Conclusions and Recommendations approved by the Working Party on Environmental Performance at its November 1999 meeting.

Access to environmental information has improved (e.g. state of the environment reports are being published regularly), but there is a need to strengthen mechanisms for implementation of the legal guarantees for obtaining environmental information. Further efforts will be needed to fully implement the OECD Recommendation on Implementing Pollutant Release and Transfer Registers (PRTRs). Important efforts have been made regarding environmental education. Giving more attention to environmental issues in the media should contribute to raising public awareness.

It is recommended to:

- strengthen enforcement of environmental laws and regulations at national, regional and local levels by developing the capacity of inspectorates, and by improving the effectiveness of the system of non-compliance fines;
- implement the National Environmental Programme, with a view to achieving its quantitative targets according to deadlines, and monitor and evaluate implementation progress;
- strengthen the capacity of the Ministry for Environment, especially for strategic planning, economic analysis, and for developing the laws and regulations necessary to transpose EU legislation;
- strengthen the capacity of regional authorities to improve environmental infrastructure on the basis of the polluter pays and user pays principles;
- develop closer and more sustained relations with local authorities, business and NGOs, as well as with the media, with a view to raising environmental awareness;
- continue to develop the system for providing environmental information, implement the principles of free and easy access to this type of information, and pursue environmental education efforts.

From environmental effectiveness to economic efficiency

In the early 1990s, extensive efforts were needed to address the negative environmental impacts of past industrial activities. Large environmental investments have been made in the 1990s, mostly in water pollution abatement, but also in waste management and air pollution abatement. Clean-up of former Soviet Army bases, and landscape rehabilitation at closed mines, have also been given priority. Environmental investment is shared equally between the public and private sectors. Until 1997, pollution abatement and control expenditure has remained stable at about 1.5 per cent of GDP, which is sizeable compared to other OECD countries. Implementing the requirements of EU directives (e.g. waste water treatment, waste management) will require very significant additional expenditure, to be sustained over the long term. Financing of this expenditure will reflect sustainable development choices balancing economic, environmental and social objectives. Over the period 1997 to 2002, the overall level of environmental expenditure is planned to increase annually by 15 per cent.

Economic instruments have been implemented, in particular charges on water abstraction, water pollution, municipal waste, land, mineral extraction and products (fuels, packaging materials, tyres, etc.). Economic sanctions may be applied when emission and discharge standards are exceeded. The revenue from charges and fines goes to environmental funds, particularly the Central Environmental Protection Fund (CEPF), and to local authorities, which use the revenue to finance pollution abatement measures. These economic instruments, together with fiscal measures, contribute to the financing of environmental investments. This scheme of earmarked funding should be maintained, even though the CEPF has been integrated into the central budget. The use of economic instruments should be expanded to induce polluters to further reduce emissions in a cost-effective way. In particular, the proposed introduction of emission charges for water, air and soil pollutants would create better incentives for industries to invest in cleaner production processes. Integration of environmental concerns into fiscal policy also needs to be further developed, and the current system of tax differentiation needs to be adjusted towards EU requirements.

Hungarian legislation has not yet given legal force to the polluter pays principle. Although only 30 per cent of environmental investment overall is not paid for by polluters, there are still many situations in which subsidies for environmental investments are provided to private firms. Despite increases in domestic water prices and the introduction of a municipal waste charge, state subsidies continue to be provided to municipalities for domestic water supply and sewage treatment, and for municipal waste collection and treatment services. As considerable investments will be required in order to better protect water and upgrade waste management, it will be necessary to perform cost-benefit analyses of investment options to ensure that money is spent effectively.

It is recommended to:

- gradually decrease public subsidies for environmental investments in the private sector;
- further develop the financing strategy for implementing environmental policies, especially in the areas of waste water treatment and waste management, through greater implementation of the polluter pays and user pays principles;
- introduce emission charges for water, air and soil pollutants;
- pursue further integration of environmental concerns into fiscal policy, in particular within the framework of the taxation system reform.

Air

Since 1990, Hungary has achieved large reductions in air pollutant emissions and significant improvements in ambient air quality. The economic slowdown in the early 1990s was an important factor in the reduction of stationary source emissions, as a result of which industrial zones have enjoyed better air quality. Major energy sector reform carried out since 1994 has contributed to decoupling of SO_x and NO_x emissions from economic growth. Since 1995, Hungary has made considerable progress towards privatisation and reducing price distortions in the energy sector. The electricity and natural gas utilities, most of the power stations and the Hungarian National Oil and Gas Company have been privatised. Prices of oil products, coal and LPG have been deregulated, and related direct government subsidies have been eliminated. Electricity and natural gas prices have been adjusted towards cost-recovery levels, and cross-subsidies between consumer groups have been eliminated. Investment in electrostatic precipitators has greatly reduced particulate emissions from power generation. Strict regulatory measures relating to vehicles and roads, as well as a tightening of fuel quality standards, have also contributed to emissions reductions. Complete phase-out of leaded fuel was achieved in April 1999.

However, about half the country's population is exposed to serious or moderate air pollution. Studies have demonstrated positive correlations between ambient air quality and respiratory morbidity and mortality in Hungary. High particulate and tropospheric ozone concentrations are still serious problems in Budapest. Recent increases in ambient concentrations of NO_x and ozone raise the question of whether recent air quality gains will be lasting in the face of sustained economic growth. Regulations concerning stationary source emissions and ambient air quality standards need to be updated, and the system of ambient air quality monitoring should be enhanced. The growing motor vehicle fleet threatens to undermine recent air quality improvements, especially in urban areas. Energy efficiency in the residential and transport sectors is poor and requires attention. Financing energy efficiency improvements remains a challenge.

It is recommended to:

- continue to review and upgrade standards relating to air pollution, notably those for ambient air quality, with due regard to harmonisation with relevant EU standards;
- reform regulatory measures for stationary sources, to increase the incentive function of emissions fines, and implement the EU large combustion plant directive; invest in equipment to reduce SO_x and NO_x emissions from large coal/lignite-fired power plants, where such investment is shown to be cost-effective;
- continue efforts to improve energy efficiency in the industrial sector;
- modernise district heating networks to reduce distributional losses; pursue efforts to reduce price distortions concerning heat supply and distribution for industrial and residential users;
- prepare and implement measures to improve energy efficiency in the residential sector, including mandatory building codes, metering systems and incentives for insulation improvement;
- encourage use of cleaner fuels and renewable energy sources (e.g. biomass);
- extend the national air quality monitoring system and improve data collection and reporting, increasing the number of pollutants measured to include size-fractions of particulate matter (e.g. PM_{2.5} and PM₁₀), toxic substances and heavy metals.

Water

Overall, surface water quality has improved in the 1990s following the decline in industrial production. Measures taken since the early 1970s have been successful in improving water quality at Lake Balaton. Monitoring of surface water quality is thorough, and data are published in a timely manner owing to a high quality Regional Environmental Protection Inspectorate network. Water use intensity is low. Flood protection along major rivers and land drainage networks protect over one-quarter of the country. Most of the population is supplied with pipled water. Protection zones, where polluting activities are restricted, have been established around vulnerable water supply areas.

However, much remains to be done to meet the need for sewerage, and for sewage and waste water treatment. Only 60 per cent of the population is connected to public sewerage and only 22 per cent to sewage treatment. Nearly 80 per cent of Budapest's effluents are discharged untreated, directly to the Danube. Industrial waste water discharge control is not enforced in a dissuasive or comprehensive way. Bacterial contamination occurs almost all along the Danube and Tisza rivers. Secondary water courses are highly polluted, particularly in the vicinity of major urban centres. Nitrates in shallow groundwater exceed the limit value at many locations, particularly near settlements. Monitoring of groundwater quality is inadequate, especially given that it is the source of 90 per cent of Hungary's drinking water. More than half the flood protection levees are in need of either maintenance or upgrading. A decreasing water table remains a problem on the sandy plain between the Danube and Tisza rivers. Major efforts are needed to revise water legislation and implement it effectively. Considerable investment will be necessary to comply with the EU 1991 urban waste water treatment directive. Water prices will have to be increased, with appropriate attention to affordability concerns. The required flow of information and co-operation among institutions and users would benefit from a river basin approach to water management, facilitating the establishment and harmonisation of investment priorities. The similar geographical definitions of the regional offices of the Ministry of Transport, Communication and Water Management, and the Ministry for Environment, concerned with water-related issues have helped create the conditions for implementing such an approach.

It is recommended to:

- examine priorities for financing, building and managing municipal sewerage and sewage treatment services and speed up related efforts to connect a larger share of the population to waste water treatment facilities;
- review and increase water prices, with due regard to cost-effectiveness, financing and social objectives;
- strengthen enforcement of legislation on industrial waste water discharges, particularly through increasing fine rates and introducing an effluent charge;
- revise water legislation in line with requirements of EU directives;
- develop an overall water resource management strategy by river basin, addressing both quantity and quality issues, building upon the recently established Regional Water Councils;
- reduce vulnerability to flood hazards by upgrading flood defence infrastructure;
- strengthen monitoring of groundwater quality;
- pursue efforts targeted at protecting zones around vulnerable aquifers.

Waste

Hungary has made relatively recent and piecemeal progress in this area. The greatest attention so far has been paid to hazardous waste. A 1996 Government Decree clearly defines the responsibilities of the generator, and licences for handling and disposal of hazardous waste are now systematically reviewed. Results have also been obtained, through the application of the 1995 Product Charge Act, to a number of types of waste and the distribution of part of the revenues to support collection of used batteries, old refrigerators and refrigerants, packaging materials and used tyres. The quantity of industrial waste produced annually drastically decreased in the early nineties, following the decline in industrial production, and should now be monitored in view of current industrial growth. The recent creation of the National Cleaner Production Centre is helping introduce low-waste technologies in production processes.

The lack of comprehensive waste management legislation that clearly defines responsibilities, establishes the waste management hierarchy, and emphasises prevention and recovery has so far prevented the realisation of the objectives restated on several occasions in government declarations since 1991. Hungary faces very serious waste

management problems. Municipal waste collection does not cover 15 per cent of the population; most of the collected waste is landfilled in small communal facilities which, for the most part, do not conform to environmental regulations. Separate collection of municipal solid waste does not exist, apart from some sporadic and experimental attempts. Large amounts of industrial hazardous waste have accumulated over the last decades awaiting treatment. Treatment capacity is still largely insufficient. The list of wastes considered hazardous should be revised to make it consistent with international regulations: the 1996 Decree embodies the principles and implementation rules of the Basel Convention but does not recognise the OECD “green” list, thus restricting movements of wastes destined for recovery. As part of a special remediation programme adopted in 1996, a survey of sites contaminated by past military and industrial activities was launched and clean-up measures are being taken in the most urgent cases, especially regarding abandoned Soviet Army facilities. The resources devoted to the programme will need to be increased to cope with the magnitude of the problem within a reasonable period of time.

It is recommended to:

- adopt as soon as possible comprehensive waste management legislation, firmly establishing the preference for waste reduction and recovery over disposal, and clearly defining the responsibilities of the various parties concerned, including local authorities; develop a detailed action plan, based on the polluter pays principle;
- promote prevention and minimisation of waste generation, as well as separate collection and recycling of municipal solid waste (paper, glass, green waste, hazardous materials, etc.);
- close down unsatisfactory communal landfills and replace them with a modern network of larger treatment and disposal facilities for municipal waste, to be developed on a regional or county basis;
- increase the present incineration and treatment capacity for hazardous waste, and establish regional facilities for safe disposal of accumulated and recently generated hazardous waste, sewage sludge and hospital waste;
- revise the classification and list of hazardous wastes in conformity with relevant international conventions and regulations; adopt and implement the OECD “green” list of wastes destined for recovery;
- accelerate the implementation of environmental clean-up programmes on the basis of risk assessment for contaminated sites and for decommissioned communal landfills and dumpsites.

Nature

For many years, Hungary has made substantial efforts to increase the extent of both forest cover and areas under legal protection. These efforts culminated with the adoption in 1996 of legislation on the protection of forests and on nature conservation. About 20 per cent of the national territory is covered by forests (with the aim of reaching 25 per cent in the longer term) and around 9 per cent is under various forms of legal protection. Four new national parks were established in 1997. All bogs, caves and grave mounds are now protected. Several previously threatened species have been reintroduced. Hungary is an active party to many international agreements and conventions on nature and biodiversity conservation. The work of personnel employed in nature conservation is well co-ordinated among scientific institutions, local governments and NGOs.

Despite these undeniable achievements of the 1990s, further efforts are needed to improve nature conservation in Hungary. The ongoing land privatisation process has been accompanied by conflicts between nature conservation objectives and the interests of farmers and hunters. The proportion of protected areas under strict protection should be increased, and management of protected areas further improved. A comprehensive network of protected areas remains to be created. Outside protected areas, better integration of nature conservation objectives in agricultural, regional development, transport and tourism policies should be set as a top priority.

It is recommended to:

- put in place the National Biodiversity Strategy (and associated Action Plan), to provide a comprehensive framework for ecosystem and species conservation at both the national and local levels;
- establish a national ecological network, in relation with the Pan-European Ecological Network;
- continue efforts to increase the share of the national territory designated as protected areas, especially the proportion under strict protection, and adopt management plans;
- improve the integration of nature conservation objectives in sectoral policies, primarily agriculture, regional development, transport and tourism;

- make wider use of Environmental Impact Assessments, extending their scope to encourage nature conservation objectives, particularly in relation to tourism, afforestation, water infrastructure and land consolidation programmes;
- expand educational efforts concerning nature conservation by addressing professional and social groups, particularly farmers and hunters; develop visitors centres and nature trails.

2. Integrating Environmental Concerns in Economic Decisions

Economic forces and changes in such major sectors as industry, energy, agriculture and transport strongly influence environmental conditions and trends, and hence either enhance or diminish the benefits of environmental policies and technical progress. Further integration of environmental concerns in economic, sectoral and social policies is needed to achieve cost-effective environmental protection and sustainable development in Hungary.

Decoupling and sustainable development

In the period 1990 to 1993, GDP, industrial output and agricultural production all declined markedly; this contributed to a significant reduction of air and water pollution and a sharp decrease in the use of agricultural chemicals. GDP then recovered to its 1990 level. There are good indications that the increase in industrial production has not been accompanied by a similar increase in pollution. This decoupling is the result of both the modernisation of industry and the implementation of new environmental legislation. In particular, the rapidly developing privatisation process, combined with a high share of foreign direct investment, has led in many cases to the introduction of cleaner production processes and to cleaner products. However, waste management remains a problem.

To follow up on the Rio process, an interministerial commission on sustainable development was created and local Agenda 21 activities have been launched with the support of NGOs. However, there is a lack of local and regional environmental co-ordination other than at the initiative of municipalities. Efforts have been made to integrate environmental concerns into sectoral policies in the context of sustainable development. EIA applies to a range of projects and plays an important integrative role. These efforts should be strengthened in order to develop long-term sectoral policies that take environmental considerations fully into account. Self-responsibility is developing in industry (e.g. environmental management systems, eco-auditing). A national voluntary eco-labelling programme has been introduced under the supervision of the Ministry for Environment. Re-use and recycling should be strengthened at all levels of consumption, to save resources and raise public awareness.

Production patterns have significantly improved in industry, with reduced pollutant emissions and less intensive use of natural resources. Nevertheless, energy intensity per unit of GDP is still 20 per cent above the OECD average. Concerning consumption patterns, the use of economic signals such as progressive pricing in previously subsidised sectors has had a very positive impact on water use by households. There are still significant water subsidies for households. Continuing its move towards full pricing of natural resources would enable Hungary to further reduce pollution and natural resource use; however, social constraints (affordability) must be taken into account in setting prices. Problems such as deterioration of public transportation, increasing energy use by households and increasing municipal waste persist.

It is recommended to:

- pursue efforts to integrate environmental concerns into sectoral policies and practices, in particular energy, industry, agriculture, transport and other services;
- start discussion of a new sustainable development strategy, building on the National Environmental Programme and with participation by local stakeholders;
- extend the application of Environmental Impact Assessment to the strategic dimensions of sectoral programmes and policies;
- continue to promote the use of cleaner technologies, energy-saving devices and the use of renewable energy sources;
- promote wider use of eco-labelling and energy efficiency labelling;
- stimulate re-use and recycling at all levels of consumption.

Transport and environment

The transport sector plays an important role in the Hungarian economy, contributing to regional development and to European integration. The 1996 Hungarian Transport Policy establishes environmental sustainability as an objective in transport sector development. Concerning road vehicles, Hungary has implemented stringent vehicle emissions standards and an in-use vehicle emissions inspection programme is in place. Differentiated import duties, excise taxes and VATs are all used to favour the purchase of newer, more energy-efficient and cleaner vehicles. A differentiated annual vehicle tax further strengthens the incentive to buy less-polluting vehicles. A vehicle-scrapping programme has been used to reduce the number of vehicles with two-stroke engines. Concerning fuel quality, Hungary has adopted stringent standards and major improvements have been made. Concerning traffic, significant fuel price adjustments have served to moderate demand for road transport, some improvements to public transport systems have been made, particularly in Budapest, and the development of combined transport has helped offset some air emissions from transit traffic.

However, transport is a major and growing source of air pollution in Hungary, particularly road transport. The rates of accidents and deaths from road transport are very high. Poorly maintained road surfaces contribute to safety and noise problems. Over 50 per cent of the population lives in dwellings exposed to high noise levels (greater than 65 dBA). Measures to renew the vehicle fleet, such as inspection and maintenance programmes and vehicle-scrapping schemes, should be further used. Parking regulation is weakly enforced. Tax rebates encourage use of private cars. Infrastructure investment policy does not adequately consider long-term demand management and sustainability goals for the transport sector. Investment in public transport has been inadequate in recent years, making the sector less competitive with road transport. Major investments are needed in order to upgrade inland navigation and railway systems to meet international standards.

It is recommended to:

- review the Hungarian Transport Policy, giving special attention to the setting of investment priorities on the basis of economic analysis, covering environmental impact and energy efficiency of transport modes;
- improve enforcement of vehicle inspection programmes and develop incentives for scrapping old motor vehicles;
- review the mix of economic instruments influencing modal choice for passenger transport, and reassess the present system of income tax rebates for commuting by passenger car;
- review public transport fares (e.g. in Budapest), taking into account the pricing of other transport modes and seeking to create financial incentives to use public transport;
- develop a sustainable transport plan for Budapest, incorporating public transport, car-free zones, parking management, two-wheel vehicle lanes, spatial planning and other measures;
- give comprehensive consideration to project alternatives throughout the EIA process, including during stages of public consultation and participation;
- carry out noise abatement along major roads and railways, and improve enforcement of emissions limits for motor vehicles;
- develop and monitor indicators of environmental impacts of transport, including air, noise and solid waste emissions as well as impacts on nature and the landscape.

3. International Co-operation

Overall, Hungary's achievements in the area of international co-operation are very good: it was able to meet nearly all its international commitments while undergoing a rapid change from a centrally planned to a market economy. This achievement has been facilitated by strong reorganisation of the economy, with GDP decreasing until 1993 and subsequently rebounding.

On a bilateral basis, Hungary has established new environmental relations with its seven neighbouring countries. A few far-reaching bilateral agreements have been signed and others are pending. Positive steps have been taken to improve nature protection in border areas. A bilateral dispute concerning water management and nature protection came before the International Court of Justice, and subsequent to a decision of the Court, the two countries endeavoured to solve the issue on a bilateral basis. The targets set in multilateral agreements for emissions of SO₂, NO_x, VOCs, CFCs and halons have all been met and some have been surpassed. The pollution load on the Danube basin from Hungary has been drastically reduced. Emissions of greenhouse gases have been reduced. Emissions of

CO₂ in 2000 will be lower than in 1990. The target set under the Kyoto Protocol is likely to be reached despite new economic growth. The Aarhus principles on access to environmental information and public participation have been adopted; Hungary has signed all UN-ECE agreements on environmental issues. Hungary joined the OECD in 1996 and is seeking to accede to the European Union. As a result, there is a strong effort to harmonise its environmental legislation with the legislation of EU countries, which are also members of the OECD.

Although Hungary's performance concerning international relations is excellent, the transposition of some international commitments into domestic law may be a source of concern. Hungary is faced with the very large task of changing its laws, regulations and approaches to environmental protection, while at the same time having to adapt to new economic and political circumstances. A number of laws and regulations needed to implement OECD Decisions and Recommendations which Hungary has accepted are still at the drafting stage. Means to prepare new environmental laws, and to implement and enforce existing ones, are not being increased, casting some doubt on the possibility of meeting the self-imposed deadline for approximation of the EU acquis, and of ensuring that Hungary's environmental infrastructure is comparable with that of its EU partners. Apart from issues directly related to environmental legislation, there are serious difficulties in implementing an integrated approach to pollution prevention and control and introducing the sustainable development concepts adopted at Rio.

It is recommended to:

- ratify and implement relevant international environmental agreements which Hungary has negotiated or signed (Annex III);
- speed up the process of revising and adapting domestic environmental legislation to meet international commitments;
- strengthen the approximation effort to adopt EU acquis in the field of environment, in order to meet Hungary's self-imposed target of 2002;
- adopt new legislation on waste and further regulations on chemicals safety and industrial accidents to enable Hungary to meet its obligations under OECD Acts;
- increase resources to prepare for EU accession and to enforce new legislation approximating that of the EU;
- undertake a full analysis of the cost of implementing and enforcing EU legislation in areas such as water, air and waste, with a view to preparing a long-term plan for financing these outlays;
- strengthen regional co-operation concerning the Upper Tisza area, and implement the Sofia Danube Convention;
- implement cost-effective measures to improve energy efficiency, with a view to improving the country's energy balance while participating in the global effort to address climate change.

