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CLIMATE & ENERGY SNAPSHOT: CZECH REPUBLIC

THE POLITICAL ECONOMY OF THE LOW- CARBON TRANSITION

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This Briefing Paper presents an assessment of the political economy of the Czech Republic with regard to the low-carbon transition. This paper is part of a series of briefings on the four Central European states forming the “Visegrád Group”. Often perceived as one unified bloc working against the low-carbon transition, E3G digs deeper and studies their specificities, their influence and their particular social and economical interests, in order to identify opportunities to accelerate the low-carbon transition, domestically, and at the European level.

A global low-carbon transition is underway, but not all countries are actively participating. Engaging as early as possible, however, is crucial to reap benefits of low-carbon development while avoiding economic losses through stranded assets and abrupt economic shifts. In the European Union (EU), the Visegrád Group in particular is often seen to be attempting to slow down the low-carbon transition, both domestically and by opposing stronger EU climate action.

Against this background, E3G has applied its Political Economy Mapping Methodology (PEMM) to the Visegrád states plus Romania and Bulgaria. The process involves extensive desk-based research as well as stakeholder interviews to identify the key factors influencing a country’s position on energy and climate issues. The “Climate & Energy Snapshot” series summarises the main findings into digestible country briefings. All briefings will be published over the course of 2017.

When taking a closer look, it becomes apparent that there are considerable differences and disagreements between the countries. Identifying these discrepancies is crucial for designing country-specific intervention and cooperation opportunities that support a low-carbon transition.



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EXECUTIVE SUMMARY

The Czech Republic has typically taken a sceptical stance on low-carbon development. At the EU level, it has often cooperated with the Visegrád Group countries in blocking climate ambition. However, it tends to be more progressive than e.g. Poland on the EU Emissions Trading System (ETS) and energy efficiency. Increasingly, cracks are appearing in the bloc. The Visegrád Group has become regarded as a toxic alliance in Czech political circles following the election of the right-wing 'Law and Justice' government in Poland.

The Czech government itself is split on the low-carbon transition, with Prime Minister Sobotka being moderately supportive while President Zeman is stridently opposed. The parliament generally leaves the field to the government and the Energy Regulatory Office, led by a political appointee of President Zeman who is actively impeding the development of renewables. However, this configuration is likely to change given the upcoming general elections in October 2017, where the ANO party, the current junior coalition partner, is expected to register major gains and the current coalition leader, the social democratic party ČSSD, will lose out. The ANO party led by Andrej Babiš, second wealthiest Czech and currently the Vice-Prime Minister, has a eurosceptic outlook and it remains to be seen how progressive their engagement on climate and energy would be at the EU level.

Overall, the Czech Republic has much more to win, and much less to lose, from low-carbon development than e.g. Poland. Its R&D and innovation capability – both domestically and in foreign companies operating in the Czech Republic – is exceptional compared to other Central and Eastern European (CEE) countries. The regulatory framework for low-carbon innovation and investment is weak, but there is significant potential to take advantage of low-carbon opportunities. A widely publicised scandal around the country's 2005 feed-in-tariff law has led to a backlash against subsidies for renewable energy in policy and public opinion, however.

The continued reliance on coal power generation, as well as the social implications of a future phase-out for regions and workers, who are organised in influential unions, are acting as a brake on low-carbon progress. Subsidised lignite is also widely used for heating in poor households, adding to the social issues around phasing out coal. However, lignite mining is subject to territorial limits which were upheld last year after an extensive mobilisation by civil society. In addition, a strategic framework for mining regions has been adopted in January 2017, which offers a credible perspective of developing economic alternatives and reducing the coal dependence of these regions.



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The state-owned energy company ČEZ, which accounts for about three-quarters of electricity generation capacity, has an internal coal phase-out plan and is actively looking to invest in the low-carbon transition. ČEZ has significant influence on government policy and has been actively lobbying for a stronger EU Emissions Trading System (ETS) because its non-coal power plant portfolio would benefit from higher CO₂ prices. The company operates nuclear power plants, and is looking to build new ones, and it has also recently built several gas power plants which are unprofitable under current market conditions.

Energy security is a driving concern, but less so than in other CEE countries as the Czech Republic has well-developed gas and electricity interconnection capacity. These concerns are cementing reliance on coal and nuclear power. The strong focus on nuclear power in the country's energy strategy invites complacency on the grid and electricity market reforms needed to facilitate the integration of renewables. However, the energy security benefits of efficiency and renewables are increasingly present in the public debate. Energy efficiency is being actively promoted, even though the country will likely not meet its 2020 target.



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POLITICAL ECONOMY MAPPING

The Political Economy Mapping Methodology (PEMM) has three primary layers of analysis: national conditions, the political system and external projection and choice. This facilitates country comparisons as the analytical categories are general enough to be applicable to all countries. A key feature of the PEMM is its graphical representation, which condenses very complex information in an easily digestible diagram (see Annex 1).

The analysis of the national conditions aims to identify underlying tensions across key factors that influence a country's interests regarding the low-carbon transition. The second part examines the political system, especially the power relations between different actors and their alignment with low-carbon development. The interaction between the national conditions and the political system leads to countries making choices on climate and energy policy, which are analysed in a third step. In particular for the purposes of this briefing the analysis of external projection and choice focuses on how a country positions itself at the European level.¹

The PEMM presented in this report was informed by a political landscape study drawn up by Glopolis and the Centre for Transport and Energy, alongside extensive desk-based research by E3G. The draft PEMM was tested with country experts in think tanks, NGOs, businesses and politics in the Czech Republic. The final draft was informed by their comments and challenges. These country briefings represent the results of this process.

NATIONAL CONDITIONS

The analysis of the national conditions examines six key areas that are important determinants of a country's national interest in regards to energy and climate policy:

- > Energy security
- > Climate vulnerability
- > Public goods
- > High-carbon economy
- > Low-carbon economy
- > Technology and innovation capability

¹ A more detailed explanation about the Political Economy Mapping Methodology can be found in the Annex.



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For each category, the analysis is guided by three main questions. How important is the area in the real economy of the country? Is the area accelerating or inhibiting a low-carbon transition? And, how mature is the debate within this area in regards to a low-carbon transition?

High-carbon economy

Summary assessment:

The Czech Republic has a significant high-carbon economy, mainly due to its high reliance on coal in power and heating, which presents a crucial barrier for a low-carbon transition.

Assessment categories:

Significance to the national interest: **high**

Alignment with low-carbon transition: **opposing**

Maturity of the debate: **high**

The Czech energy sector is extremely carbon-intensive. Due to the **continued reliance on domestic coal in electricity production** (51.5 % in 2014, mostly lignite)² the energy sector is responsible for 47% of Czech greenhouse gas (GHG) emissions. This acts against a low-carbon transition in a number of ways. First, brown coal is still widely used as a cheap fuel for domestic heating. As of 26 March 2011, 336,076 households (about 8% of all households) were still using coal or lignite as heating fuel.³ Poorer households are especially dependent on government-subsidised coal furnaces.

Second, **around 18,000 jobs, equal to less than 0.5% of the Czech labour force**, still depend on coal mining.⁴ These jobs are concentrated in the mining regions of North-Western Bohemia (lignite) and Northern Moravia (hard coal). The resulting social impacts of reducing coal use discourage politicians from driving a low-carbon transition. Czech energy companies, including the very powerful utility ČEZ and EPH, have traditionally been lobbying to keep their coal power plants operational for as long as possible.

At the same time, more **positive trends are becoming apparent**. ČEZ is gradually reducing its coal portfolio and investing in renewables, energy storage and e-mobility. The landscape of the retail power and gas market is also changing. More companies

² IEA (2016) [Energy Policies of IEA Countries: Czech Republic 2016 Review](#)

³ Czech Statistical (2016) [Office Occupied dwellings by type of heating, heating energy, municipality size groups and by regions \(last data available from 2011\)](#)

⁴ Euracoal (2016) Country Profile: [Czech Republic](#)



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are entering the market, providing the consumer with more choices – including for green power.⁵

Additionally, the mining sector is under significant pressure. Limits to the extent of lignite mining are in place following a 1991 government decree. An attempt to extend these limits was defeated last year following a major mobilisation of civil society. Lignite mining at the ČSA surface mine in Northern Bohemia, which accounts for roughly 10% of the country's lignite production, will only last until 2024 within present mining limits set by law,⁶ and hard coal mining subsidies have to be ended in 2018 in line with EU state aid rules. In addition, the government is currently putting in place a supporting plan for coal regions, which could serve to address the social concerns about phasing out coal. While the **high-carbon economy is still blocking progress, it is likely to lose importance in the medium-term and is already slowly changing from within.**

Industry is furthermore crucial in the high-carbon sector and does not perceive itself as an actor able to benefit from a low-carbon transition. Industry in the Czech Republic is responsible for 22%⁷ of GHG emissions and has **high energy intensity, especially in sectors such as steel, chemicals and paper.** The Czech Confederation of Industries fears stricter energy efficiency targets for 2030,⁸ arguing that it would be a threat to the competitiveness and might lead industries to leave the Czech Republic. According to them, Czech industry is already very energy efficient and they see more potential in the buildings sector.⁹

⁵ IPA Advisory (2015) **Ranking the Competitiveness of Retail Electricity and Gas Markets: A proposed methodology to Agency for the Cooperation of Energy Regulators**; Eurostat (2016) **Total number of electricity retailers to final consumers year 2014**

⁶ Euracoal (2016) Country Profile: **Czech Republic**

⁷ Ecologic institute / eclareon (2013) **Assessment of climate change policies in the context of the European Semester Country Report: Czech Republic**

⁸ SPCR (2015) **Consultation on the Review of Directive 2012/27/EU on Energy Efficiency**

⁹ SPCR (2015) **Consultation on the Review of Directive 2012/27/EU on Energy Efficiency**



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Low-carbon economy

Summary assessment:

The Czech Republic's low-carbon sector is significant, but mostly due to the country's strong focus on nuclear power. This is not unambiguously supportive of a low-carbon transition based on renewables and energy efficiency, due to the centralised and conventional energy system it fosters.

Assessment categories:

Significance to the national interest: **medium**

Alignment with low-carbon transition: **polarised**

Maturity of the debate: **medium**

Among all available low-carbon energy options, both the government and ČEZ are **favouring nuclear power**. The Czech Republic has two nuclear power plants with six reactors in total, Dukovany and Temelín, which make up a 33% share of Czech electricity generation (installed capacity 3924 MW).¹⁰ In the State Energy Policy of 2015, the Czech government projects that nuclear energy will contribute between 46% to 58% of gross electricity production in 2040.¹¹ These plans are being justified by the relatively high public support for nuclear energy in the Czech Republic.¹² While it is questionable whether these plans will be realised, the focus on nuclear energy maintains the centralised nature of the electricity system, rather than promoting investments into power grids and flexibility options or the market regulation necessary for a genuine energy sector transformation.

The renewables industry in the Czech Republic, on the other hand, is confronted with a very unstable policy framework that has changed from one extreme to the other in the past few years. After introducing a feed-in-tariff in 2005, a huge amount of solar capacity was built. However, costs of the feed-in-tariff exploded in 2009 and 2010 amid falling installation costs. The slow political reaction in curbing these costs led to allegations of corruption as many of the recipients had government ties. This has created a backlash against renewables, with feed-in-tariffs being abolished in 2013. In 2015, feed-in-tariffs for some renewables were re-introduced (esp. for small hydro, biomass in heating) and project subsidies for rooftop solar (both PV and solar thermal), household biomass heating, municipal biomass heating and waste-based biogas were established.

¹⁰ IEA (2016) [Energy Policies of IEA Countries: Czech Republic 2016 Review](#)

¹¹ IEA (2016) [Energy Policies of IEA Countries: Czech Republic 2016 Review](#)

¹² CEZ Group (2015) [Attitude of the Czech public to nuclear power](#)



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Use of biogas boomed between 2009 and 2013. By the end of 2015, biogas accounted for 25% of renewable energy capacity in the Czech Republic (2015)¹³ and the European Commission recently approved a renewed government support scheme amounting to €19 million for biogas installations for heating with a capacity of up to 0.5 MW.¹⁴

Another important area to consider is energy efficiency. **The Czech Republic has significant energy efficiency potential to exploit.** The country ranks as the third-most energy-intensive economy in the EU, which in large parts is due to its high industrialisation rate of 32.1%, compared to an EU average of 19.2%¹⁵ as well as its electricity exports. Other opportunities are mainly in housing, where the successful ‘Green Savings Programme’, financed by EU funds, has led to major progress. The programme is very popular and still receives strong backing by the Czech population as well as Czech politicians. The construction sector and related industries are actively supporting energy efficiency policies. However, it is questionable whether the Czech Republic will be able to achieve its 2020 energy efficiency target, due to the late implementation of the programme and a lack of capacity in the relevant ministries to design programmes for energy efficiency.¹⁶

Technology and innovation capability

Summary assessment:

Although technology and innovation capability is a significant strength of the Czech economy, these efforts are not yet geared towards a low-carbon transition.

Assessment categories:

Significance to the national interest: **medium**

Alignment with low-carbon transition: **neutral**

Maturity of the debate: **low**

In the Global Innovation Index, the Czech Republic ranks 24th out of 141 countries (2015).¹⁷ **Especially the automotive, electronics and engineering sectors are leading in corporate R&D.** These sectors are also the ones that can benefit the most by providing goods required within a low-carbon economy. The technology and

¹³ Czech Biogas Association (31.12.2015) **Share of biogas on RES**

¹⁴ European Commission/ Press Release (23 August 2016) **State aid: Commission approves hydropower and biogas support schemes in Czech Republic**

¹⁵ Eurostat (2016) **Gross value added at basic prices, 2005 and 2015 (% share of total gross value added)**

¹⁶ CEE Bankwatch Network (2016) **CLIMATE'S ENFANTS TERRIBLES HOW NEW MEMBER STATES' MISGUIDED USE OF EU FUNDS IS HOLDING BACK EUROPE'S CLEAN ENERGY TRANSITION**

¹⁷ Global Innovation Index (2016) **Analysis by Indicators**



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innovation capability of the Czech Republic is among the strongest in CEE. However, there is a lack of government legislation to promote low-carbon innovation and create a stable policy framework to draw in investors. As long as bureaucratic hurdles remain high and there is no clear low-carbon pathway for the Czech economy, it will be difficult for the country to fully realise its clean technology potential.

Foreign companies are responsible for over 55% of R&D in the business sector, but domestic companies have a sizeable share as well.¹⁸ **These are great conditions that can channel low-carbon innovation, if appropriate policies are in place.** This means that guiding decisions by foreign companies such as Volkswagen, whose Skoda factories are located in the Czech Republic, can enable the country to become a low-carbon leader for specific products. E-mobility in particular presents a major low-carbon opportunity, as car manufacturing represents more than 20% of Czech manufacturing and employs 150,000 people.¹⁹ The Czech government's unclear direction and internal divisions on energy and climate policy have failed to provide an enabling framework for low-carbon innovation so far.

Energy security

Summary assessment:

The Czech Republic is very concerned about energy security, although its import dependency is among the lowest in the EU. Energy efficiency and renewables are entering the debate, but nuclear and coal are more the main solutions being considered.

Assessment categories:

Significance to the national interest: **medium**

Alignment with low-carbon transition: **polarised**

Maturity of the debate: **medium**

Energy security is a priority for the Czech Republic and a cornerstone of its energy strategy. This presents opportunities as well as challenges for low-carbon development. In terms of overall energy imports, the Czech Republic's energy dependency is rather low, amounting to below 30% of net imports in gross inland consumption.²⁰ However, **the Czech Republic relies on Russia for almost all its gas and oil imports²¹, which contributes to a strong perception of insecurity.**

¹⁸ European Commission (2016) **References to Research and Innovation in the European Semester Country Report 2016: Czech Republic**

¹⁹ Czech Invest (2015) **The Czech Automotive Industry at a Glance**

²⁰ Eurostat (2016) **Energy production and imports**

²¹ The Czech Republic imports around 65% of natural gas from Russia, 34% from the EU and 1% from Norway, see Ministry of Industry and Trade (19.5.2014) **Gas is a strategic part of the energy mix of the Czech Republic.** In terms of crude oil the Czech



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This drives a continued emphasis on coal and nuclear energy in national energy planning, even though nuclear fuel is also imported from Russia. If nuclear fuel imports are accounted, the import dependence of the Czech Republic rises to around 50%.²² It is a misperception that more nuclear power would actually increase the country's energy independence.

It is debatable how vulnerable the country actually is, however, as it already has very **strong gas and electricity interconnections**, which would enable it to draw on different suppliers in case of shortages. The Czech Republic has excellent electricity interconnections with Germany, Austria, Poland and Slovakia that amount to 17% interconnection capacity, which is already above the EU 2020 and 2030 targets of 10% and 15%, respectively.²³ This represents the highest level of interconnection within Central Europe.²⁴

The Czech Republic has gas interconnections with Germany, Slovakia and Poland.²⁵

Two more gas interconnections are under development: STORK II will strengthen the interconnection of the Czech Republic and Poland with an expected transmission capacity of 5 bcm per year from Poland to the Czech Republic and 6.5 bcm per year in the opposite direction.²⁶ Moreover, there are plans to establish a bidirectional Austrian-Czech Interconnection (BACI) with a capacity of up to 30 bcm per year.²⁷ Both interconnectors should be operational by 2020 and would further decrease Czech vulnerability to supply shocks.

In addition, the **energy security benefits of renewable energy and energy efficiency are increasingly recognised in the debate**. Government projections assume stable energy demand until 2050. This might still be an overestimate, depending on the success of energy efficiency measures, but it is a significant improvement over previous projections which still assumed rising energy demand. This shows an increasing awareness on the part of the government that reducing energy consumption is another path to secure energy efficiency, but the link between energy security and RES is not yet commonly made in official strategies.

Republic imports around 58% from Russia, 31% from Azerbaijan and 11 % from Kazakhstan, see Ministry of Industry and Trade **Imports of Crude Oil in Czech Republic** (January to September 2015)

²² Ministry of Industry and Trade (2014) **State Energy Policy**

²³ European Commission **Towards an Energy Union – Czech Republic**

²⁴ IEA (2016) **Energy Policies of IEA Countries: Czech Republic 2016 Review**

²⁵ OTE (2015) **Year Report on the Electricity and Gas Markets in the Czech Republic for 2015**

²⁶ European Commission **Preparatory studies for the Poland-Czech Republic interconnection Libhoř (CZ)–Hań (CZ-PL)–Kędzierzyn (PL) (Stork II)**

²⁷ Net4Gas (2016) **Austrian-Czech Interconnection**



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Public goods

Summary assessment:

Concern for social issues may offer opportunities to promote action towards a low-carbon transition when a link to environmental problems can be established.

Assessment categories:

Significance to the national interest: **low**

Alignment with low-carbon transition: **supportive**

Maturity of the debate: **low**

Environmental issues take a subordinate role to social ones in the Czech Republic.²⁸

Still, concern for the environment is above average compared to the Visegrád Group.²⁹ The most important issues are perceived to be air pollution (55%) and waste (61%).³⁰ As air pollution is both a social and environmental issue, it might offer an entry point for a debate on low-carbon transition, particularly in cities where household heating with coal furnaces is still common. The fact that the government is still financing new coal furnaces is exacerbating the situation.

Although environmental issues are perceived as less important than social ones, climate change is considered to be a serious problem by 86% of the population.³¹

Importantly, the majority of the Czech population (51%) does not feel well enough informed about environmental issues.³² This offers an opportunity for civil society organisations to provide more information on climate and environmental issues and thereby increase awareness on possible actions for a low-carbon transition.

²⁸ European Commission (2014) **Eurobarometer: The Key Indicators Results for Czech Republic**

²⁹ According to the Eurobarometer (QA5a), if asked about the two most important issues in their lives, 5% the respondents in the Czech Republic name environmental issues, 3% in Hungary, 2% in Poland, and 4% in Slovakia. See: European Commission (2013) **Eurobarometer: Public Opinion in the European Union**

³⁰ European Commission (2015) **Special Eurobarometer 416 ATTITUDES OF EUROPEAN CITIZENS TOWARDS THE ENVIRONMENT**

³¹ European Commission (2015) **Special Eurobarometer 435 Climate Change – Czech Republic**

³² European Commission (2014) **Special Eurobarometer 416 Attitudes of European Citizens Towards the Environment**



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Climate vulnerability

Summary assessment:

Although the Czech Republic is ranked the 8th least vulnerable country in the EU,³³ vulnerability to climate change is gaining more attention and is perceived as a significant issue, which helps foster the debate about a low-carbon transition.

Assessment categories:

Significance to the national interest: **medium**

Alignment with low-carbon transition: **supportive**

Maturity of the debate: **medium**

Extreme weather events, floods, droughts and soil degradation are important climate impacts in the Czech Republic that are likely to increase in the future, making **effective water management crucial for successful adaptation**.³⁴ These issues were discussed in the past already and are gaining more traction recently. One important event that triggered the debate and measures for climate adaptation was the 2015 heat wave. In the same year, **the National Adaptation Strategy was adopted and an Action Plan is now in preparation**. The increased awareness within the population offers an opportunity to activate more action towards a low-carbon transition.

One of the most vulnerable industries is agriculture, which represented 2.5 % of the Czech active population in 2010³⁵ and accounts for 2.5% of GDP.³⁶ The sector, however, is not actively engaged in the discussion about climate vulnerability. Municipalities are increasingly interested in managing climate impacts, however, since they are the ones implementing adaptation measures.

³³ ND-Gain (2015) **Country Rankings: Vulnerability**

³⁴ Ministry of the Environment of the Czech Republic (2015) **INFORMATION ON ADAPTATION ACTIONS IN THE CZECH REPUBLIC**

³⁵ Eurostat (2015) **Agricultural census in the Czech Republic**

³⁶ Eurostat (2016) **Gross value added at basic prices, 2005 and 2015 (% share of total gross value added)**



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POLITICAL SYSTEM

The political system assessment shows how the national conditions are translated within the political system of the country. Key actors within the political system include the government with its various branches, businesses, civil society groups and the European institutions. The analysis highlights the level of influence and the position of each set of actors with regards to a low-carbon transition.

Basic parameters

The Czech Republic is a parliamentary constitutional republic. The Prime Minister (Bohuslav Sobotka) is the head of government, while the President (Miloš Zeman) acts as head of state. The President is directly elected every five years and has limited constitutional powers, including the power to sign laws and return enacted laws to Parliament for further deliberation. The country's parliament is bicameral. The 200-member Chamber of Deputies, the lower house, is elected every four years and is the more powerful of the two chambers. Contrary to the Chamber of Deputies, the Senate cannot vote on the budget and it can only delay laws, not veto them. The Senate has 81 members, representing the country's regions, who are elected for six years, with a third of seats up for election every two years.

The Czech Republic is ruled by a coalition of the Czech Social Democratic Party ČSSD (50 seats), the ANO 2011 party (47 seats) – newly founded in 2014 and controlled by Andrej Babiš, the second wealthiest man in the Czech Republic – and the Christian-Democrat Czechoslovak People's Party KDU–ČSL (14 seats). The main opposition parties are the far-left Communist Party KSČM (33 seats) and the right-wing TOP09 (26 seats). The ANO party is expected to register major gains in the general held in October 2017, and Andrej Babiš is widely expected to become the next Czech Prime Minister.

Government and civil service

Summary assessment:

The executive and the civil service are the most powerful actors within the government. Whereas the government is divided on low-carbon development, the civil service, and in particular the Energy Regulatory Office, is acting as a barrier to a low-carbon transition.

Assessment categories:

Significance in the political system: **medium**

Alignment with low-carbon transition: **polarised**



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The government has considerable power within in the political system, but is divided on a low-carbon transition. Divisions exist within the Social Democratic Party (ČSSD), between the President and Prime Minister as well as between government parties: the Social Democratic Party (CSSD), the populist ANO party, and the Christian Democratic Union (KDU–ČSL). In general, there is a lack of consistency between policies and investment decisions by the government.

Moreover, **ministries have little capacity to actually create programmes to spend money effectively**, as is the case with the Ministry for Regional Development. The latter currently holds around €600 million for energy efficiency, but is unable to spend it due to a lack of suitable programmes and a lack of capacity to design such programmes. Other state entities are more successful, such as the State Environmental Fund under the Environment Ministry. It is administering the successful ‘New Green Savings Programme’. This indicates that there is some capacity within the executive, but more is needed.

The Czech civil service and bureaucracy are currently hindering, rather than enabling a low-carbon transition. The Energy Regulatory Office is the most relevant player within the civil service in this respect. It oversees competition and consumer protection in the energy sector and is also in charge of energy subsidies and licensing. It is currently headed by Alena Vitásková, an ally of climate-sceptic President Zeman, who has repeatedly blocked feed-in-tariffs for renewables and openly advocates nuclear power. Moreover, the regulatory burden for businesses is extremely high. Obtaining construction permits takes 21 procedures and 247 days on average.³⁷ This puts the Czech Republic at rank 130 out of 190 economies analysed in a World Bank study – behind Hungary, Poland and Slovakia.³⁸

The parliament is less active and relevant than the Government in the area of climate and energy policy. According to members of the Environmental Committee, their work is focused primarily on nature conservation. When it comes to climate and energy issues, they tend to follow the government’s lead, rather than starting own initiatives.

Some municipalities, on the other hand, seem to have the political will to promote a low-carbon economy. The 2014 elections have brought several green and activist local politicians to power, which offers an important opportunity to increase action for a low-carbon transition at the sub-national level. However, the influence of municipalities is limited strictly to the assets and resources that they control.

³⁷ International Bank for Reconstruction and Development / The World Bank (2017) [Doing Business 2017: Czech Republic](#)

³⁸ Ibid.



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Business

Summary assessment:

Business actors have the strongest influence on political decision-making in the Czech Republic. The high-carbon industry is the most powerful among them, but low-carbon business associations are well organised and the construction industry is pushing for energy efficiency improvements.

Assessment categories:

Significance in the political system: **high**

Alignment with low-carbon transition: **neutral**

The most important sectors within the high-carbon economy are energy and manufacturing. The **strongest actor in the energy sector, ČEZ, reorienting its business model away from coal**. While the Czech power system has, on paper, been liberalised and unbundled in line with EU regulations, the country still displays one of the highest market concentrations in the entire EU, with ČEZ operating 72% of the country's generation capacity.³⁹

Attempting to improve the profitability of its gas and nuclear power plants, ČEZ has been lobbying for a stronger ETS. It is also investing in storage technology, smart grids and some renewable energy installations. ČEZ is therefore open to progressive policies in some areas, but tends to oppose other legislation that would negatively affect its coal assets. Other important actors in this sector, such as the increasingly influential EPH, Czech Coal and NWR are reluctant to change and are still betting on a high-carbon future.

Steel and chemical companies are also important players in the high-carbon sector.

One of the most influential businesses within this group is ArcelorMittal, the biggest steel producer in the country. They alone employ around 7,226 people.⁴⁰ Agrofert is another important agro-chemical company, as it is owned by Andrej Babiš, the current Finance Minister of the Czech Republic. He is the second wealthiest Czech, owns several newspapers and heads the growing ANO movement. He is expected to win the 2017 elections in the Czech Republic and wants to “run the country like a business”.⁴¹ Thus, there are already very strong ties between the government and some businesses in the country, which are likely to be strengthened further.

³⁹ CEZ Group (2014) [Investment Story / CEZ Group: The Leader in Power Markets of Central and Southeastern Europe](#)

⁴⁰ ArcelorMittal (2015) [Czech Republic](#)

⁴¹ Politico (9 November 2014) [Andrej Babiš – Czech oligarch](#); Political Critique (20 October, 2016) [The future leader of Czechia? Meet Andrej Babiš](#)



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Unusually among CEE countries, the Czech Republic has relatively **well organised low-carbon business groups** as well as a number of expert platforms for dialogue on renewables and energy efficiency. The Alliance for Energy Self-Sufficiency and the Czech Photovoltaic Industry Association in particular are quite active. Although they are vocal about their interests and voice their concerns about the unstable regulatory environment for renewable energy, their influence is limited.⁴² This became obvious when, at the end of 2015, the head of the Energy Regulatory Office, Alena Vitásková, refused to issue a pricing decision to continue support for renewables.⁴³

But there are signs that other industries are engaging more in the debate around a low-carbon economy. Especially the **construction industry** has realised the economic potential of energy efficiency measures in buildings and is lobbying for stricter energy efficiency policies. Therefore, they have become a major business group in favour of a low-carbon transition.

Climate-vulnerable industries such as agriculture have a strong influence on the government but they are not actively engaged in the debates about a low-carbon transition. As explained above, this is partly due to the connection between the biggest agro-business, Agrofert, and the Finance Ministry. The Association of Private Farming of the Czech Republic, the largest association representing family farms, is more active and progressive on climate change, but its influence is limited.

Public discourse

Summary assessment:

The public discourse has relatively little influence on the political system, and the different actors are divided when it comes to low-carbon development.

Assessment categories:

Significance in the political system: **low**

Alignment with low-carbon transition: **polarised**

In general, climate and energy topics do not get a lot of media attention. National energy policy or the EU 2030 climate and energy package are rarely discussed in the media. The print media is particularly understaffed and has no resources to write critical and in-depth analysis on these issues. However, during the 'solar boom' in 2009-2010 the media played a crucial role and reinforced a negative reputation of solar power among the public. Two of the largest daily newspapers (Mf DNES and

⁴² PV-Magazine (12 June, 2014) [Czech PV industry denounces retroactive measures on renewable energy](#)

⁴³ Renewables International (16 December 2015) [Renewables face extinction in the Czech Republic](#)

Lidové noviny) are currently owned by Andrej Babis. This raises concerns about the independence of these newspapers.

The general public is not an active supporter of a low-carbon transition. The public actually prefers renewables over both nuclear and coal, but does not necessarily think that renewables can replace these sources of electricity.⁴⁴ However, the public is also very sceptical of the ‘Energiewende’ in Germany. They do not only believe that the project will be successful in Germany, and there are concerns that loop flows are threatening the Czech power grid. Moreover, a misunderstanding prevails that Germany is phasing out nuclear in favour of coal. Hence, the public has a positive attitude towards renewables in general, but there is little trust that a complete system transformation is possible.

Among the trade unions, those representing coal miners have the strongest influence on climate and energy policy. Fearing job losses, they are strongly opposed to any measure that might impact coal, such as the ‘Anti-fossil bill’ that is trying to limit the country’s dependence on fossil fuels. Since they are closely connected to the party political system they have a strong influence on the government and present a barrier to a faster low-carbon transition.

Civil society organisations have very little influence within the political system but support a low-carbon transition. The main challenges are the difficult legal environment and a lack of funding.⁴⁵ Therefore, the mobilisation role of the Czech NGOs is more successful on a local and regional level, where organisations engage actively with their communities. On the national level, the low degree of organisation and a lack of financial resources is holding back effective advocacy.

European Union

Summary assessment:

Although the EU’s influence is diminishing, it is a crucial actor in the Czech political system, as it sets the framework conditions for climate and energy policy and is a significant source for funding.

Assessment categories:

Significance in the political system: **medium**

Alignment with low-carbon transition : **supportive**

⁴⁴ EurActiv (13 June 2012) **Průzkum: Čisté zdroje energie mají podporu české veřejnosti**

⁴⁵ NGO Norway **Czech Republic: NGO Programme**



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The influence of the EU was at its peak following the country's accession in 2004, but it has been decreasing in recent years, especially since the financial crisis.⁴⁶

Czech politicians often use the EU as a scapegoat, which furthermore reinforces its diminishing influence. However, in terms of climate and energy policy targets, as well as the framework directives, the EU sets the conditions in which Czech climate and energy politics play out. Much of the action that is being taken at the national level is to comply with EU regulations.

Moreover, EU funds are crucial financial sources. They covered on average 55% of total public investments in the Czech Republic between 2011 and 2013.⁴⁷ For the period 2014-2020, the Czech Republic was allocated €22 billion⁴⁸ with most of the money going into transport (27%), production and consumption (22%), energy infrastructure (11%), environment (10%), and education (10%). However, these funds are unlikely to support a transformational shift towards a low-carbon transition due to a lack of appropriate coordination, planning and monitoring.⁴⁹ There are also concerns about corruption in the allocation of these funds. The European Anti-Fraud Office is, for instance, currently investigating whether EU funds were allocated rightfully to Agrofert, the agro-chemical company owned by Andrej Babiš.

⁴⁶ Dostál (2014) **From Integration to Differentiation: The Czech Republic in the European Union Ten Years On**

⁴⁷ The money funding stems from European Regional Development, Social and Cohesion Funds, with a national co-financing rate of between 15% and 50% of project costs, see CEE Bankwatch Network (2016) **CLIMATE'S ENFANTS TERRIBLES HOW NEW MEMBER STATES' MISGUIDED USE OF EU FUNDS IS HOLDING BACK EUROPE'S CLEAN ENERGY TRANSITION**

⁴⁸ European Commission (2014) **Cohesion Policy and the Czech Republic**

⁴⁹ CEE Bankwatch Network (2016) **CLIMATE'S ENFANTS TERRIBLES HOW NEW MEMBER STATES' MISGUIDED USE OF EU FUNDS IS HOLDING BACK EUROPE'S CLEAN ENERGY TRANSITION**



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EXTERNAL PROJECTION AND CHOICE

This final analytical step of the mapping assesses a country's stance on European climate and energy policy as well as its broader EU engagement. The assessment is two-dimensional, covering both country engagement on the EU level and how its engagement is perceived in relation to a low-carbon transition.

European climate and energy policy

Summary assessment:

The Czech Republic is engaging prominently in European climate and energy policy and often allies with the Visegrád Group. However, it also deviates from Poland, the most powerful state within the group, on some issues and takes a more progressive stance.

Assessment categories:

Country engagement: **medium**

Alignment with low-carbon transition: **polarised**

During the 2014 negotiations on the 2030 climate and energy package the Czech Republic opposed nationally binding renewable energy and energy efficiency targets, criticising the EU's for its focus on renewables and for neglecting the role of nuclear power in the low-carbon transition.⁵⁰ The **sovereignty of Member States in choosing their national energy mix was therefore of utmost importance for the Czech Republic**, and it pushed through an explicit reference to this in the agreement of the European Council on the 2030 climate and energy package 2014.⁵¹ However, the country roke with Poland, who was opposing a binding 40% greenhouse gas (GHG) emission reduction target by signalling its agreement even before the start of the negotiations.⁵² The support for a stronger ETS by ČEZ also indicates the more progressive stance of the country in comparison to Poland.

One of the main interests of the Czech Republic in the EU lies in its single market.

Due to the country's export orientation, the single market is crucial. Exports accounted for 83.8% of the Czech Republic's GDP in 2015, with machinery, transport equipment, raw materials and fuels being the most exported goods.⁵³ To maintain the competitiveness of its industry, the Czech Republic wants to keep energy prices low

⁵⁰ Reuters (17 October 2014) [Czechs ready to back EU climate goals, oppose national targets](#)

⁵¹ Government of the Czech Republic (24 October 2014) [The Czech Republic contributed to the breakthrough agreement on the EU climate-energy package](#)

⁵² Carbon Brief (17 October 2014) [Analysis: Who wants what from the EU 2030 climate framework](#)

⁵³ <http://www.worldatlas.com/articles/15-countries-with-the-most-export-driven-economies.html>

by strengthening the liberalisation and integration of the European gas and electricity market.⁵⁴

Broader EU engagement

Summary assessment:

In contrast to its climate and energy policy, the Czech Republic's engagement at the broader EU level is limited and more ad-hoc than strategic.

Assessment categories:

Country engagement: **low**

Alignment with low-carbon transition: **neutral**

The relationship with the EU is perceived as an economic cooperation as opposed to being driven by motives of increased political and sovereign integration. However, the Czech Republic does not have a strategic long-term approach towards the EU. **It has a generally passive attitude towards the Union because it does not seem to perceive itself as powerful enough to actively shape its direction.**

Therefore, it usually tends to follow Poland and the Visegrád Group. It shares some interests with the group, such as concerns over the EU's migration policy, and the right of each Member State to choose their own energy mix, but the country is willing to diverge from the group on other issues. The Visegrád Group is increasingly perceived as a negative alliance by the Czech Republic, which presents an opportunity for other member states, such as Germany or the UK, to engage in a stronger cooperation with the country.

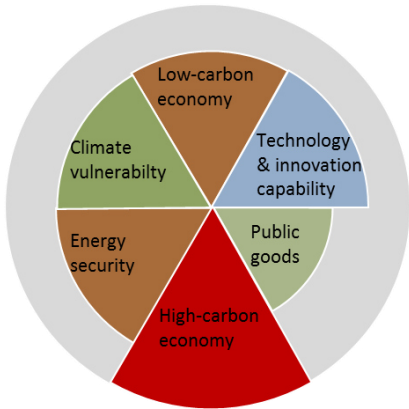
⁵⁴ Dostál (2014) **From Integration to Differentiation: The Czech Republic in the European Union Ten Years On**



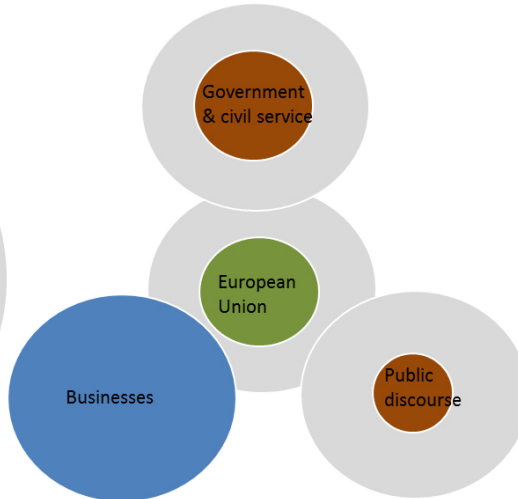
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Annex 1 – Representation of PEMM results for the Czech Republic

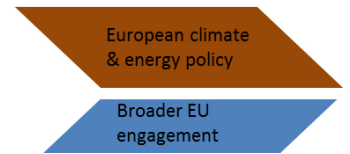
National conditions



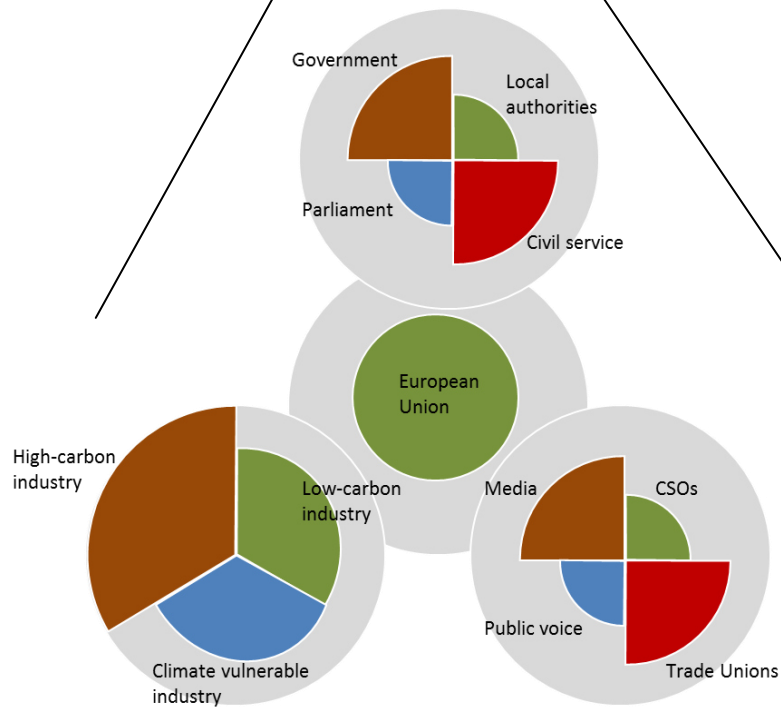
Political system



External projection & choice



Political system





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Annex 2 – Political Economy Mapping Methodology (PEMM)

The climate diplomacy community sometimes tends to act based on a small sample of information on a country's position, e.g. analyses of political statements and news headlines. These discrete assessments often fail to appreciate and accommodate the critical interplay between the real economy and political dynamics, and have a narrow focus on a limited range of sectors e.g. energy. Failing to address this interplay often leads to a failure to identify where strategic opportunities and barriers to transformational change exist.

For example, the 15th Conference of the Parties (COP) in Copenhagen in 2009 was such a missed opportunity. In the aftermath, it was crucial to shift countries into a more progressive international position before the Paris COP in 2015. At the time, E3G used the Political Economy Mapping Methodology (PEMM) to deliver targeted interventions. It was essential to understanding what interventions should be taken to address real economy, national and international political dynamics.

E3G's PEMM summarises abstract information very succinctly and it, crucially, makes countries comparable across a set of defined categories. It combines hard analytical data with informed judgment, drawn from a variety of sources, rather than narrow scientific analysis along a series of fixed indicators. It provides a systematic and consistent approach to determining what constructs a country's core national interest, and identifies key national and international interventions that can increase domestic ambition and enable more proactive and progressive climate diplomacy. The mapping has been used to support ambitious outcomes under the United Nations Framework Convention on Climate Change (UNFCCC), as well as other diplomatic venues, such as EU climate and energy policy.

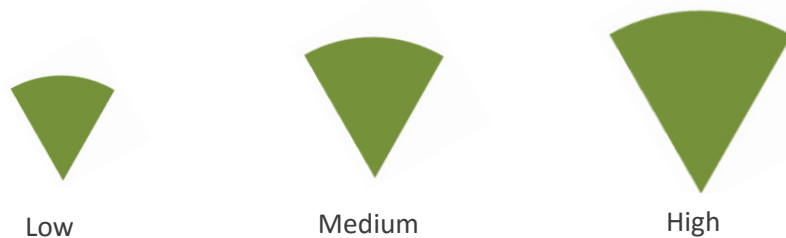
The PEMM has three primary layers of analysis: national conditions, political system and external projection and choice. The first level aims to understand and identify tensions across the real economy. The second, analyses power relations between different actors and determines how the national interest is translated within the political system. The third, considers international projection to illustrate how a country positions itself in – for the purposes of this briefing, European – debates in general and towards climate and energy issues specifically.



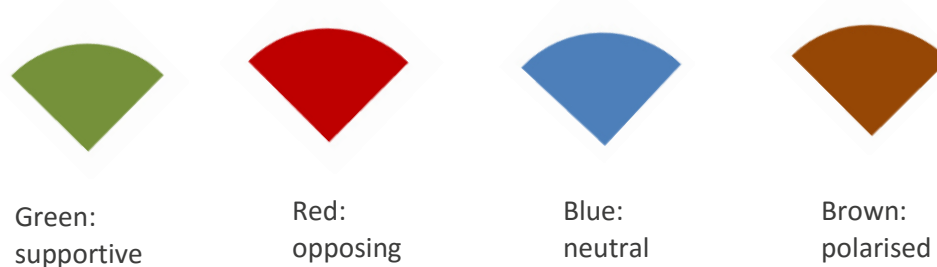
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The PEMM offers a three dimensional assessment:

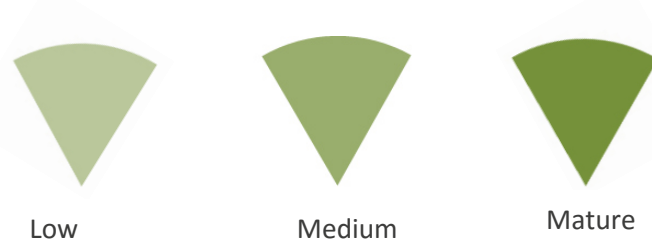
1. The size assesses the significance of the sector/actor:



2. The colour reflects the alignment with low-carbon transition:



3. The transparency of the colour reflects the maturity of the debate:



All three dimensions – significance to national interest, alignment with low carbon objectives, maturity of the debate – are assessed when analysing a country’s national conditions. In the two subsequent parts ‘political system’ and ‘external projection and choice’, a two-dimensional assessment considers significance to national interest and alignment to low-carbon transition.

The PEMMs presented in this report are informed by political landscape studies conducted by partner organisations in each country, alongside extensive desk-based research by E3G. Draft PEMMs were tested with country experts in think tanks, NGOs, businesses and politics. The final draft was informed by their comments and challenges. These country briefings represent the results of this process.



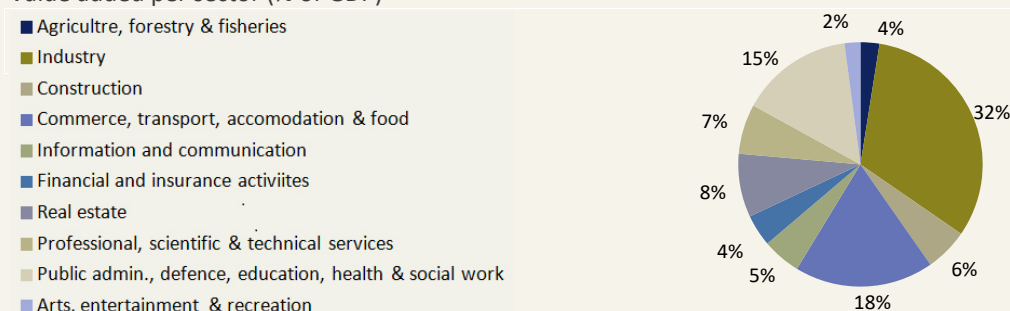
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Annex 3 – Data sheet: Czech Republic

General data

| | |
|---|------------------------|
| Population (2017) | 10.6 million |
| GDP per capita (2017, current prices) | €18,100 |
| Corruption Index (0 = highly corrupt, 100 = very clean) | 57 in 2017, 55 in 2016 |
| Democracy Index (ranking of 167 countries) | 34 in 2017, 31 in 2016 |

Value added per sector (% of GDP)



Allocation and use of EU Funds (2014-2020)

| | |
|--|---------------|
| Total allocation of European Structural Investment Funds | €23.9 billion |
| Planned investments in energy efficiency | €1.9 billion |
| Planned investments renewables | €53 million |
| EU Cohesion Policy Investments as share of public investment (2007-2014) | 34.3% |

Energy statistics

| | |
|--|--------|
| Gross inland energy consumption (2015, ktoe) | 42,442 |
| Electricity generation (2015, TWh) | 86.02 |

| Source | Percentage |
|------------------------|------------|
| Solid fuels | 47.6% |
| Wastes non-RES | 35.3% |
| Nuclear | 0.1% |
| Hydro | 0.6% |
| Wind | 5.4% |
| Biomass | 2.5% |
| Solar | 5.2% |
| Gas | 3.4% |
| Petroleum and products | 0.6% |

| | |
|---|---|
| Energy intensity (2015, kgoe/1000€) | 251 |
| Energy poverty (inability to keep home adequately warm) | 15.3% |
| Employment in coal sector (2018) | 18,000 in mining and 3,600 in power plants |
| Renewable energy capacity of individuals, collectives, public entities and small enterprises (2015) | 84MW wind 275MW solar |
| Renewable energy potential | 20,500MW wind, 73,700MW solar PV, 4,200MW biomass, 500MW small hydro |

Sources: Eurostat (2016), TI Corruption Perception Index 2017, ECIU 2017, European Commission (2013, 2014, 2016), Bankwatch (2016), BPIE (2015), Euracoal (2017), CE Delft (2016), UNDP (2013), World Bank (2018), EU Science Hub (2018)



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About E3G

E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

More information is available at www.e3g.org

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