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BRIEFING PAPER MARCH 2017

ENERGY-SYSTEM TRANSFORMATION IN CENTRAL AND EASTERN EUROPE COUNTRY BRIEFING: CZECH REPUBLIC

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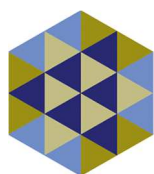
The Czech Republic's stance on EU climate and energy policy

The Czech Republic is engaging prominently in EU climate and energy policy and occasionally forms alliances with other members of the Visegrád Group on specific issues. However, the Visegrád Group is now being considered as a toxic alliance in Czech political circles, following the election of the right-wing 'Law and Justice' (Prawo i Sprawiedliwość, PiS) government in Poland.

The Czech Republic shares some interests with the Visegrád Group, such as concerns over the EU's migration policy, and the right of each Member State to choose their own energy mix, but it is willing to diverge from the group on other issues like energy efficiency or the ETS, where it has a much more progressive stance. This was obvious during the 2014 negotiations on the 2030 climate and energy package where the Czech Republic's support for the three EU targets (on renewables, energy efficiency and emissions reductions) was critical in overcoming Polish resistance.¹

The overall relationship with the EU is characterised by a desire for economic cooperation rather than growing political integration. However, the Czech Republic has no coordinated strategic approach towards the EU and an overall passive attitude towards the Union as it does not perceive itself as powerful enough to actively shape its direction.

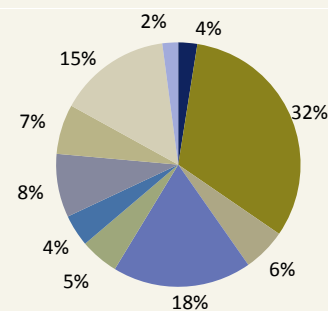
¹ Reuters (17 October 2014) **Czechs ready to back EU climate goals, oppose national targets**



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General data

Population (2015)	10.6 million
GDP per capita (2015, current prices)	€15,800
Corruption Index (0= highly corrupt, 100= very clean)	55 in 2016, 56 in 2015
Democracy Index (ranking of 167 countries)	31 in 2016, 25 in 2015
Value added per sector (% of GDP)	

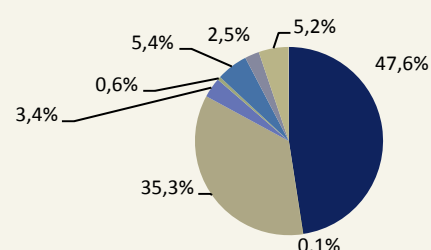
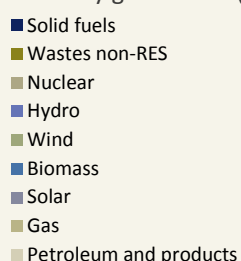


Allocation and use of EU Funds (2014-2020)

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%

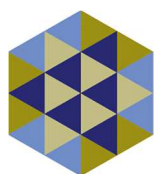
Energy statistics

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



Energy intensity (2015, kgoe/1000€)	251
Energy poverty (inability to keep home adequately warm)	15.3%
Employment in coal sector (2015)	10,131 in hard coal mining, 7,869 in lignite mining
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 2016, EIU Democracy Index 2016, European Commission (2013, 2014, 2016), Bankwatch (2016), BPIE (2015), Euracoal (2017), CE Delft (2016), UNDP (2013)



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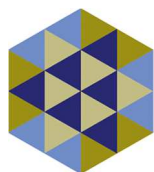
Key political economy insights on the Czech Republic

The Czech government itself is split over the low-carbon transition, with Prime Minister Sobotka being moderately supportive and President Zeman intensely opposed. Parliament generally leaves the field of climate and energy to the Government and the Energy Regulatory Office, which is led by a political appointee of President Zeman and 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 a low-carbon transition compared to e.g. Poland. Its R&D and innovation capability – both home-grown and imported by foreign companies operating in the Czech Republic – is exceptional compared to other 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. There is little appetite to promote renewables, however, as a widely publicised scandal around the country's 2005 feed-in-tariff (FiT) law has led to a backlash against renewable energy subsidies amongst policy-makers and in public opinion.

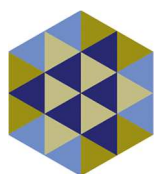
The continued reliance on coal power generation, the social implications of a phase-out for regions and workers, who are organised in influential unions, are acting as a brake on low-carbon progress. Subsidised lignite is also widely used for heating in poor households, adding to the social issues around phasing out coal. The lignite industry already has a clear phase-out perspective, however, as the extent of mining expansion is limited by domestic law, allowing for 15 more years of mining at most. A recent attempt to expand these limits has been averted. In addition, the government is currently elaborating a framework for structural and social policy measures to help regions transition away from coal.

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. It has recently announced that it is going to split off its coal business. ČEZ has significant influence on government policy and it 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, looking to build new ones, and it has also recently built several gas power plants which are unprofitable under current market conditions.



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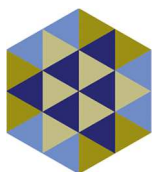
Energy security is an important concern, but less so than in other CEE countries as the Czech Republic has well-developed gas and electricity interconnection capacity. Still, these concerns are cementing reliance on coal and nuclear power. The strong focus on nuclear power in the country's energy strategy invites complacency regarding 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 Recommendations

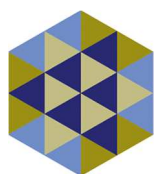
- > **Stronger engagement with progressive members of the Visegrád Group:** In the current climate, there is a chance for Germany and other EU partners to drive a wedge between Hungary and Poland on the one side and Slovakia and the Czech Republic on the other. Both countries are Social-Democrat-led and currently looking for diplomatic alternatives. The Czech Republic presents an especially interesting ally in terms of progressive climate action.
- > **The Czech-German Strategic Dialogue** is in danger of losing importance, as Frank-Walter Steinmeier moves to his new role as President. This forum has been especially active in the fields of migration and energy policy. The German Government should ensure that this dialogue stays active, particularly with a view to the Czech election in October 2017. On energy, discussing options for effort-sharing or compensation scheme regarding loop flows could unlock Czech cooperation on other issues.
- > **The Czech Republic requires outside help to get the newly drafted Climate Change Act adopted:** The content is largely following the State Energy Strategy with regards to the future development of the energy sector. However, it includes the earlier implementation of new BATs (IPPC), a CO₂ tax for sectors not covered by the EU ETS, and a Climate Change Act that would determine a binding emissions reduction trajectory by 2050 (80 % reduction from 1990 levels). It also proposes increasing the Czech contribution to international climate finance (GCF and others) – from 173 million CZK in 2015 to almost 2 billion CZK in 2030. It is unclear whether the current government will be able to pass the law before the next election in October 2017. Strong opposition from the Industry and Finance Ministries is expected.
- > **Emphasising the co-benefits of climate action:** The link between air pollution and climate policy needs to be made clear. Air pollution from coal power plants has been largely absent from the pollution debate so far. Industrial pollution is a localised issue with no substantial links to climate policy. Air pollution needs to be linked to energy policy. Local pollution is seen as a major problem in the country, and there is some potential for making it into a political issue. Some policies with relevance to local heating (especially energy efficiency) are seen as highly successful and popular by both the public and political leaders across parties. There are opportunities for linking air pollution issues to major energy policy choices (coal power, heat consumption, renewables/distributed energy, size of EE potential).
- > **Promote low-carbon innovation:** Innovation in low-carbon energy in the form of E-mobility, smart grids and RES needs to be encouraged. RES are largely perceived negatively by politicians and the media, but opinion polls show that the public prefers RES over both nuclear and coal and supports further development of RES. RES gain support whenever they are transformed into stories about local solutions and specific technologies in familiar contexts (e.g. solar roofs, municipality energy projects, farm waste energy, etc.). E-mobility attracts two constituencies: 1) tech-savvy people and technical innovators; 2) CEZ views e-mobility as a major new commercial opportunity and is supporting it heavily. To some extent, the Ministry



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of Industry and Trade realises that smart grids are inevitable and that they should prepare for roll-out, but in reality their criteria for grid investments (largely from EU funds) are not very ambitious.

- > **Obstacles to the installation of RES need to be overcome:** Obstacles include 1) the impact on energy prices, especially for industry, 2) the impact of declining power prices (due to more RES in the energy mix) on the operations of CEZ and 3) the competition to planned new nuclear capacity. The pre-occupations are the same that we see in the German case, which will require a reform of and a political deal for the energy sector. Germany would be able to contribute with experience on the matter, as similar concerns were raised regarding the Renewable Energy Act (EEG). Once the interests industry and CEZ are taken care of, measures supporting small scale RES could be well received not least since the current government is finally supporting them (i.e. small rooftop PVEs in the New Green for Savings). The continuation of public financial support for energy efficiency from EU sources will be a strong motivation, even though the government distinguishes carefully between sectors (industry vs. buildings).
- > **Promote exchange on a just transition:** Germany and the Czech Republic have many things in common regarding the transition away from coal. Exchanges between German and Czech stakeholders, especially unions and local politicians can help stimulate the debate on how, rather than whether, to phase out coal. Particularly Czech unions, who are working to maintain reliance on coal, can be approached with this framing. As both countries are currently evaluating structural and social policy measures needed to accompany the end of lignite mining in affected regions, policy learning and best practice sharing could be another major benefit of this work.
- > **Amplify Czech success on energy efficiency:** Energy efficiency - specifically, EE in buildings - is a major messaging opportunity. EE subsidies (and combined EE/household RES subsidies) are very popular in the Czech Republic, and perceived as a major political success. The New Green Savings programme is well designed and functional, especially compared to other EE programs in CEE. Disseminating this success among other CEE countries is key. At the same time, the remaining EE potential means that there is an opportunity to further push EE in the public debate and build on the successful policies already in place. The construction industry is a key ally in this regard, as it has realised that energy efficiency is a major opportunity, and is already lobbying actively on efficiency policies.



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About CEE Bankwatch

CEE Bankwatch was founded in 1995. It is one of the largest networks of civil society organisations in Central and Eastern Europe. Bankwatch is currently active in 12 countries in the CEE and beyond. Bankwatch analyses and observes international development finance and the activities of international financial institutions. The organisation advises decision makers on sustainable development, environmental policy, transparency and social justice. Bankwatch is one of the leading organisations working on climate policy in CEE, and has excellent networks among decision makers, as well as industry, academia and civil society stakeholders.

More information is available at <http://bankwatch.org/>

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



Federal Ministry for the
Environment, Nature Conservation,
Building and Nuclear Safety



This project was funded by the German Federal Environment Ministry's Advisory Assistance Programme (AAP) for environmental protection in the countries of Central and Eastern Europe, the Caucasus and Central Asia and other countries neighbouring the European Union. It was supervised by the German Federal Environment Ministry and the German Environment Agency (UBA). The responsibility for the content of this publication lies with the authors.

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