



Weekly Briefing

Czech Republic social briefing:

Energy Crisis:

A Challenge and Risk for the Liberal Democratic Regime

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Summary

The energy crisis together with inflation and expanding indebtedness are significant economic but also social challenges and risks in the Czech Republic. The briefing analyses the main political measures addressing the rocketing prices of energy – the introduction of a price ceiling and windfall tax. Attention is paid to the energy policy of the incumbent cabinet and concrete steps that are to offset the suspension of supplies from Russia. The anti-Russian position requires seeking alternative sources of gas which is seen especially in LNG supplies from the US, however at much higher prices. At the same time, possible diversification can be a positive result of the current unfavourable circumstances.

Introduction

The energy crisis has had multiple impacts on different economic subjects, be they households, companies or the state. Due to its staunch anti-Russian position, the ruling coalition does not follow a pragmatic line typical of Hungary. On the contrary, it has belonged to those who have called for the interruption of relations with Russia including the supplies of gas and oil from the very beginning. This radicalism is in sharp contrast with the economic reality. The Czech Republic was fully dependent on Russian gas. In conjunction with rocketing inflation, it exerts enormous pressure on society, undermining people's livelihood and standard of living. The liberal Government has prepared certain countermeasures. These are, however, generally considered insufficient.

Political response

The cabinet has set a price ceiling for electricity and gas which will be in force for 2023. The ceiling will apply to households, state and public services as well as companies connected to low voltage. It is to amount to 6,000 CZK (245 EUR) per MWh for electricity, and 3,000

CZK (122 EUR) per MWh for gas.¹ Despite the ceiling, many households can thus pay four times more for the same consumption than this year. The concrete parameters, nevertheless, have already been changed several times, not being excluded that it will happen again. The crisis communication towards the public is often chaotic and contradictory, similar to the pandemic period. Obviously, the political elite has learnt no lesson from the previous crisis.

Even though the measures are known roughly for households and SMEs, large companies are experiencing a high degree of uncertainty. It can have very negative impacts on their operation, bringing the risks of dismissals and bankruptcies. Volkswagen Group, the owner of Škoda Auto which is the Czech Republic's leading automobile manufacturer and the biggest employer, has already warned that it might move its factories to other countries with more favourable price conditions.² Ministry of Finance estimates that the introduction of price ceiling will necessitate around 130 billion CZK (5.3 billion EUR) which will be acquired from profits of SOEs, emission permits and an extraordinary windfall tax.³ The latter should be in force between 2023 and 2025, applying to chosen energy, oil and extractive companies and banks.⁴

Expensive American LNG instead of Russian gas

The rising costs of energy including gas are already changing consumers' behaviour. From the data collected by the Ministry of Industry and Trade follows that the consumption of gas could drop by a third. It is indicated by the figures from October 10–17 which were by 34 per cent lower compared to the same week a year ago (from a three-year perspective, consumption went down by a quarter). However, the question is how it was affected by weather conditions for this October is above-averaged in terms of the outside temperature. It enables both full covering of daily consumption of gas and creating reserves. By mid-October, there were around 3.2 billion cubic metres of gas reserves in contrast to 2.8 billion cubic metres in

¹ *Vláda stvrdila zastropování cen elektřiny a plynu. Platit začne v listopadu* (2022, October 05). E15.cz. <https://www.e15.cz/byznys/prumysl-a-energetika/vlada-stvrdila-zastropovani-cen-elektriny-a-plynu-platit-zacne-v-listopadu-1393690>

² *Kvůli plynu přesuneme výrobu z Německa a východní Evropy, hrozí Volkswagen* (2022, September 23). iDNES.cz. https://www.idnes.cz/ekonomika/zahranicni/nemecko-volkswagen-vyroba-prumysl-presun.A220923_080612_eko-zahranicni_jady

³ *Vláda zastropovala energie malooběratelům: Limit pro silovou elektřinu je 6 Kč za kWh a pro plyn 3 Kč* (2022, September 13). Patria.cz. <https://www.patria.cz/zpravodajstvi/5139560/vlada-zastropovala-energie-maloodberatelum-limit-pro-silovou-elektřinu-je-6-kc-za-kwh-a-pro-plyn-3-kc.html>

⁴ *Opět změna. Banky a spol. si oddechly, vláda mimořádnou daň letos neuvalí* (2022, October 19). Seznam Zprávy. <https://www.seznamzpravy.cz/clanek/ekonomika-firmy-prekvapeni-pro-banky-a-spol-vlada-zdani-mimoradne-zisky-uz-za-letosni-rok-217215>

2021. The current reserve is thus tantamount to about a third of total gas consumption in the last year which exceeded 9 billion cubic metres.⁵

As a consequence of the economic war against Russia and the extensive sanction regimes in force, supplies of gas from Russia were problematised and the European countries have started to prepare for the suspension of supplies. The impacts of such a situation, however, differ in individual countries. The Czech Republic together with Latvia were fully dependent on Russian gas (100.0 per cent of domestic consumption), being followed by Hungary (95.0 per cent), Slovakia (85.4 per cent) and Bulgaria (75.2 per cent).⁶ Unlike Hungary whose government is trying to keep a balanced position, the Czech political representation demonstrated that it wanted to make use of the crisis to reduce the supplies from Russia to the possible minimum. Given the level of dependence on Russia is it a very challenging task. The cabinet, nevertheless, has been active in finding alternative sources and has already achieved concrete results. In September, a new LNG terminal at Dutch Eemshaven was inaugurated and it is to operate at full capacity by the end of November. The Czech Republic through ČEZ, the largest utility and biggest public company in the CEE region, has booked 3 billion cubic metres a year, thus covering a third of total consumption. It corresponds to 30 tank ships. LNG is bought at a spot price so the costs cannot be calculated in advance. Moreover, the Czech side is obliged to pay for the lease of the terminal. The actual price has not been made public but it should be at least several dozen of million EUR a year.⁷ Expenses needed for the substitution of Russian gas with the US-origin LNG are, therefore, high.

Diversification of resources

Besides the Dutch LNG terminal, the Czech side is interested in those facilities in Wilhelmshaven and Brunsbüttel near Hamburg that are under construction. Czech Minister of Industry and Trade Jozef Síkela has held talks with his German counterpart in this regard. Negotiations about sharing of gas between both countries are also underway. Germany is the Czech Republic's crucial economic partner and the socioeconomic development of the adjacent country affects the domestic performance substantially. That is also why Prague is worried

⁵ *Spotřeba plynu je o třetinu nižší než loni. Zásobníky jsou plné z 92 procent, tvrdí Síkela* (2022, October 19). E15.cz. <https://www.e15.cz/byznys/prumysl-a-energetika/spotreba-plynu-je-o-tretinu-nizsi-nez-loni-zasobniky-jsou-plne-z-92-procent-tvrdi-sikela-1394037>

⁶ *Česko je spolu s Lotyšskem nejvíce závislé na ruském plynu* (2022, April 01). E15.cz. <https://www.e15.cz/byznys/prumysl-a-energetika/cesko-je-spolu-s-lotysskem-nejvice-zavisle-na-ruskem-plynu-1388924>

⁷ *Zkapalněný zemní plyn z Nizozemska se již používá v Česku* (2022, October 10). ČTK. <https://www.ceskenoviny.cz/zpravy/zkapalneny-zemni-plyn-z-nizozemska-se-jiz-pouziva-v-cesku/2269311>

about Berlin's plan of support for German households and companies in response to rising prices of energy. In September, the German cabinet announced that it would transfer up to 200 billion EUR to individual subjects until spring 2024.⁸ Such massive state support would give preferential treatment to the German companies, providing them with a substantial competitive advantage which would have devastating consequences not only for their Czech competitors. These issues are being intensively discussed between Germany and the Czech Republic within the latter's presidency of the Council of the EU.

The current crisis has made the Czech and Polish sides revive the plan to build the Stork II gas pipeline. The first stage of the project – Stork I – was opened in 2011. However, it is only a one-way pipeline, transporting gas from the Czech Republic to Poland. Concurrently, Stork II project was drafted with the aim to connect Polish Świnoujście with the Croatian island of Krk in a North-South direction. In 2016, Warsaw withdrew from the project to focus on the Baltic Pipe with Norway. In September 2022, the Prime Ministers of the Czech Republic and Poland announced that both sides had agreed on the continuation of preparations of the Czech-Polish section of Stork II. If the investment is approved in the months to come, the pipeline can be inaugurated no later than in 2026.⁹

On the basis of President Miloš Zeman's invitation, Emir of Qatar Tamim bin Hamad Al Thani visited Prague on October 5–6 to discuss the possibility of LNG supplies from the North Field. Qatar can become a strategic supplier for the emirate has one of the world's largest gas reserves and, moreover, Doha is preparing the expansion of its North Field. The expansion could help to solve the current situation when an overwhelming majority of LNG from Qatar is sold to Asian countries (particularly China, India, South Korea and Japan) based on long-term contracts which makes immediate supplies to the Czech Republic virtually impossible.¹⁰ Emir's October visit, nevertheless, laid foundations for further cooperation which is especially promising in the field of energy, infrastructure, new technologies, defence and medicine.¹¹

⁸ *Dohoda o sdílení plynu s Německem je blízko dokončení, Česko chce i podíl v LNG terminálech* (2022, October 17). E15.cz. <https://www.e15.cz/byznys/prumysl-a-energetika/dohoda-o-sdileni-plynu-s-nemeckem-je-blizko-dokonceni-cesko-chce-i-podil-v-lng-terminalech-1393988>

⁹ *ČR a Polsko žádají unii o financování plynovodu Stork II* (2022, September 30). ČTK. <https://www.ceskenoviny.cz/zpravy/cr-a-polsko-zadaji-unii-o-financovani-plynovodu-stork-ii/2264303>

¹⁰ Mazúchová, S. (2022, October 07). *S Katarom na věčné časy. Česko se mu zřejmě bude muset upsat na desetiletí*. iDNES.cz. https://www.idnes.cz/ekonomika/zahranicni/katar-zkapalneny-plyn-lng-emir-evropa.A221006_153815_eko-zahranicni_maz

¹¹ Ovčáček, J. (2022, October 06). *Úspěšná česko-katarská jednání na Pražském hradě*. Pražský hrad. <https://www.hrad.cz/cs/pro-media/tiskove-zpravy/aktualni-tiskove-zpravy/uspesna-cesko-katarska-jednani-na-prazskem-hrade-16622>

Conclusion

The building of new energy infrastructure will take several years. Chairwoman of the State Office for Nuclear Safety and respected energy expert Dana Drábová expects that the next years will be difficult because supplies from Russia cannot be objectively replaced in a short-term horizon. At the European level, she recommends the commissioning of nuclear power plants that have been shut down in France and Germany in conjunction with substantial energy saving. As far as the Czech Republic is concerned, the emphasis should be put on nuclear and renewable sources, and the substitution of coal power stations with gas ones.¹² Energy can also be produced by small modular reactors (SMR) that are to complement the energy mix. ČEZ company plans to build the first Czech SMR in Temelín nuclear power plant. Moreover, SMRs could be used for the production of emission-free hydrogen, another possible source of energy.¹³

¹² *Energetická krize podle Drábové nemá krátkodobé řešení* (2022, October 14). ČTK. <https://www.ceskenoviny.cz/zpravy/energeticka-krize-podle-drabove-nema-kratkodobe-reseni/2271181>

¹³ Kanta, A. (2022, October 04). *Malé modulární reaktory nabízejí Česku skvělou příležitost, shodli se diskutující experti*. E15.cz. <https://www.e15.cz/byznys/prumysl-a-energetika/male-modularni-reaktory-nabizeji-cesku-skvelou-prilezitost-shodli-se-diskutujici-experti-1393641>