



Weekly Briefing

Czech Republic political briefing:
Hot Start of the New Year: On Key Political Issues
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Hot Start of the New Year: On Key Political Issues

Summary

The briefing analyses the main domestic political events of the first weeks of the new year. The attention is paid particularly to the record military tender from which the US will benefit in contrast to a strategic energy tender from which an American company was excluded. These developments are analysed against the background of defence and energy policy and Czech-American relations. The briefing goes on to a politico-legal dispute at the Constitutional Court which resulted in defining general provisions that politicians ought to abide by henceforward. Last but not least, the study focuses on several aspects of the prospective adoption of the euro.

Introduction

The domestic political scene was affected by a number of important and far-reaching events in January. The government concluded an agreement on the purchase of American F-35 aircraft which became the most expensive tender in the history of the Czech military. The ruling cabinet also took steps towards the conclusion of a strategic energy tender regarding the construction of nuclear reactors, announcing that Prague was interested in the construction of up to four reactors instead of the only one. Concurrently, the American Westinghouse company failed to comply with the requirements and was eliminated from the tender. The Constitutional Court delivered a verdict about indexation of pensions which was an object of struggle between the government and the opposition. The Court not only rejected the opposition's petition but also commented on related issues which can have a long-term impact on political life. In addition, a political discussion about joining the eurozone was stirred up, becoming one of the causes of quarrel between the coalition parties. The incumbent cabinet was exposed to the most serious internal instability and conflicts since the beginning of its tenure.

Purchasing American fighters

Relations with the Americans have recently experienced ambiguous developments. It manifested itself on two strategic tenders in areas that are of key significance in terms of national security and interests. The Minister of Defence Jana Černočová signed an agreement

regarding the F-35 aircrafts with the US ambassador Bijan Sabet in Prague on January 29. According to the official report, the deal was not concluded in Washington and signed by the US counterpart Lloyd Austin due to the latter's health problems. A question, however, arises as to why the signing was not postponed, for the *Memorandum of Understanding* between both governments and the *Letter of Offer and Acceptance* could have been concluded until the end of March.

The Czech side undertook to buy 24 aircraft which are to be delivered between 2029 and 2035. The government will pay 150 billion CZK (more than 6 billion EUR). It will allegedly account for some 7.3 per cent of the annual defence budget until 2034 and 2.0-3.0 per cent afterwards. The government expects that the new American aircraft will be operational until 2069, replacing 14 leased JAS-39 Gripen fighters and later the L-159 ALCA fighters as well. The contract also includes related projects which will be carried out by Lockheed Martin and Pratt & Whitney companies with the participation of 13 Czech companies and universities. These projects entail joint research and development, production of components, pilot training and service of the aircraft.

The government argues that the purchase of fifth-generation fighters is the only way to maintain and strengthen the defensive capacity in the future. Despite the high cost of the American fighters, the latter are being purchased by 18 countries both in NATO and beyond, namely, Australia, Belgium, Canada, Denmark, Finland, Germany, Israel, Italy, Japan, Netherlands, Norway, Poland, South Korea, Singapore, Switzerland and the United Kingdom. A deal is also under negotiation with Greece. It is estimated that there will be up to 600 F-35 fighters in Europe, which will help to improve interoperability and efficiency as well as reduce further expenditures. The government and General Staff's vision is to make the American fighters a pillar of the Czech defence and Armed Forces as they are able to fulfil several functions inclusive of the field of anti-aircraft warfare and radiolocation system, which will enable more efficient integration of the military systems and armed branches.¹

The decision on the purchase was not consensual politically. ANO, the strongest political movement, largely criticises the high price of the aircraft which contrasts with austerity

¹ Černochová a americký velvyslanec podepsali nákup stíhaček F-35. Česko za ně zaplatí 150 miliard korun (2024, January 29). iROZHLAS. <https://www.irozhlas.cz/zpravy-domov/f-35-armada-stihacky-nakup-jana-cernochova-2401291135-gut>. Ministryně Černochová dnes stvrdila nákup amerických F-35 (2024, January 29). Ministerstvo obrany. <https://mocr.army.cz/informacni-servis/zpravodajstvi/ministryne-cernochova-dnes-stvrdila-nakup-americky-f-35-249043/>. Tábořský, J. (2023, September 27). Q&A k pořízení 24 letounů 5. generace pro řešení budoucnosti nadzvukového letectva Armády ČR. Ministerstvo obrany. <https://mocr.army.cz/informacni-servis/f35/q-a-k-porizeni-24-letounu-5--generace-pro-reseni-budoucnosti-nadzvukoveho-letectva-armady-cr-246630/>

measures and attempts at restrictive fiscal policy on the part of the government. Former Minister of Defence Lubomír Metnar argues that the cabinet made a decision without detailed knowledge of the issue and did not have a competitive offer at its disposal. Moreover, the Swedish side was interested in further cooperation based on the JAS-39 Gripen aircraft and NATO did not require such an extensive purchase which can turn out to be excessive. According to the parliamentary opposition, such behaviour is incorrect in relation to Stockholm all the more so that Sweden provided the Czech Republic with the fighters at favourable conditions. The opposition leader and former Prime Minister Andrej Babiš considers the government's decision "mindless". The SPD movement also joined the critical voices and its position regarding the purchase of the American aircraft has remained negative for a long time, favouring the cooperation with Sweden and use of the Gripens for the simple reason that they are only in the middle of their lifespan and can be further modernised if necessary. On the contrary, the agreement with the Americans was welcomed by President Petr Pavel, Speaker of the Chamber of Deputies Markéta Pekarová Adamová and Chairman of Senate's Committee on Foreign Affairs, Defence and Security Pavel Fischer.²

Expanding the nuclear tender

On January 31, the government informed the public about progress in the strategic tender on the construction of a nuclear reactor in Dukovany Nuclear Power Station. The preparation process has been going on for several years. Generally speaking, nuclear energy enjoys wide popularity in the country and represents an important source of energy. In 2022, 41 per cent of energy was produced by nuclear stations compared to 54 per cent coming from coal (48 per cent) and gas (6 per cent). The rest was produced by renewable sources. Interestingly, the share of renewable sources decreased in the last years. In 2015, the figure amounted to 12 per cent in contrast to 55 per cent in the case of coal and gas and 33 per cent for nuclear sources.³ The Czech energy structure is therefore very different from the EU average. The 2021 statistics show that most energy comes from nuclear sources (25 per cent), gas (20 per cent), coal (14 per cent), water (13 per cent), wind (13 per cent) and solar sources (6 per cent). The dominance of coal remains typical of Bulgaria, the Czech Republic, Estonia, Germany and Poland but the

² Menšík, J. (2023, September 27). *Vláda všude škrtá a pak kupuje drahé stíhačky, kritizuje opozice*. Novinky.cz. <https://www.novinky.cz/clanek/domaci-vlada-vsude-skrta-a-pak-kupuje-drahe-stihacky-kritizuje-opozice-40445017>

³ Zbytkový *energetický mix* (2024). OTE. <https://www.ote-cr.cz/cs/statistika/zbytkovy-energeticky-mix>

Czech Republic will probably join the group of EU countries where most energy is produced by nuclear sources, that is, Belgium, Finland, France, Hungary, Slovakia and Slovenia.⁴

The government expects a gradual decrease in the share of coal power plants, even though the pace will likely be slower than the EU establishment with its ambitious vision of the green transition hopes. In the last years, the Czech representatives advocated nuclear energy which the European Commission had originally hesitated to designate as “clean”. A negative attitude towards nuclear energy on the part of the EU would have had enormous negative effects on the country given the fact that the share of “traditional” renewable sources has been marginal. No one doubts that the Czech energy policy must be based on due combination of nuclear and renewable sources but such a transformation will take several decades. Moreover, it requires further expansion of nuclear power plants so as to keep affordable prices of energy and avoid excessive dependence on external suppliers. Nowadays, the country belongs to exporters of electricity. Analyses of some energy companies, however, predict that the Czech Republic will turn into an importer in the next decade.⁵ An accelerated construction of nuclear power stations could prevent such a negative scenario from being materialised.

In January, the government concluded one of the stages of the tender on a new nuclear reactor and turned to the contenders to elaborate a project of four reactors. The country’s two power plants can be expanded by four reactors in technical terms so this option is viable. Yet the construction of four reactors could cost two trillion CZK and more, which would have a massive impact on the state budget. Economists estimate that the overall state debt would soar from the current 43 to 72 per cent in relation to GDP, which could lead to the need for reducing state expenditure in other, politically and socially sensitive, areas. Minister of Finance Zbyněk Stanjura has stated that the cabinet does not want to anticipate its future decision. The contenders are to submit their projects and offers by April while the department will elaborate on economic models. The finance minister has admitted that the final number of new reactors will be one, two or four.⁶

The tender has been an object of high political and security interest since the very beginning. The Czech government headed by Andrej Babiš excluded Chinese and Russian

⁴ Conte, N. (2023, February 10). *Mapped: Europe’s Biggest Sources of Electricity by Country*. Visual Capitalist. <https://www.visualcapitalist.com/mapped-europes-biggest-sources-of-electricity-by-country/>

⁵ Janouš, V. (2023, July 31). *Česku hrozí, že se stane dovozcem elektřiny. Nové zdroje přijdou na stamiliardy*. Deník.cz. <https://www.denik.cz/energie/cesku-hrozi-dovoz-elektriny.html>

⁶ *Nové jaderné bloky. „Nerozhodli jsme, že postavíme čtyři. Může být i jeden či dva,“ řekl Stanjura* (2024, February 4). Echo24.cz. <https://echo24.cz/a/HRtsP/zpravy-ekonomika-tendr-neni-uzavreny-vystavba-nove-jaderné-bloky-budeme-resit-ano-rekl-stanjura>

companies (CGN and Rosatom) after pressure from security agencies in 2021. It turned out that the American Westinghouse did not meet the requirements and its project was not accepted and assessed. The present demand for four reactors was, therefore, provided only to the French EDF and South Korean KHNP. The government wants the binding agreement to be signed by the end of this year in order to manage to construct the Dukovany reactor no later than in 2036. The elimination of Westinghouse came as a surprise because the Americans manifested serious interest in the tender and could capitalise on the close cooperation between Prague and Washington under the incumbent cabinet. Irrespective of this tender, relations with the American company will be preserved because Westinghouse has recently become a supplier of nuclear fuel for both Czech nuclear power plants instead of Rosatom-owned TVEL Fuel Company (the Temelín power station is also supplied by French Framatome).⁷ The Czech Republic together with Finland has thus become independent on Russia in nuclear field in contrast to Bulgaria, Hungary and Slovakia which also operate Soviet-manufactured reactors but continue to import nuclear fuel from Russia.⁸

At the same time, the dependence on Russian suppliers has been replaced with a strong dependence on the Americans instead. Russian gas has been substituted for LNG, predominantly of the US origin. After the outbreak of the military conflict in Ukraine, the US supplies of LNG to the European Union more than doubled and the country has become the second-biggest supplier after Norway. Generally, Russia, Iran and Qatar have the largest proven reserves of world's gas and none of these countries is a Western ally. The American companies can therefore capitalise on the accelerating trend of establishing "secure" ties between like-minded countries entailing the decoupling and derisking strategies. Paradoxically, the Biden administration has recently suspended the export of LNG, which put the EU in a somewhat uncomfortable situation. The point is that Washington has decided to tighten up the rules for issuing export licences. The latter is needed in the case of export to those countries that do not have a free trade agreement with the US so it applies to all EU countries. It shows that Europe can hardly take American supplies for granted and should, therefore, focus on real diversification instead of an excessive dependence on Washington.⁹

⁷ *Změna po téměř čtyřech dekádách. Palivo do Dukovan bude dodávat Westinghouse* (2023, March 29). iDNES.cz. https://www.idnes.cz/ekonomika/domaci/westinghouse-dukovany-jaderne-palivo-rusko.A230329_142926_ekonomika_akp

⁸ *Interview ČT24* (2024, February 4). ČT24. <https://www.ceskatelevize.cz/porady/10095426857-interview-ct24/224411058040204/>

⁹ Jirušek, M. (2024, February 6). *Jednu závislost vyměňujeme za druhou. Vývoz LNG ze Spojených států se může zkomplikovat*. E15. <https://www.e15.cz/nazory-a-analyzy/jednu-zavislost-vymenujeme-za-druhou-vyvoz-lng-ze-spojnych-statu-se-muze-zkomplikovat-1413386>

The politico-legal dispute at the Constitutional Court

Aside from the abovementioned weighty decisions with an external dimension, the Czech government was involved in the not less important politico-legal case at the Constitutional Court whose verdict could have had an enormous impact on the Czech political culture and fiscal policy. A group of the opposition ANO deputies brought an action against the ruling coalition for the reduction of extraordinary indexation of pensions as well as the process of its approval which occurred. Amid the galloping inflation last year, the government adjusted the rules of indexation so as to mitigate the negative effects on the state budget. The opposition argued that the decision violated the rights of pensioners, who were entitled to higher pensions, and that the government abused the institute of “legislative emergency” for the proposal to be passed. The legal proceedings were in the spotlight because pensions as well as other social benefits belong to the most sensitive political issues. One cannot also omit that pensioners account for a substantial part of ANO’s electorate, which explains why the leading opposition party put such a strong emphasis on this case.

On January 24, the Constitutional Court turned down all points of the petition on a wide consensual basis, for only three out of 15 judges adopted dissenting opinions. The Court concluded that the then economic circumstances were extraordinary, which justified extraordinary measures on the part of the government to preserve the economic sustainability of the pension system. Moreover, there is no right to a permanent rise in pensions and its correspondence with inflation. The state guarantees a “just and proportionate” pension but the latter must be linked to economic reality and fiscal policy. According to judges, last year’s decision did not violate the fundamental right to pension security. Not less importantly, pensioners were protected against the negative impacts of inflation for a long time, unlike a large part of society. In addition, present pensioners should feel solidarity with future generations and not exhaust financial resources to the detriment of future pensioners whose number will be increasing considerably. In other words, the Constitutional Court highlights the imperative of long-term economic sustainability and fiscal responsibility while appealing to politicians to carry out a necessary reform of the pension system as a whole. No government has been able to push reform through, especially due to high political costs.

The opposition also criticised the way how the coalition deputies passed the amendment. The ruling coalition resorted to the institute of “legislative emergency” which shortens the entire process, reducing the number of readings from three to two as well as the possibility for the opposition to obstruct the process. While the government justified the “legislative emergency” by referring to the risk of serious economic harm unless the adjustment is passed,

the opposition deputies warned against abuse of the extraordinary institute in the parliamentary practice and suppression of democratic deliberation. However, the Constitutional Court arrived at a conclusion that the actual risk of negative economic consequences and the need for fiscal responsibility outweighed undue procedural conduct. The institute of legislative emergency is not an integral part of the constitutional law but only a provision of the Rules of Procedure which are of inferior value. Furthermore, the use of this institute is to always be assessed within a concrete politico-economic context. From the point of view of the constitutional judges, the extraordinary circumstances under which the legislative emergency is allowed to be used do not limit themselves solely to a natural disaster, epidemic or war but also cover abrupt economic volatility and shocks, which indeed happened at the beginning of the last year.

Last but not least, the opposition had a chance to participate in the debate about the government proposal but deputies resorted to obstructions instead. These facts were taken into account by the Constitutional Court when deciding the petition. Moreover, the judges set a “new normal” as far as the parliamentary obstruction is concerned, declaring that obstructions cannot prevent the parliamentary majority from exercising political power because otherwise the significance of elections and their results would be denied. In other words, the legitimate interests of the minority must be protected to a certain degree but this cannot result in paralysis of the system since the majority has the right to rule.¹⁰ The January verdict of the Constitutional Court thus has far-reaching consequences and does not limit itself to one particular question. That is why due attention should be paid to it all the more so that the Court’s decisions are legally binding.

The Czech Republic to join the eurozone?

At the beginning of the year, President Petr Pavel stirred up debate about joining the eurozone after he supported such a step.¹¹ When the country entered the EU, it made a commitment to adopt the common currency in the future. Any concrete time limit was not set but the then commitment is binding. Most EU countries have already adopted the euro except

¹⁰ *Snížení mimořádné valorizace penzí u Ústavního soudu obstálo. Šlo o udržitelnost důchodového systému, řekl Baxa* (2024, January 24). ČT24. <https://ct24.ceskatelevize.cz/clanek/domaci/ustavni-soud-odpoledne-vyhlasil-jak-rozhodl-o-snizeni-lonske-valorizace-duchodu-345267>. Krásenská, D. (2024, January 24). *Bytostně nesouhlasím, říká Schillerová k verdiktu Ústavního soudu o penzích*. Seznam Zprávy. <https://www.seznamzpravy.cz/clanek/domaci-politika-ustavni-soud-vynasi-verdikt-jak-rozhodl-o-zkracene-valorizaci-penzi-244383>

¹¹ *Prezident Pavel: Je čas začít dělat kroky k přijetí eura* (2024, January 1). Seznam Zprávy. <https://www.seznamzpravy.cz/clanek/domaci-prezident-pavel-je-cas-zacit-delat-kroky-k-prijeti-eura-242788>

for Bulgaria, the Czech Republic, Denmark, Hungary, Poland, Romania and Sweden. Denmark is the only country that is not obliged to join the eurozone. The decision on the adoption of the currency, however, must be preceded by a transitional period as well as fulfilment of the euro convergence criteria (“Maastricht criteria”). The Czech Republic currently does not meet them due to fiscal expansionism of the last years. President Pavel wanted to initiate a serious public discussion about the topic and motivate the political representatives to fiscal discipline as the Constitutional Court did a couple of weeks later.

The problem is that there is neither political nor social consensus on this issue. Quite the contrary, the euro’s popularity remains low and the strongest political parties, that is, ANO and ODS, are rather sceptical. Most experts agree that the adoption of the common currency has both advantages and disadvantages and its impacts vary depending on concrete social groups. Euro would bring benefits to domestic exporters but concurrent stronger competition could weaken small- and medium-sized enterprises. Stronger competition, at the same time, would push prices down, which would be favourable for consumers who would also benefit from cheaper credits and mortgages. The last would, in turn, accelerate the rise in prices of real estate.¹² Overall, the decision on the euro will be political rather than economic and there is no doubt that the debate will last for many years.

Conclusion

President’s “euro” initiative has driven a wedge between coalition parties because some of them, particularly TOP 09, STAN and the Pirates, supported Petr Pavel’s stance and called for the preparation of the admission process. Minister for European Affairs Martin Dvořák (STAN) even appointed a special commissioner for the euro without prior consultations with the coalition partners. The new year brought strong instability and disagreements to the government in several areas concurrently. Leaders of the five coalition parties, nonetheless, succeeded in bringing the situation under control eventually.¹³ Yet the tensions will likely reappear for the simple reason of approaching elections.

¹² Úšela, J. (2024, January 11). *Přijde s eurem bohatství, nebo pouhopouhé zdražení? Vysvětlujeme, proč většina jednoduchých pravd neplatí.* Deník N. <https://denikn.cz/1325997/prijde-s-eurem-bohatstvi-nebo-pouhopouhe-zdrazeni-vysvetlujeme-proc-vetsina-jednoduchych-pravd-neplati/>

¹³ Rambousková, M. (2024, February 7). „Zaznělo, že na jejich řečičky nejsme zvědaví.“ *Co se dělo na jednání K15.* Seznam Zprávy. <https://www.seznamzpravy.cz/clanek/domaci-politika-zaznelo-ze-na-jejich-recicky-nejsme-zvedavi-jak-probihalo-jednani-k15-245316>