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Liberalisation of electricity and gas markets - plans and reality

THE EUROPEAN UNION HAS SET OFF ON THE PATH TO LIBERALIZATION OF ENERGY MARKETS. HOWEVER, THE ENERGY MARKETS IN THE EU ARE STILL ENCOUNTERING A LOW LEVEL OF COMPETITION CAUSED BY HIGH CONCENTRATION OF PRODUCTION IN A SMALL NUMBER OF COMPANIES. HOW DOES THE CZECH REPUBLIC STAND IN COMPARISON WITH ITS NEIGHBOURS?

AN INTERVIEW WITH JOSEF FIŘT FROM THE ENERGY REGULATORY OFFICE
THE ALTERNATIVE ENERGY SOURCES AND THEIR USE
THE POWER STRATEGY OF THE CZECH REPUBLIC

The energy markets in EU are encountering a low level of competition caused by high concentration of production in a small number of companies, says in an interview Josef Fiřt,

chairman of the Czech Energy Regulatory Office

The European Union has set off on the path to liberalisation of energy markets. How would you assess the degree of openness of the Czech market for electricity and the process of liberalising the Czech gas market? In this sphere how does the Czech Republic stand in comparison with its neighbours?

Liberalisation of the Czech market for electrical power from the point of view of the criteria laid down by the relevant directive is one hundred percent completed as of 1st January 2006. The beginning of the liberalisation of the Czech gas market was stipulated as 1st January 2005, when the first consumers become eligible customers. This phase involved industrial customers and the opening of the market related to around 35 of the largest of them. The entire liberalisation process involving the opening of the market will take place in three phases and will end on 1st January 2007, when all consumers of natural gas, including households, will become eligible customers.

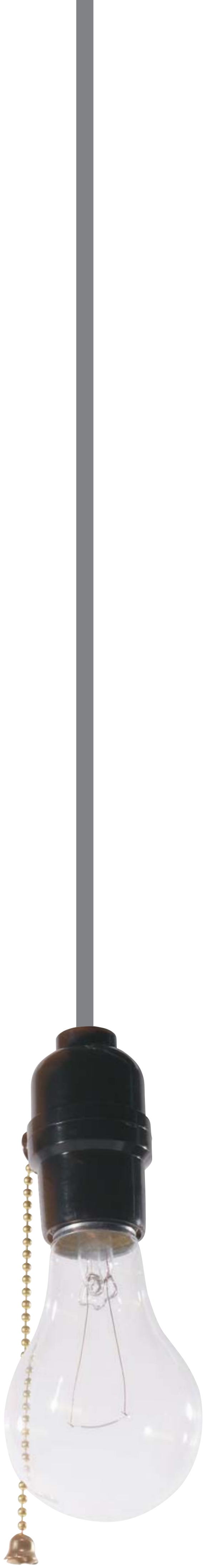
The question is whether liberalisation of the gas market is the right route. Given the character of the gas industry it is clearly unrealistic to create a fully competitive environment because of the classic block mechanism customary in continental European. Also involved is the complicated access of parties to underground stocks of gas. Another important aspect is the restricted number of producers of natural gas suitable for the European market, where supplies from Russia maintain their dominant position. A further significant barrier is the considerable demands on finances and time made by the construction of technological units. This includes distribution and transmission systems, underground gas stocks, etc.

What positive and negative aspects will opening of the energy markets involve for producers on the one hand and consumers on the other?

As elsewhere in Europe the opening of the electricity market in the Czech Republic brought certain advantages on the side of producers and traders, but also on the side of large customers. In the first phase a drop in prices was recorded in the case of large customers, though this state of affairs was only temporary. However, it is clear that large customers have greater possibilities to influence the price they pay on the market, and do not have to restrict themselves to the domestic market when looking for a supplier. Generally speaking the markets in European countries are encountering a low level of competition caused by the high concentration of production in a small number of companies.

The market for small customers in the Czech Republic is still in its infancy. At present as well as the three largest companies, several other firms offer electricity to small businesses and households. However, we can anticipate that the retail market will develop further in the future. Over the next few years, given the adaptation of the domestic market to prices abroad and the anticipated slight overhang in demand for electricity in Europe, we can anticipate that the possibility of choosing a supplier for customers will tend to involve an alleviation of negative impacts on price rather than a drop per se.

The first experiences with opening of the market have not been good for the gas industry. Eligible customers had problems concluding contracts for a gas supply in 2005, which is why many administrative proceedings were initiated by our office. Practically the sole supplier of gas for eligible customers in 2005 was RWE Transgas. This meant the market was non-functional and the office had to take steps to protect customers and intro-



duce a maximum purchase price of gas for 2006.
The situation in 2006 is slightly better, since another two gas suppliers have entered the market. However, there is still no way we can speak realistically of a functioning market for gas.

How difficult is it for a small company (of up to 50 employees) to change a gas supplier? Is it worth their while doing so?

From the point of view of a small company, changing supplier is not difficult. If the company (or household) chooses a reliable new supplier, you can expect the new supplier to carry out almost all of the steps linked to the change on behalf of the client. However, a change of supplier is not something that can be accomplished overnight. The customer should organise the overall timetable for the change of supplier, as well as the period of notice with the existing supplier. On the office's website we have published the procedure to be followed in the case of a change of supplier, which summarises the essential steps in accordance with the relevant decree, as well as a list of traders with a licence to trade in electricity.
We would advise customers to weigh up not only the price offer available before deciding to change their supplier, but also to study carefully the rest of the contractual conditions which the specific supplier will insist on if the contract is concluded.

What price developments can Czech customers expect in the case of deliveries of electricity and natural gas? Are prices on the Czech market comparable with prices in neighbouring countries, or with average prices in the EU?

The final price of electricity comprises a non-regulated part (electricity) and a regulated part (transmission, distribution, etc.). The prices of electricity reflect above all the offer of producers and traders and will rise by 15 to 17%. In the case of customers connected to individual voltage levels this will manifest itself in various ways. In the sphere of regulated prices, which relates above all to the transport of electricity, an increase is expected slightly above the level of annual inflation. The consequence for households, for instance, will mean an increase in the resulting prices of a supply, including regulated and non-regulated components, by roughly 8 %.
Non-regulated prices in the Czech Republic are also influenced by the price level abroad, to which they are gradually converging. Prices of electricity are higher in neighbouring states of the CR.
In continental Europe the price of natural gas for end customers depends on the competing fuels available. In the Czech Republic these are furnace oil and coal. The price of furnace oils is not stipulated by directive, since these are quoted commodities traded on the Rotterdam stock exchange and as such react to the situation on energy markets, above all to the price of oil, at any one moment in time. For this reason it is not possible to forecast precisely the price of natural gas.
The price of a supply of natural gas in the Czech Republic is below the average price of the EU25, which is 13 in 2006. As information published by EUROSTAT shows, there are significant differences to the prices of supply in Europe. Prices are anything between 5 per GJ in Estonia and 30 in Denmark, given annual consumption of 84 GJ (23.3 MWh) per year. It should be pointed out that the final price of a supply for the end customer is not identical with the price of the natural gas. The supply comprises the price of the natural gas, costs of transport and distribution, and expenses for storage and national taxes, which are different in individual countries. The tax burden on fossil fuel also has a significant impact on the different price of a supply.

The EU, including the CR, is in favour of greater utilisation of renewable resources of energy. What is your opinion regarding the possibilities of its development in the CR? What resources are the most promising?

Our office has been supporting the production of electricity from renewable resources in the form of guaranteed prices since 2002. Over this period of time we have had the opportunity to acquire an excellent overview of genuine utilisation and the possibility of renewable resources under the conditions applying in the CR. In my opinion support is higher here than in other EU states. Support is important, above all in order to make savings on primary fuels and to reduce dependency on imports of energy. However, such support must be organised on a reasonable basis with consideration for the genuine possibility of using the appropriate category of renewable resources in this country. The resource with the greatest potential in this sphere at present is biomass, above all when burnt in combination with coal. Even at present energy from biomass can be used in existing power stations in great quantities with high levels of efficiency. In the future the technology of independent, "clean" combustion of biomass will clearly develop.
A limiting factor for the further utilisation of biomass is its current availability, since certain types of biomasses have other uses which have to be given precedence over combustion. We see the future involving the cultivation of biomass, in which case it will be necessary to attune support from the energy industry to support for agriculture.
Other renewable resources can also be developed further, though their contribution to the total amount of electricity produced will not be so high. In the sphere of hydroelectric power stations, which are at present an important producer of electricity, the potential in question has almost been exhausted by natural and technical conditions. Experience with wind power plants in comparison with other countries is indicative of the limited possibilities of utilisation and the unfavourable impacts on the operations of electricity networks in respect of ensuring the regulation output.

Thank you very much for the interview.

Blanka Jakubcová,
CEBRE – Czech Business Representation

The possibility of using alternative energy resources in the Czech Republic

UTILISATION OF RENEWABLE AND ALTERNATIVE SOURCES OF ENERGY HAS STRONG SUPPORT WITHIN THE FRAMEWORK OF THE INTERNAL MARKET OF THE EUROPEAN UNION AND HAS AN IMPORTANT POSITION WITHIN THE FRAMEWORK OF THE STATE ENERGY CONCEPTION OF THE CZECH REPUBLIC.

As well as the obvious gains for the whole of society in having a clean environment, more and more it is economic interests which are coming to the forefront, ensuing from the global energy situation: increasing prices of energy, technological developments, and their effectiveness and efficiency. Strategic and security issues form a chapter of their own. All these aspects form an integral part of the modern conception of sustainable economic development. Legislation is also taking off in this direction, both on the level of the EU and by means of the adaptation of these principles to the Czech legal environment.

The developing market for alternative energy sources logically brings with it a host of business opportunities. An example would be solar energy, where the cost of producing energy equipment is falling and its efficiency increasing, which makes the return on investment much more interesting. Despite this it is still the case that without some form of support, either in the form of increased purchase prices or grants for investment, in most cases utilisation of alternative energy resources is still no more economically advantageous than traditional resources from the point of view of individual investors. Nevertheless, these days, under the right conditions and with a well chosen project, concrete implementation can be interesting.

The provision of information plays an important role. Unfortunately it is the case at present that many potential participants in the process of using alternative resources, whether they be consumers, operators or suppliers, are not sufficiently acquainted with this issue. However, the level of information acquired by interested parties in this sector has recently increased considerably. This is visible in terms of technology and information: firstly more people know of this issue, and secondly there are more parties interested on a business level, either from the standpoint of the production of equipment or from the point of view of sales or publicity, etc.

Developing market for alternative energy sources brings a host of business opportunities

However, the effective utilisation of renewable resources is very dependent on the climate and other natural conditions, i.e. on the geographic character of a country. It is difficult for the Czech Republic to compete in utilisation of wind energy with Ireland or Scotland, for example. And solar radiation is not as strong in the CR as it is in Spain or Greece. Nevertheless, utilisation of alternative energy resources undoubtedly has potential in the CR, though this is restricted somewhat by the current level of technology. When we compare the Czech Republic with certain EU and non-EU countries, we definitely do not have the conditions necessary for, say, fifty percent of energy to be provided from renewable resources. The production of electricity in the CR from renewable resources stands at something around four percent at present, and the total share of renewable resources in the balance of primary energy is even lower at around three percent. The Czech Republic has undertaken to raise the share of electricity produced from renewable resources to eight percent by 2010. Although this is an indicative target, even getting close to it will be very difficult.

What a renewable resource is is precisely defined in the Czech Republic in the Act on Renewable Energy Resources, passed last year, which defines renewable energy resources for other requirements: administrative, fiscal, legal, tax, etc. As well as the best known renewable energy resources, such as biomass, biogas, water, wind and solar energy, it also includes other resources, etc. geothermal energy or heat from the surrounding air using thermal pumps, etc. Alternative energy resources also include the utilisation of communal waste, or waste heat and the utilisation of hydrogen for energy requirements. Hydrogen management is one of the newest possibilities of the less researched spheres of energy policy. From the environmental point of view this is an outstanding technology, since the main waste material is steam. Nevertheless, the production of hydrogen is in itself relatively demanding on energy, and so the potential for the long-term utilisation of hydrogen is dependent on the utilisation of other renewable resources. Of course, there are other newer technologies, e.g. nuclear fusion. The European Union supports these new technologies within the framework of its science and research programmes, because it is in accordance with EU strategy, which, as well as seeking to improve the quality of the environment, also seeks to ensure maximum self-sufficiency in energy stocks and security of supplies.

The working group for savings of energy and the expansion of the implementation of energy services using the Energy Performance Contracting (EPC) method at the Economic Chamber of the Czech Republic recently devoted an issue of the magazine Komora.cz to a manual on energy savings and renewable and non-traditional energy resources. This manual sees the entire problematic in a more complex way. There is not only a short technical description of the problematic of renewable resources: a businessperson can also find information regarding possibilities of financing, how to evaluate the economics of the project in question, and legislative requirements on and links to the issue of renewable resources.

Martin Moravec,
Economic Chamber of the Czech Republic

Green Paper
Search for a balanced policy

EUROPEAN ENERGY SECTOR NEEDS A COMMON FRAMEWORK. THE GREEN PAPER, WHICH IS INTENDED TO DEFINE THIS FRAMEWORK, SHOULD, HOWEVER, ALSO RESPECT NATIONAL INTERESTS AND SPECIFICITIES.

Like most other countries of the EU the Czech Republic is dependent on imports of oil and gas. Even so, it has a relatively strong energy sector. It is self-sufficient in the production of electricity and even exports some of this energy. It does not exactly have the ideal conditions for the wide utilisation of perfectly clean and renewable resources such as water, wind or sunlight. The relatively large share of "clean" electricity from nuclear resources is subject to the constant criticism of ecological activities, especially from neighbouring Austria.

Two sides of one coin

The strategy of the energy sector of the EU as sketched out in the draft document entitled Green Paper: "A European Strategy for Sustainable Competitive and Secure Energy", is relatively balanced from the point of view of Czech business. The Confederation of Industry of the Czech Republic, which represents many companies from the energy sector and its customers, nevertheless believes that this first draft over-accentuates the need to protect the environment. It is thus in danger of finding itself at variance with the need, also emphasised, for effective alternatives. This could lead to many conflicts. Unfortunately, it does not ensue from the document how such conflicts will be resolved and what principles will be utilised during their resolution. The main objectives were correctly selected in the draft, but the discussions will be crucial. They should relate to all types of energy, their resources, and the problems they bring with them. The Czech business sector would welcome a similar constructive discussion and wants to participate actively in it. A balanced approach must be found, especially in connection with the policy for the restriction of climate change. The attempt to ensure reliable energy supplies comes up against the attitude taken to nuclear power and the uncritical acceptance of renewable resources, which fails to take account of the issues of efficiency and considerably overestimates their genuine potential.

Overcoming barriers

The Czech Republic will have a problem to meet the obligation to an eight-percent share of the production of electricity from renewable resources by 2010. The Ministry of Industry and Trade states that in 2005 the proportion of the gross production of electricity from renewable resources to total consumption was 4.5 percent. Production in hydroelectric power plants has risen, the production of electricity from biomasses is up slightly, and production from biogas has also shown a growing trend. Even though the supply of solar collectors is increasing (up last year by 25 %), as is the use of thermal pumps, their significance from the point of view of the total energy balance of the CR is still very small. And it is clear that if demands on utilisation of these resources were to continue to increase, they would be snagged more and more not only on technological, but financial barriers too.

Market principles and optimisation

In the European energy policy an extraordinarily high volume of investments must be taken into account, which will have to be spent across the EU on the renewal and development of power resources. Paternalistic intervention in the decision-making regarding these investments may simply invite the suspicions of investors with all the negative consequences for the entire economy and lifestyle of the EU as a whole and the individual countries thereof. In this regard there must be no restriction of the selection of resources of primary energy and technology through fixed regulation or even by dictate. Market principles and the optimum mix of energy resources will be difficult to apply where individual countries or societies have only limited space for their own decision-making.

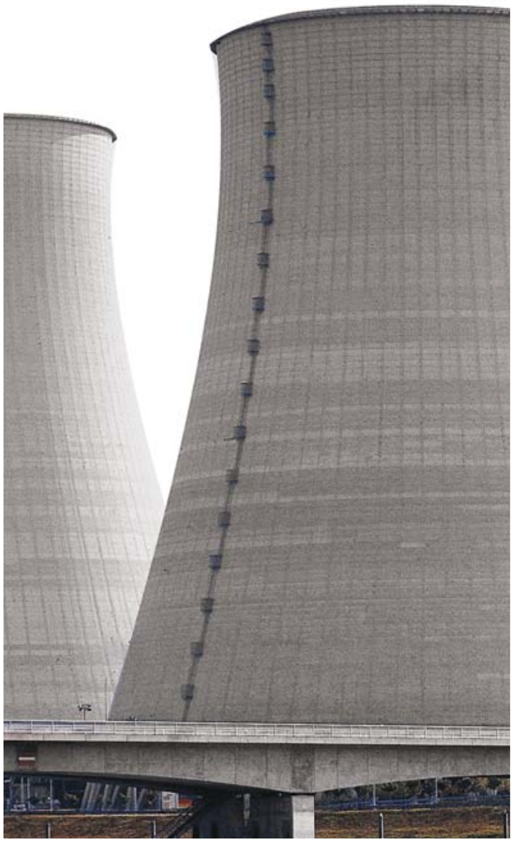
Europe is more and more dependent on imports of energy and for this reason individual measures must lead to sources of supplies being diversified, transport and transit routes being optimised, and the maximum utilisation of available, i.e. domestic energy resources. This means support for the energy self-sufficiency of member countries to the greatest possible extent. From this point of view Czech industry regards as completely unacceptable the specification of the fuel mix and also has reservations regarding benchmarking.

European-wide network

The Confederation of Industry believes that the Green Paper should direct more attention on the development of a functioning European market for energy. The European Commission should clearly spell out how things will be with the harmonisation of technical and commercial rules for the development of a European-wide network and which of the current rules represents barriers to cross-border trading.

The energy policy requires the consensus of the general public. Responsibility for the development of an energy sector which respects protection of the environment cannot just be shouldered by the energy sector and industrial enterprises. Other players must enter the game, whose consumption at present practically exceeds that of industry: households, construction, and transport (institutional and personal – private). The population must receive a clear message that without its active contribution to savings of energy and without support for the utilisation of clean resources, attempts at a consistent energy policy are practically unrealisable.

Blanka Růžičková,
Confederation of Industry of the Czech Republic



Liberalisation of electricity and gas markets – plans and reality

Two years after the entry of the Czech Republic into the European Union liberalisation of the Czech electricity and gas market is still in its infancy. Though from this year some 140,000 customers, leaving aside households and all electricity consumers, can choose their supplier of natural gas, so far only a fraction of customers have taken up this possibility.

According to specialists, even after the opening of the Czech energy market a more significant reduction in the prices of gas and electricity cannot be expected, and so there are unlikely to be large changes of suppliers.

Gas market

Opening of the gas market began on 1st January 2005, but related only to large consumers with an annual consumption of more than 15 mil. m^3. The next phase of liberalisation of the market began in January 2006, when all end-customers, apart from households, became eligible customers, i.e. have the opportunity of choosing their supplier. From January 2007 the market will be open for households too.

The Czech gas market is still dominated by RWE Transgas, which controls six regional distribution companies. Information from the group shows that last year RWE had an approximately 83 percent share of the gas market. Although the market was liberalised last year for the first group of the largest customers, only the company Wingas began importing natural gas, which is a joint enterprise of the German company Wintershall and the Russian Gazprom. This year Vemex wants to begin supplies of gas, which recently signed an agreement on supplies of natural gas to the CR with the export division of Gazprom. However, on the basis of foreign experience it is not expected that large numbers of customers will change their supplier. It is estimated that three to five percent will change supplier in the Czech Republic in the future.

Electricity market

The situation is similar on the Czech electricity market. Liberalisation consists of the fact that from 1.1.2006 every end-customer (consumers, households) is entitled to elect their supplier of electricity and thus influence part of the price for the electricity. Part of the resulting price of a supply of electricity continues to be regulated by the Energy Regulatory Office, but the remaining part (approximately 40%) can be influenced by choosing a supplier. This means a consumer has the possibility of choosing the most advantageous product on offer in the light of the character and quantity of electricity consumed. Specialists believe that liberalisation of the market for electricity should encourage greater competition and a broader range of services, but not lower prices. The prices of electricity in the first two years of liberalisation of wholesale prices fell by between five and six percent, but from last January increased again by an average of almost nine percent. Electricity companies are not anticipating any great migration amongst suppliers. Preliminary estimates and foreign experience would indicate that this will not exceed five percent.

The Czech Republic was recently rebuked by the European Commission for not having opened up sufficiently its market for energy. However, the Czech authorities reject the criticism and claim that they are proceeding in accordance with European treaties and that the opening of the market is taking place in accordance with the EU timetable.

Opening up the markets for electricity and gas meant that Czech electricity and gas companies had to separate out their distribution and commercial activities. For instance, ČEZ, whose group includes five distribution companies, last year transferred individual activities to the new companies ČEZ Distribution and ČEZ Sales. And the gas company RWE Transgas was split into two companies this year. The first will look after commerce with natural gas and the second will take care of its transportation and the management of the distribution network.

Although many customers can already choose their supplier, so far only a fraction of them have taken up this possibility.

Traian Urban,
Economic Chamber of the Czech Republic

The power strategy from the point of view of mining companies in the Czech Republic

THE ENERGY ENVIRONMENT OF THE 21ST CENTURY SHOWS THAT IN TERMS OF SECURING ENERGY SUPPLIES, CREATING STABLE ECONOMIC CONDITIONS, AND TAKING EFFECTIVE MEASURES AGAINST CLIMATE CHANGE, THE ECONOMIC REGIONS OF THE WORLD ARE DEPENDENT ON ONE ANOTHER. DELEGATES OF EU MEMBER STATES AGREED ON THIS, FOR INSTANCE AT SUMMITS DURING 2005. FINALLY, IN JUNE 2006 THE EUROPEAN COMMISSION PUBLISHED ITS GREEN PAPER AS THE BASIS OF THE FUTURE JOINT EUROPEAN ENERGY STRATEGY. THIS STRATEGY STIPULATES THE BASIC PRIORITIES FOR INDIVIDUAL MEMBERS OF THE UNION, CONSISTING ABOVE ALL OF SECURE, COMPETITIVE AND SUSTAINABLE SUPPLIES OF ENERGY.

Independence is the main aim

From this Green Paper, which has become the basis for discussions on the creation of a common energy strategy for countries of the Union for the period lasting until 2030, it is clear that the Czech Republic must implement the principles stipulated in the approved State Energy Conception passed in 2004. This conception concretises priorities and targets which should be attained in the CR over the next 30 years. The main priorities involve ensuring independence of resources, reliability of energy supplies, security of resources, and protection of the environment. In the Czech Republic at present more than 55 % of electricity is produced from solid fuels, of which brown coal represents more than 85 %. Nuclear energy covers approximately 1/3 of electricity produced. Renewable resources represent some 6 % of the total amount and the same amount of electricity is derived from oil and gas.

When it comes to oil, natural gas and nuclear fuel, the Czech Republic is significantly dependent on imports. The solution for the long-term increase in the energy security of the CR is ensuring the effective utilisation of the reserves of domestic resources of energy raw materials, above all reserves of coal, and to the maximum extent to avoid increasing the import of raw materials, especially from politically unstable regions. Coal is the only resource which the CR has in relative abundance. There are stocks of coal to cover the entire period of the approved State Energy Conception at least. For the reasons already referred to this conception includes, in relation to a reduction in the tempo of dependence on imports of energy and an increase in availability, an extension of the service life of extractable reserves of fixed fuels, above all brown coal. In this respect the conception anticipates that by 2020 4,137 MW will have been put into operation of installed output of new power stations on the basis of coal working under the conditions of "new clear coal technology", i.e. in 2030 there will be a minimum of 4,528 MW of power station resources in operation processing brown coal. It is necessary that the State Energy conception becomes binding, because it is a strategic matter and investors building an expansive and complex power equipment need to feel secure that the resources invested will show a corresponding return and not be squandered.

European-wide strategy in the Czech environment

For this reason it is necessary that the priorities valid in the European Union become the priorities for the Czech Republic, and that the executive bodies concern themselves with strategic matters of a long-term character. It is unrealistic to think that the resources producing electricity from coal, but also from nuclear technology, could be replaced in the near future by other resources. At the same time it is not at all necessary to reduce the importance of renewable energy resources, but it is meaningless to overestimate them and thus postpone important and strategic decisions from which systemic measures will ensue, both for mining companies and for electricity producers. Something worthy of attention is the standpoint of the organisation Euracoal (the European Association for Coal and Lignite), which is appealing to Brussels to reassess the importance of coal as a strategic raw material. It is clear that newly built capacities or renewed capacities of existing coal-fired power stations cannot be on the level of surviving technologies, but with the support of domestic and European funds on the basis of clean coal technology. This means a transfer to technologies which significantly reduce the contents of emissions of CO2, SO2, etc. and substantially increase the efficiency of newly built or refurbished capacity. This will mean the advantages of coal as an energy resource up till now, which in the CR means its availability, self-sufficiency and reasonable price, will be boosted by virtue of a significant increase in its ecological friendliness. The Czech Energy Conception is accordance with European-wide plans.

The new view of the situation which Europe is facing up to in the sphere of the power sector is expressed in the Green Paper, in which a possible approach is set forth on the level of the Union. Each member state must select a solution on the basis of their national priorities. However, it is necessary that serious consideration is given throughout the European community to various energy resources, the costs of using them, and their impact on climate change. Only this way will it be possible to ensure for the future that the composition of energy resources in the EU leads to targets being met, i.e. security of supplies, competitiveness, and sustainable development. At the same time the Union must face up to the tasks presented it by climate change, in order that it be possible to react to high and unstable prices of energy, a growing dependence on imports, the worldwide growth in demand for energy, and global warming. For this reason the European Union must have at its disposal a clearly delineated energy policy which it will abide by both on the level of member states and the community as a whole.

Zdeněk Osner,
Employers' Union of Mining and Oil Industries

Czech power industry: Innovation in the forefront of interest

DEMAND FOR THE PRODUCTION OF ELECTRICITY IS ON THE UP AND UP ACROSS VIRTUALLY THE WHOLE OF EUROPE AND THE EXISTING CAPACITY OF POWER STATIONS IS NOT CAPABLE OF MEETING IT DURING PEAK CONSUMPTION PERIODS. THIS IS A HUGE CHALLENGE FOR THE CZECH ENERGY INDUSTRY AND FOR CZECH ENERGY ENGINEERING.

In the past the Czech Republic was a world power in the development, production and export of energy equipment of various types and outputs. Unfortunately the changes of political and economic conditions in 1989 saw a decrease in production.

From Mělník to China and on

Much of this equipment is still reliably operating on all continents to this very day. However, for the internal market above all its production has been significantly restricted, and on the domestic market the ever-growing influence of supranational companies and a drop in the consumption of electricity has put the brakes on it. The last important reference point of the Czech power engineering sector recognised throughout the world was the new 500 MW block at the Mělník power station. This production equipment, put into operation in the central region of the Czech Republic, became the basis for exports of similar types of power stations to China. Another such significant enterprise over the last 15 years would be the desulphurisation of all coal-fired power stations so that they meet European emission limits. At present the situation is changing. The demand for the production of electricity is growing almost everywhere in Europe. The joint aim of all electricity companies is to operate power station blocks with higher productivity and with parameters which correspond to the requirements of the Kyoto Protocol. This involves production which ensures that noxious emissions, including greenhouse gases such as CO2, are kept to a minimum.

Extensive modernisation

The largest Czech producer of electricity, the joint-stock company ČEZ, last year announced a programme entitled “Renewal of the coal blocks of the Czech power sector”. This programme will see all coal blocks modernised in such a way that, even given worse fuel, greater productivity will be achieved (of approximately 2 %) and all ecological limits met. Part of this renewal, which over the next ten years will cost around CZK 150 billion, will be the construction of a new, modern block with an output of 660 MW, with above-critical technological parameters. At the beginning of 2006 a public tender was held for a supplier of the individual functional units for the 200 MW blocks in the Tušimice II power plant in North Bohemia. ŠKODA Power Pilsen was selected to supply the machine room, the boiler room is also to be supplied by a Czech company, VÍTKOVICE Heavy Machinery, and the supplier of the desulphuriser will be the Austrian Energy&Environment CZ. The general contractor will be ŠKODA Prague. All the suppliers will be faced with a difficult task, namely to meet the tight deadlines of individual construction milestones and to comply with the technical parameters, this despite a radical deterioration of fuel and a relative lack of designers, constructors and operating engineers.

The subcontractors’ ambitions

The renowned construction and design organisation Energoprojekt Praha has prepared the basic design of the 660 MW block for the North Bohemian Ledvice power plant with above-critical parameters, i.e. steam pressure of 28.5 MPa at a temperature of 600/610°C, which corresponds to current global trends. Given that the CR does not have at its disposal sufficient experience with research, development, design, construction or operation of these blocks, the entire implementation phase has to take place according to the know-how of one of the renowned companies which has sufficient references and which wins the public tender. Thus far the companies ALSTOM and Babcock-Hitachi have the greatest experience with the construction of similar blocks burning brown coal, while the vision presented by ŠKODA Power, with its turbine under preparation, seems realistic. Czech companies can also participate on the deliveries of important parts and components for the modern block, but must corroborate their references, attestations, and guarantee the requisite quality and keep to the deadlines specified.

Some of the traditional Czech suppliers of components for traditional and nuclear power stations, such as the SIGMA Group, ZVVZ Milevsko, Modřanské strojírny, VÍTKOVICE, etc. have caught this trend. They began research and development of the requisite parts for completion of the delivery in advance, in order to be selected as winning subcontractors in the tenders for new power stations. This gives them a good chance of being subcontractors not only for implementation projects in the CR but for foreign deliveries.

Basis for innovation

The power industry and power engineering sector includes a wide range of professions and expertise, which could not survive without sufficient personnel. In order that the Czech power engineering sector again occupy a leading position in the world, close cooperation is necessary between the power sector, production plants, universities, and training institutions. It is essential to train up new young specialists, who over time will replace those who are retiring.

The Ministry of Education has already taken the first important step. As part of a tender it has used state resources to support the creation of R&D centres, 40 % of whose places must be occupied by young employees. When resolving the problems set them they acquire the necessary theoretical and practical experience, which they can then put into practice on such demanding projects as a modern power station block to equal any in the world.

The application of top-class technology in the energy sector, above all the utilisation of new materials, would not be possible without extensive international cooperation, especially amongst member states of the EU. Research and development in this sphere needs not only capable specialists, equipped testing rooms and laboratories, considerable financial resources, but above all time, of which there is not enough in all spheres.

Miroslav Ecler,
Association of Research Organisations of the Czech Republic

Trading in emissions with greenhouse gases – the National Allocation Plans II

GLOBAL CLIMATE CHANGE IS AT PRESENT ONE OF THE MOST PRESSING TOPICS, NOT ONLY OF SCIENTIFIC AND POLITICAL DISCUSSIONS AND THE MOST VARIED EVENTS, BUT THE DAILY LIFE OF SOCIETY. A POSSIBLE INSTRUMENT FOR RESOLVING THIS CRUCIAL ISSUE IS THE KYOTO PROTOCOL ACCEPTED BY THE EUROPEAN UNION.

The document in question binds the contracting parties to reduce emissions of greenhouse gases between 2008 and 2012 to below the levels they were at in 1990. The member states of the EU-15 are obliged to reduce their overall emissions by 8 % (i.e. in absolute terms by 336 Mt CO2 on an annual basis). The new member states have their own reduction targets stipulated. This usually involves a commitment to 8 %, and in the case of Hungary and Poland 6%. Appendix B specifies a different referential year for Hungary, Poland and Slovenia.

Targets still far away

The member states of the EU-15 contribute approximately 85 % of the total emissions of the twenty five, with the remaining 15 % being the responsibility of the new member countries. Current emission inventories show that in 2004 the EU-15 as a contracting party to the Kyoto Protocol had managed to reduce its emissions of greenhouse gases by only 0.9 %, which considerably reduces the possibility of attaining the targets agreed on by 2012. New EU member states reported a reduction of emissions over the period 1990-2003 of 22 %, especially in the first half of the nineties; after 1995 emissions fell by 6 % and over the last five years have stabilised.

Reduction of emissions?

The European Trading Scheme Directive 2003/87/ES (EU-ETS) is intended to be a decisive tool for meeting the obligations to reduce emissions of greenhouse gases. This directive was introduced during the course of 2004, when the National Allocation Plans allocating the number of allowances for the emission of greenhouse gases by individual resources were also introduced and approved for most countries. The introduction of the EU-ETS is linked with an increase in the prices of energy in member states. The structural reactions of several industrial branches (the production of ferrous and non-ferrous metals, construction materials, the chemical and paper industry, etc.) are, along with the regular development of prices of energy, amplified as a result of the introduction of the EU-ETS. The main trading period 2008-2012 could lead these companies into an irresolvable economic situation inasmuch as in many cases they have reached the technical and technological minimum of emissions and power efficiency, and further reductions are beyond rational possibilities.

First phase and the allocation of allowances

The Czech business public is monitoring closely the current situation, which sees the EU-ETS being regarded as the cure-all for the resolution of the problem of climatic change. Meeting the Kyoto obligation has thus far involved no basic problems, and the concept of the EU-ETS and its application has up till now shown a profit from the sale of allowances, which were allocated at an advantageous levels in the first NAP in light of the system of bonuses used (timely measures, the cogeneration of heat and electricity, renewable resources). The revenue from the sale of surplus allowances in several cases could exceed the level of a company's regular financial results. An inventory has shown that, with four honourable exceptions, all member countries have over-allocated allowances.

Without punishment for economic success

Preparations of NAP II are being followed with even greater interest in the CR. Industry is convinced that, according to the allocation rules, there are no reasons for reducing allocations, but that, on the contrary, the NAP should take into account the pace of growth of economies anticipated up to 2012. Submission of the NAP II CR is anticipated by the end of this year, six months after the deadline specified by the directive. It should be pointed out that a higher NAP II does not automatically mean higher emissions in the CR, but the economy cannot be penalised for a successful reduction of emissions in the nineties nor for economic success over recent and future years. This European Commission is of the opinion that it is necessary to reduce allocations in the EU-15 by an average of 6%, though most member countries disagree. The restriction should not relate to new developing member countries.

Motivation, not a tool

Though there have been no automatic disadvantages ensuing from the EU-ETS for our economy, it is necessary to keep in mind the secondary effects of the system in the increase of the prices of energy, which for the manufacturing spheres could eliminate revenues from the sale of allowances saved and the disproportionate increase in expenses: It must also be born in mind that:

- the EU-ETS is not a tool for reducing emissions – emissions must first be reduced and only then can trading take place with the savings,
- the EU-ETS is only a motivational tool, and only in certain specific spheres: in others it can involve irresolvable problems (aluminium),
- the EU-ETS needlessly includes small resources, which have no practical potential savings or the possibility of using the sale of allowances even as motivation,
- worse times should be factored in, when it will not be possible to specify allocations at the level of NAP I and the draft NAP II and we will then see what the motivational force of the EU-ETS is in the CR.

For this reason the industrial sector requests faster analyses and proposals for the procedure to be followed after 2012. This must include a new assessment of the tools for reducing emissions of greenhouses gasses, including the EU-ETS, both from the point of view of their genuine impact on the global volume of greenhouse gas emissions, and from the point of view of their cost effectiveness and administrative burden.

Josef Zbořil,
Confederation of Industry of the Czech Republic

ODS government has promised dialogue

THE ASSEMBLY OF THE CONFEDERATION OF INDUSTRY OF THE CR IS TRADITIONALLY THE MOST IMPORTANT MEETING OF THE BUSINESS SPHERE AND THE COUNTRY'S LEADING POLITICIANS. THIS YEAR WAS EXCEPTIONAL IN MANY RESPECTS.

From the past to the future

More than 400 interested parties met at the crowning event of the confederation in September at the Brno Exhibition Grounds, where the International Engineering Trade Fair was beginning on the same day. In contrast to previous years the steps taken by the government since the last assembly were not assessed. Discussions were concentrated on what the Confederation of Industry required of the new government's economic policy. Members of what is already now the former cabinet put together by the Civil Democratic Partly (ODS) a few weeks previously responded to questions put by members of the Confederation, delegates of partner organisations, and guests from the business sphere. As well as the chairman of the ODS and the premier at that time, Mirek Topolánek, other guests included the Minister of Industry and Trade, Martin Říman, and the Minister of Foreign Affairs, Alexandr Vondra. The latter was the first Foreign Minister to appear amongst businesspeople at this event since 1990.

A tripartite structure as space for arbitration

The premier and chairman of the ODS promised representatives of the business sphere that his government would listen more than previous ones to the requests of businesspeople and employers. The ODS has set itself three main tasks to improve conditions of business: to ensure a simple and fair tax system, an effectively functioning state administration, and a legal environment. The view of the ODS is that this tripartite structure should become a space for the arbitration of disputes between employers and the unions. On the other hand the dialogue with the business sphere should take place directly on the premises of the Ministry of Industry and Trade.

Mutual agreement

Businesspeople were interested in whether the government would reduce the extremely high social benefits, what it would do to improve the transport infrastructure, and how it would ensure that money from EU funds could be drawn down more effectively. Several questions related to legalisation of the employment of foreigners and the immigration policy. Ministers agreed that the government's task is to help increase the competitiveness of Czech companies. At a press conference immediately after the assembly Minister Vondra said that he wanted lead his department "from the Metternich system to economic diplomacy". At the same venue Martin Říman promised not to reduce the number of emission to allowances in the coming period. In his opening speech the President of the Confederation of Industry, Jaroslav Míl, summed up what employers and entrepreneurs expected from the government, what should be its strategic targets, and what it was necessary to begin resolving immediately. In conclusion he emphasised that these were not requests which would bring benefits only to employers. "Czech companies and their employees have contributed above all to the current economic growth of this country. We are convinced that an improvement of the business environment of the kind we have promoted over the last few years will contribute to the development of society as a whole".

Positive lobbying and Mirek Topolánek

Premier Mirek Topolánek reminded those present that the new government's economic policy agreed with the requirements of the Confederation of Industry of the CR almost 99 %. However, the distribution of forces in parliament did not offer space for bold reform plans. Despite this he hoped that even within the ranks of the Social Democrats (ČSSD) there were reasonable politicians who understood the importance of business activities for the country's prosperity. "Production is not a rightwing or leftwing matter, it is either high or low," he said.

The premier said that it was important that a community of entrepreneurs, intellectuals, scientists and journalists be created in the country which would support the dissemination of new ideas, would popularise industry in society, support the engagement of top-class brains and, in the best sense of the word, lobby for its interests. "I too am open to this form of lobbying, which is aimed at the interests of society as a whole, and not specific individuals, and I think this is well known of me", he said.

Blanka Růžičková,
Confederation of Industry of the Czech Republic

Seminar on PPP projects on the regional level

CHRISTIAN MORALES, VICE-PRESIDENT OF INTEL, TALKING ABOUT INTEL'S INVOLVEMENT IN PPP PROJECTS

CEBRE - Czech Business Representation to the EU and Delegation of Prague to the EU organised the seminar on "Public Private Partnership projects in the next programming period in the Czech Republic" at the premises of Prague House in Brussels on 12 October. The objective of the seminar was to provide participants with information on the opportunities and the experience off the implementation of public-private partnership projects. The seminar was looking for an answer to the questions whether and in which regard it is profitable for a Czech region to realize the project on PPP principle and how to co-finance PPP projects from the structural funds. Nearly a hundred participants attended the seminar, especially Czech regional politicians and officials were represented. Katarína Mathernová, Directress in DG Regional Policy, opened the seminar pointing out that the Czechs had belonged to the most active representatives that had promoted PPP concept to be applied as much as possible in the framework of the future structural funds. Filip Drapák, Chairman of the board of PPP Centrum Czech Republic, presented important factors that had radically changed the environment for PPP projects in the country, especially the approval of Concession Act in April 2006. Other speakers included Christian Morales, Vice President of INTEL for Europe, Africa and Middle East, Johann Sollgruber from DG Regional Policy and Jiří Horník from Kocián Šolc Balaštík law firm. The speakers agreed that PPP is one of the options how to finance and implement regional projects but the decision if it is the best way must be carefully considered case by case.

Martin Duda,
CEBRE – Czech Business Representation

PRIORITIES HAVE BEEN SPECIFIED

REPRESENTATIVES OF THE CONFEDERATION OF EMPLOYERS' AND ENTREPRENEURS' ASSOCIATIONS OF THE CZECH REPUBLIC, THE ECONOMIC CHAMBER OF THE CZECH REPUBLIC, AND THE CONFEDERATION OF INDUSTRY OF THE CZECH REPUBLIC MET WITH THE AIM OF AGREEING ON AN APPROACH TO THE PROMOTION OF IMPROVEMENTS TO THE BUSINESS ENVIRONMENT AND THE STIPULATION OF PRIORITIES TO BE ADVOCATED WITH THE NEW GOVERNMENT.

On the basis of comprehensive discussions, amongst the basic priorities approved were proposals regarding the state budget for 2007, which is to be reduced by an amount which will not impact on ensuring economic growth. Another requirement was the constitution of bipartite negotiations between representatives of the government and representatives of the Confederation of Industry, the Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic, and the Economic Chamber of the Czech Republic in the form of the Economic Council of the government.

The Economic Chamber of the CR pushed strongly for a postponement of the validity of counterproductive Acts (especially those approved prior to the end of the term of office of the previous government, including the Sickness Benefits Act) by at least one year, so that they could be subject to renewed in-depth discussions.

As is traditional the objectives included the necessity of simplifying the tax system and the system of drawing down grants from EU structural funds for the next programme period 2007–2013.

However, other interesting topics were also discussed. Along with many specialists and members of all the institutions, participants included Jaromír Drábek, President of the Economic Chamber of the CR, Jaroslav Míl, President of the Confederation of Industry, and Jan Wiesner of the Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic.

Jan Wiesner,
Confederation of Employer's
and Entrepreneurs' Associations of the CR

PETR NEČAS WILL SUPPORT ENTREPRENEURS

IN THE MIDDLE OF SEPTEMBER A MEETING WAS HELD OF REPRESENTATIVES OF THE CONFEDERATION OF EMPLOYERS' AND ENTREPRENEURS' ASSOCIATIONS OF THE CZECH REPUBLIC (KZPS) WITH THE MINISTER OF LABOUR AND SOCIAL AFFAIRS, PETR NEČAS, WHO AMONGST OTHER THINGS PROMISED SUPPORT FOR SMALL AND MEDIUM ENTERPRISES.

The meeting saw appearances on behalf of the Confederation by the chairman, Jan Wiesner, and the vice-chairmen Václav Matyáš and Bedřich Danda. Minister Nečas used the occasion to request the direct involvement of a legal expert in the work of the legislature on an internal political level, and delegates of the Confederation supported this proposal.

Cooperation on all levels...

The following meeting concentrated on the problem of the budget, an outline of which is given at the presidium of the Council of Economic and Social Agreement. The Confederation does not regard the "nationalisation" of accident insurance as the best solution, and would prefer to channel the resources thus acquired into prevention. Confederation delegates also underlined the need to increase investments into constructing the infrastructure. Special emphasis was laid on the need to amend the Labour Code. Regarding the structural funds they proposed continuing the round-table discussions, but above all requested that EU requirements not be increased by civil servants and that the administrative burden not be excessive as a result. In this respect the Confederation requested that specialists be invited with whom problems arising would be resolved jointly and clear and constant rules stipulated. In the opinion of the Confederation as much money as possible must be put into the infrastructure. The individual professional federations should be the coordinators and cooperating organisations in the system.

... including between authorities

Confederation delegates cited a whole range of practical examples of a lack of connection between individual authorities (the financial, trade and social authorities), the result of which is slowness and poor productivity on the part of individual authorities and a lack of mutual coordination. At the end of the meeting the chairman of the Confederation agreed on another meeting with Petr Nečas, the subject of which would be the complex situation pertaining to the employability of handicapped people.

Jan Wiesner,
Confederation of Employer's
and Entrepreneurs' Associations of the CR

Lisbon strategy must be pursued more rigorously

This year's annual congress of Eurochambres was held in Thessaloniki, Greece. At the beginning of October, at the General Meeting Eurochambres, european association of chambers of commerce, was held of the Association of European Economic Chambers, delegates of more than forty chambers based in Europe and surrounding countries met. From last year the chairman of the association is the president of the Paris Chamber of Commerce and Industry, Pierre Simon. "The programme of the annual meeting is accompanied by a two-day congress at which questions of the development of the business environment in Europe are examined, along with the activities of individual members and supranational projects covered by Eurochambres. The meeting is beneficial above all for the possibility of comparing the extent of activities and spheres of competencies in other countries. In many areas the experience of other countries can be drawn on directly or used to provide inspiration for further activities," says the secretary general of the Economic Chamber of the Czech Republic, Vladimír Šiška.

The General Meeting also approved the priorities of Eurochambres for the coming period. This involves meeting the targets of the Lisbon strategy and providing support for specialist training. "The Lisbon strategy is a hot topic. However, there is still a problem in meeting the targets and priorities laid down by the strategy. It is necessary to concentrate on the sphere of support for small businesses, a reduction of the administrative burden, and support for training," says the president of the Economic Chamber of the Czech Republic, Jaromír Drábek.

A further weakness of the EU is the exaggerated regulation of the business environment: "Another theme of this congress was better regulation, i.e. the need for regulation of the market only in those spheres where it is absolutely essential.", Drabek said." Next year the General Meeting of Eurochambres will be held in Paris, The Czech Republic will seek to be the organiser in 2009.

Viktorie Plívová,
Economic Chamber of the Czech Republic

Economic Chamber of the Czech Republic (ECCR)

The Economic Chamber of the Czech Republic is the self-governance institution in the Czech Republic. Within its structure it embraces more than 60 active district and regional chambers as well as 70 professional associations covering the entire territory of the Czech Republic and the entire scale of enterprises, from the largest to the smallest. This network ensures daily contact with the entrepreneurs, monitoring of their interests, and efficient representation vis-a-vis the Czech Government. The ECCR provides customs and certification services, legal and legislative services as well as representative and information services. It plays an important role in supporting exports, European integration, and SMEs. Its Court of Arbitration resolves commercial disputes relating to foreign and domestic trade.

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Confederation of Employers‘ and Entrepreneurs‘ Associations of the Czech Republic

The Confederation of Employers‘ and Entrepreneurs‘ Associations of the Czech Republic is an independent, voluntary and open lobby group promoting and coordinating entrepreneurial, employers‘ and professional interests in negotiations with Parliament, Government, public administration and Trade Unions. At present the organization has the following members: The Association of Entrepreneurs of the Czech Republic, The Union of Employers‘ Associations of the Czech Republic, The Union of Agriculture of the Czech Republic, The Association of Textile, Clothing and Leather Industries, The Association of Building Entrepreneurs of the Czech Republic, The Union of the Czech and Moravian Producer Cooperatives and The Employers‘ Union of Mining and Oil Industries.

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Confederation of Industry of the Czech Republic

The Confederation of Industry of the Czech Republic is a non-governmental, voluntary federation of employers and entrepreneurs in the Czech Republic. It represents and defends the interests of employers in the sphere of social policy during tripartite negotiations with the Government and Trade Unions. It strives to define, support and assert its members‘ interests in order to achieve prosperity and favorable business environment. It also provides consultation and information services for its members that focus on international relations, trade opportunities, production co-operation, legislation, collective bargaining, European integration, education and training. It is a full member of the international organizations of employers, IOE and UNICE.

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CEBRE CZECH BUSINESS REPRESENTATION

- Protects the interests of Czech business community vis-a-vis the EU institutions
- Informs Czech businesses about EU legislation affecting them
- Trains Czech entrepreneurs and managers in Brussels, the heart of the EU
- Represents Czech business associations at European business federations

CEBRE operates within the legal framework of CzechTrade in Brussels as a part of the commercial and economic section of the Embassy of the Czech Republic to the Kingdom of Belgium.

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