Overview of Key Formative Events in the Czech Energy Sector

The following chapter will provide a brief overview of the key formative events in the aforementioned energy sub-sectors over the past 25 years and their reflection in public discourse. Attention will be devoted here also to the politicization (in the sense of the presence and resonance of this particular topic, not only in public and media discourse, but also in the ongoing debate among the key actors of the political, legislative and decision-making processes) and the securitization of topics connected with Russian presence and/or influence. The period examined stretches from 1993, when the Czech Republic emerged after the dissolution of the former Czechoslovakia, until the end of 2016.

The debate about Russia and Russian influence in the Czech energy sphere has included some elements from the broader discourse present in Czech public discussion. This discussion usually encompasses two antagonistic perspectives: The first one represents a rather cautious attitude towards post-Soviet Russia, especially Russia after 2000, in connection with the foreign and security policies of President Vladimir Putin, who is often criticized as neo-imperialist and revisionist (in relation to the post-Cold War European security regime). From this perspective, the policy of Putin's Russia is viewed as openly hostile towards the West, especially after events such as the Russian–Georgian war or the Ukrainian conflict. Apart from the concerns in the sphere of hard security, which were already present during the 1990s (especially in the connection with Russian negative attitudes towards NATO eastward expansion), there have been also concerns associated with the attempts of Russian capital to penetrate the Czech economy. In the energy sector, given its importance for the state's economy, these fears have been present as well (e.g. Kratochvíl et al. 2015, pp. 122–125).

The second perspective, which grew stronger especially after 2000, sees Russia as an important partner, predominantly in the economic area. Its proponents considered Russia as a prospective target of Czech "economic diplomacy", with the aim of diversifying Czech economic and trade policy, which was (according to this perspective) too dependent on Western markets. This viewpoint grew stronger during the global financial crisis (although the crisis also influenced the Russian economy and Czech–Russian economic relations) and during the subsequent crisis in the Eurozone.[2] This rather positive view towards Russia is not homogeneous though, as it

encompasses a number of variants influenced by the political and ideological orientation of their particular proponents.[3]

These opposing tendencies in Czech political and public discourse also found a reflection in debates about potential Russian influence in the Czech energy sector. In spite of the rather low politicization of the topic, there are examples of events which provoked debates on Russian influence or "Russian energy weapon", with the most notable examples being both gas crises (especially that of 2009), oil supply cuts (especially the event of 2008), and the participation of ZAO Atom Stroy Export in the Temelin tender.

The general topic of the growing interest of Russian investors in the Czech Republic, and energy sector in particular, became a focus of a public debate, especially since the late 2000s. The main question of these debates has been whether growing Russian investments should be perceived as an opportunity for stronger cooperation, or rather as a potential threat regarding the Russian geopolitical ambitions motivated by both economic and political interests. Fear of Russian attempts to spread its influence through energy-related deals was further highlighted by repeated warnings of the Security Information Service, the Czech intelligence institution, about increased activities of Russian secret services, particularly in the Czech economy and the energy sector (e.g. Bezpečnostní informační služba 2011, 2012, 2013). Therefore, the following section is devoted to mapping the situation in these particular sectors and determining potential Russia-related risks.

The Natural Gas Sector

Similarly to the oil sector (see below), the natural gas sector in the Czech Republic has been subject to very little politicization, and thus also fears of Russian misconduct and Russian gas supplies have not been used as bargaining chips by the Russian government. The authors ascribe this to the fact that the Czech Republic managed to diversify its gas and oil imports as early as in 1996 and 1997 respectively. Rather, it constitutes an exception among most of other post-communist countries, which thus far have been more susceptible to politicization and misuse of supplies.

Unlike in Slovakia, which was united with the Czech Republic until the 1 January 1993, the Czech political scene in the 1990s perceived complete dependence on Russian supplies as a pressing issue that was potentially dangerous and which called for a solution. The only relevant Czech political party that perceived such diversification as unimportant was the Communist Party, which was unsurprising, regarding their general inclination towards Russia and former ties to the Soviet Union. The biggest fears were related to the impact of potential supply curtailments to heating and industry. Additionally, the state administration at that time calculated rising demand, which would only highlight the sensitivity of the issue. Fears were further spurred by increased activity of various subjects backed by Russian capital aiming to become gas distributors in the mid-1990s. Although the majority of the political scene generally agreed that a second source of supply would be desirable, consent on timing was harder to find. The main line of arguments questioning the construction was based on the fact that supplies of Norwegian gas were expected to be generally more expensive, a feature considered problematic in times of looming economic crisis. Moreover, the Russian side also used the argument of lower prices while presenting itself as a reliable partner to discourage the Czech Republic from diversification.

The still rather uncertain position of Central Europe in the new geopolitical setting after the end of the Cold War added additional uncertainty to the equation. It was no secret that Russia wanted the region to remain neutral, effectively serving as kind of a "bufferzone" between former spheres of influence. Therefore, some Czech politicians feared Russian retaliatory actions should the country diversify its imports. However, as it turned out after the deal on Norwegian supplies was sealed on 14 April 1997 (Česká televize 2009), these concerns did not materialize. Probably partly due to the fact that the Czech Republic kept around three-quarters of the original supplies coming from Russia, but very likely also due to the relatively lower profile of Russia as an international power in the 1990s (Baev 2008, p. 34).[4]

The importance of a diversified gas import portfolio was manifested during the 2009 gas crisis. Unlike other post-communist states which were hit by supply cuts (especially in south-eastern Europe), the Czech Republic was not only able to get through the crisis practically intact by increasing supplies from Norway (coupled with supplies from the country's rather extensive storage capacity, equalling one-third of annual consumption; Vlček and Černoch 2012), but was even able to supply gas to Slovakia.[5] The aforementioned fact, that the diversification prevented any substantial damages in relation to Czech energy security, was eventually also reflected in public and political discourse, and even after the crisis, Russian gas deliveries were not seen as a particular source of security concerns. In the media, the

2009 gas crisis was portrayed in the overall context of energy security in Europe and also in the context of the coinciding Czech presidency of the EU. The Czech media thus often portrayed representatives of the Czech Republic among the main negotiators trying to find a solution to the crisis (e.g. iDnes.cz 2009a; Novinky.cz 2009). The actions taken by the Czech representatives were rather cautious at that time, reflecting the somewhat pragmatic relations of the then government of PM Mirek Topolanek. As an illustration of the government's ambiguous attitude, we can mention the support for the Nabucco pipeline, a project competing with the South Stream pipeline,[6] while simultaneously building the Gazelle pipeline connecting the country to the Nord Stream and enabling supplies of Russian gas from the North (Kratochvíl et al. 2015, p. 120). As the epitome of the pragmatic approach, the then-President Klaus (known for his long-term pragmatic stance towards Russia) openly characterized the 2009 crisis as a result of a bilateral Russian–Ukrainian economic problem and not a European energy security problem, clearly denying any fears of politicization and securitization of the topic (ČTK 2009).

On the other hand, the pragmatic approach had its boundaries as was shown by two rejections of Russian offers to buy the Czech gas infrastructure in 1994 and 2002. The first bid in 1994 was refused without providing any reasoning, but overall discussions of Czech foreign policy at that time suggested that due to historical experience and reorientation towards the West after the fall of communism, selling the perceived strategic asset to Russians was politically unacceptable. A second bid was refused in 2002, again due to political concerns. The apparent sensitivity of this issue was highlighted by the fact that the Russian offer was refused despite allegedly being worth the same amount as the competing bid of RWE and also included additional offsets in the form of investments in Czech oil and gas infrastructure.

Another example of the wary approach was shown when some voices in the Czech Republic, along with some other CEE and Baltic states, expressed their concerns in relation to the unbundling measures related to the implementation of the EU's third liberalization package. These countries feared the uncontrolled penetration of foreign companies into their energy sectors. Given their geographic location and historical experiences, these fears were related mostly to Russia and its state-owned enterprises. Concerning the presence of Russian companies in the Czech gas sector, there is no company representing Russian capital active in the Czech Republic with the ability to significantly shape the sector, and only a few companies with ties to Russia are present. A mid-sized company, VEMEX, Gazprom's subsidiary, which was active in gas trading, is one of the examples.[7] The company entered the market in 2006 and focused mainly on supplying big industrial consumers and also to some extent households. The company was in majority ownership of Gazprom Germania,[8] a subsidiary of OAO Gazprom (Vemex 2012). Another important shareholder, owning 33% of the company, was Centrex Europe Energy & Gas AG,[9] a Vienna-based international investment group focused on the natural gas sector, which is believed to work closely with Gazprom, although often through a non-transparent network of subsidiaries registered in various tax-havens (Tillack 2007). However, it should be noted that activities of VEMEX in the Czech Republic[10] made perfect economic sense since the Czech gas market is liberalized and an effort to use this opportunity is thus understandable. Another company with Russian stakes is Wingas, Gazprom's daughter company, which entered the market in 2006 as a minor supplier (Wingas). Wingas took over the position and activities of Vemex when it closed its business in early 2018 for financial reasons (Brož 2018). However, there is basically nothing suspicious about this company or its activities. Similarly, business-as-usual seems to be the case in the 2013 deal signed between Gazprom and the Czech company MND Group to build an underground storage facility in the region of South Moravia. This move fits within the Gazprom's strategy to make its supplies to the West more predictable, which strengthens the impression that Gazprom is trying to be seen as a reliable supplier to its western customers (Gazprom Export 2016).

It can be thus stated that no significant Russia-related companies influence the Czech natural gas sector and that there is no objective need to fear Russian influence in this regard.

The Oil Sector

Similarly to the natural gas sector, the oil sector was facing complete dependence on Russian supplies in the early years after the fall of communism in the country. In a pattern similar to the one that formed the sector of natural gas, the Czech Republic has been located on the main Russian supply route—the Druzhba pipeline. The dependence on a single source of supply was perceived as sensitive by the majority of political representation at that time, for basically the same reasons as in the case of the Brotherhood gas pipeline. Therefore, the first years of the 1990s were marked by an effort to establish an alternative route to the Druzhba pipeline and to diversify the country's oil import portfolio. These efforts were further accelerated by concerns that the amount of oil supplied through the Druzhba Pipeline would also be insufficient due to the deteriorating situation of Russian producers (Vlček and Černoch 2012, p. 151). The idea of diversification was introduced in mid-1990 at the governmental level as a reaction to political changes and problems that Russian suppliers were facing due to the gradual deterioration of the Russian economy. The proposal was finally endorsed by the resolution of the Government of Czechoslovakia on 4 February 1992 (MERO ČR, a.s., n.d.). The actual construction was surprisingly fast and the IKL[11] Pipeline was put into operation in January 1996. Currently, the pipeline serves around 40% of Czech needs (Vlček 2015, p. 62).[12]

Similarly, as in the case of diversification of natural gas supplies, the IKL Pipeline was a practical manifestation of 1990s Czech political discourse, aimed at strengthening political as well as economic ties to Western Europe. By establishing a connection with Germany, the Czech Republic acquired access to oil supplies from various origins, thanks to a connection to the TAL Pipeline bringing oil from the Italian port of Trieste.

Again, Russian resistance towards the diversification plan was hardly palpable at that time. However, concerns that dependence on Russian supplies still might pose a threat to the country's energy security have been proven correct on several occasions. Several supply curtailments occurred in the 1990s (namely in 1990, 1991, 1994, 1995 and 1996). At first, some cuts took place due to the above-mentioned internal economic problems of Russia after the fall of communism. Subsequent interruptions were caused by technical problems along the pipeline and disputes between Russia and Ukraine over transport fees.

Czech public and media discourse reflected concerns especially with the disruptions of the supply of Russian oil via the Druzhba pipeline, which occurred at the end of the first decade of the twenty-first century. A significant event was the curtailment that took place on 9 July 2008, as the supply cut occurred the day after the Czech Republic signed the SOFA agreement concerning a planned radar base of the US anti-ballistic missile defence system which should have been placed in the Czech Republic.[13] The significant reduction of deliveries came exactly at times of excited rhetoric, which also occurred on the Russian side (especially the rhetoric of the representatives of the Russian army, who mentioned several times the possible targeting of Russian rocket systems on the Czech radar base, in case it was constructed; e.g. ČTK 2008). The missing amount of oil was easily replaced by increasing supplies from the IKL pipeline and the state reserves, but the event definitely supported the concerns of those who feared misuse of Russian oil supplies, although the responsible representatives of the Czech government were quite cautious at that time when commenting on the event for the media.[14] This example also shows a certain correlation between Czech public discourse concerning Russian oil supplies and the overall context of Czech–Russian relations or the general political-security situation in Central and Eastern Europe.

Concerns over the stability of Russian supplies were revived in late 2009, when Russia threatened to cut off supplies through Ukraine, once again as a result of on-going disputes over conditions of transit through Ukraine (iDnes.cz 2009b). This time, events did not affect supplies, but still they remained a reminder of the potential instability of this route (Vlček 2015, p. 21). The unreliability of the Druzhba pipeline and Russian suppliers was proved once again in April 2012 when a gradual decrease of up to almost 20% of the contracted monthly amount occurred. The chances are that Russian suppliers tested the situation and the potential reactions of transit countries should the original route be bypassed in favour of new routes. Another reason could be the effort to improve the position for renegotiations of supply contracts with consumers along the way (Vlček 2015, p. 23).

It is worth mentioning that although such events were generally important, after 1996 they did not spur much debate in the Czech Republic at that time, with the aforementioned exception of the disruption in 2008. Similarly to the situation in the natural gas sector, the fact that the country had acquired access to alternative sources of supply and was able to offset the supply curtailment from other sources has prevented any outbreak of panic.

If we explore the public and media debate concerning the Russian presence in the Czech energy market in the case of the oil sector, it is necessary to mention LukOil, one of the Russian oil majors. Although the company is officially a joint-stock company not owned by the Russian state, some authors argue that LukOil is connected with the Russian Government and its business activities comply with Russian national interests (Gorst 2007, p. 7; Kodousková et al. 2014, pp. 173–175; Korobochkin 2004).

At roughly the same time that Russia was opposing the plan to build an anti-ballistic missile defence in the Central Europe, LukOil expressed its interest in buying stake in one of the Czech refineries and potentially also in Česká rafinérská, one of the two refining companies active on the

Czech market (Vlček and Černoch 2012, p. 159; Kubátová 2008). For the reasons stated above, the intention raised concerns about the potential consequences. As LukOil served as a supplier of crude oil to Czech refineries and bought a network of 44 petrol stations from ConocoPhillips in 2008 (Sulejmanov 2008), the plan made economic sense. Should the company acquire a stake in refining, it would effectively complete the supply chain and shake off the dependence on Czech refineries. However, in 2014 the portfolio of LukOil petrol stations was acquired by Hungarian joint-stock company MOL (Indráček 2014)[15] and the company's interest in the acquisition of refineries waned.[16]

Apart from the LukOil's potential influence in the oil sector, concerns were also raised by its role in the Czech political scene. The influential lobbyist Miroslav Šlouf, who had close ties to the current Czech president Miloš Zeman and was behind several political cases in the past, was allegedly working for LukOil. Currently, Martin Nejedlý, a business partner of Miroslav Šlouf, is the president's advisor and also one of the people who helped him to raise the money to fund his presidential campaign. He is also an executive officer of LukOil Aviation Czech, a daughter company of LukOil, active in downstream fuel supply to Prague International Airport (Bloomberg, n.d.). When the company lost a lawsuit against the Czech state over non-delivery of supplies of aviation fuel and was ordered to pay a fine of CZK 28 million (ca. EUR 1 million; Hlaváčová 2016), it was the mother company which later paid the fine, effectively confirming a precarious link between the Russian company and one of the Czech president's closest collaborators (Srnka 2016).

The Nuclear Sector

Speaking of nuclear energy, one has to say that the nuclear industry of the Czech Republic (and previously the former Czechoslovakia) was created with major assistance from the Soviet Union. As part of the deal for export of Czechoslovak-mined uranium to the USSR in 1945–1991 for Soviet military research, the USSR was not reluctant to share technology. Therefore, based on a 1955 contract, the USSR assisted Czechoslovakia with the creation of the first nuclear research institute in the country; later, it assisted with the construction of the first nuclear power plant (NPP) in the country (1958–1972, Czechoslovakia design A-1); and based on further contracts, it assisted the construction of the Soviet-designed Dukovany NPP and Temelín NPP (Vlček and Suchý 2012, pp. 352–353).

Today, the Czech Republic is a nuclear country, housing on its territory two nuclear power plants with six units altogether. The Dukovany NPP commissioned in 1985–1988 comprises four units of the VVER-440 V213 type, with 440MWe original installed capacity. The newer Temelín NPP commissioned in 2002 has two VVER-1000 V320 units of 1000 MWe original installed capacity.

Between 2009 and 2014, a public procurement procedure took place that involved three bidders: Westinghouse Electric Company, LLC, Areva SA and a consortium[17] of Škoda JS, a.s., ZAO Atom Stroy Export[18] and OAO OKB Gidro Press. The strategic dimension of the Temelin procurement procedure was the subject of debate in the Czech Republic, which was extensively reflected in the media. The possibility of the victory of the Consortium raised concerns about growing dependence on Russian investments as well as on the Russian nuclear fuel supply.[19] The topic of the Temelin tender also resonated in Czech political and security debates. On the one hand, there were political representatives who did not conceal their reservations and security concerns, either generally in relation to the Russian attempts to penetrate into Czech economic sphere or explicitly in relation to the Temelin tender (e.g. the former Czech President Václav Havel, or the minister of Foreign Affairs and one of the candidates in the first direct presidential elections in 2013, Karel Schwarzenberg; ČTK 2010a; Šídlová 2013). On the other hand, there were politicians who explicitly refused these geopolitical concerns in relation to Russian participation in the procurement procedure and openly stood up against ostracism of the Consortium because of these reasons (e.g. Miloš Zeman[20] and former President Václav Klaus, whose positive comments regarding possible Russian investments in the CR and the reciprocal Czech investment opportunities in Russia were well-known during the periods of his presidency; ČTK 2010b).

It is also worth noting that Russian business and political representatives have more than once openly expressed interest in winning the contract, e.g. in the framework of meetings and negotiations with Czech representatives, which was also commented on by the Czech media. As an example, it is possible to name the open expressions of Russian Deputy Prime Minister Alexander Zhukov, who said after the meeting of the Czech–Russian Intergovernmental Commission in October 2010 that the Russian side expects

the victory of the Consortium, regarding the advantageous character of its offer (ČTK 2010c). As another example, we could mention the visit of Valentina Matviyenko, the President of the Federation Council, the upper chamber of the Russian Parliament, to the ČR in March 2013. On the occasion of her meeting with the President of the Czech Senate, Milan Štěch, she underlined the new occasions of Czech–Russian cooperation in the sphere of nuclear energy and appealed to the "fairness" of the procurement procedure (ČTK 2013). The participation of the Czech–Russian consortium in the tender was thus accompanied by the active support of Russian business and state representatives. On the other hand, this practice is not typical only of Russian representatives; examples could also be found of similar expressions of support, e.g. for the Westinghouse project by American diplomats.

Even though the public procurement procedure was stopped in May 2014 for multiple reasons, the most pressing being the lack of any Governmental guarantees or stabilization mechanism for the future price of electricity (Osička and Černoch 2017, p. 12), the period of roughly 2007/8–2014 saw strong Russian subjects entering the industrial sector of the Czech Republic. The importance of the Czech nuclear industry for Russian companies and interests is illustrated in the following subchapter.

Russian Companies in Czech Energy and Energy-Related Industry

Compared to the popular perspective and media representation of substantial Russian penetration into the Czech energy and energy-related industries, which is accompanied with concerns and fears of Russian control especially over the Czech nuclear industry, the Russian presence is rather limited in these sectors. In fact, the whole (not exclusively nuclear-related) manufacturing industry counts only for 16% and professional, scientific and technical activities only for 7% of major Russian business in the Czech Republic (over CZK 25 million) (Neovlivni.cz 2016).

However, there was a period of time when Russian interest in the Czech energy sector, particularly the nuclear one, was clearly visible, and that was the period of the aforementioned public procurement procedure for construction of the Temelín nuclear power plant units 3 and 4 (roughly 2007/8–2014). It was not just the project that was part of the tender, but the construction work itself, which made the entire endeavour a key