

The Czech Republic: Towards net zero emissions

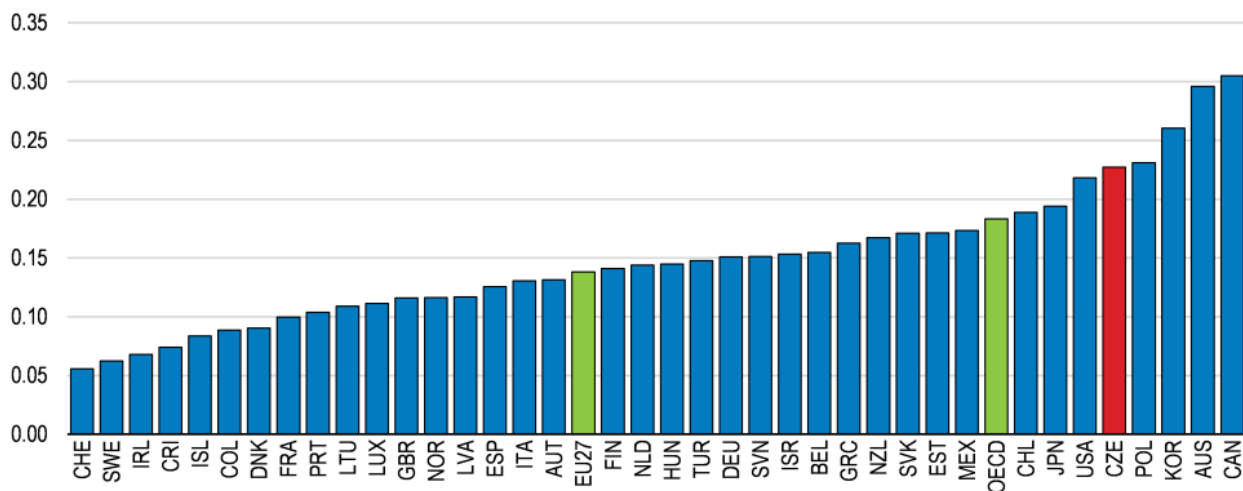
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The Czech economy is in the midst of a remarkable transformation as it is moving towards a more sustainable future. The country has reduced its greenhouse gas emissions by 43% over the past three decades, by decreasing the share of coal in the energy mix, shifting to less polluting technologies in the industrial sectors and improving the energy efficiency of buildings. However, ambitious climate targets at the EU level demand even more rapid progress over the coming years, which poses significant challenges for the Czech Republic. Furthermore, disruptions in energy markets in the wake of Russia's war against Ukraine have heightened the need for the green transition.

To reach its climate commitments, the Czech Republic will have to phase out coal and implement more ambitious policies. The country's emissions intensity remains among the highest in the OECD (Figure 1). Coal still makes up a large share of electricity and heat generation. About 300 000 households use coal boilers to heat their homes, and roughly a third of these are non-compliant with environmental regulations. The government should boost support and increase investments in renewable energy sources, including necessary upgrades to the electrical grid. With considerable funds available at the EU level, there is an opportunity to step up spending to decarbonise the economy.

Figure 1. CO2 intensity is among the highest in the OECD

CO2 emissions, kg per unit of GDP, 2021

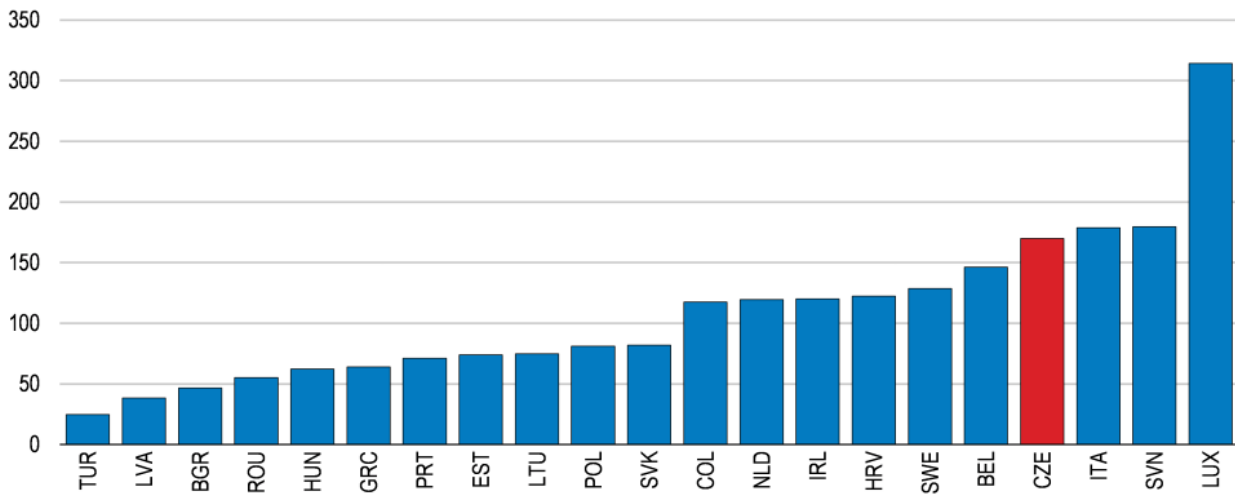


Source: OECD Green Growth Indicators; IEA World Energy Statistics and Balances.

Improved design of regulations and subsidies will incentivise efforts to raise energy efficiency. The energy use per square meter of dwellings is among the highest in the EU, owing to inefficient heating systems and relatively old and poorly insulated housing. Existing subsidy programmes have suffered from low awareness and a lack of public interest, resulting in a low uptake. Cumbersome and lengthy construction processes delay investments in green technologies and infrastructure. The time to obtain building permits is among the slowest in the OECD (Figure 2), spatial planning is restrictive and the process for getting electricity production licenses is complex. Further progress in streamlining and simplifying these processes is key to improve the investment climate.

Figure 2. Red tape and lengthy processes hinder green investments

Number of days to obtain a construction-related permit, 2020 or latest available year

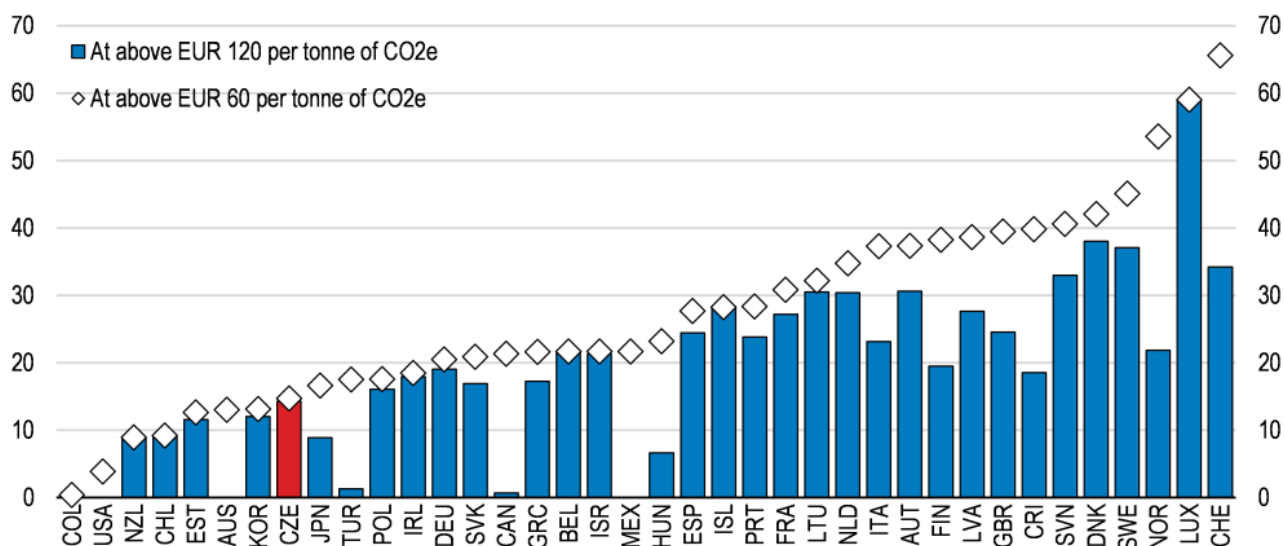


Source: World Bank, Alternative Doing Business Indicators.

Higher effective carbon rates would discourage polluting and spur investments in green technologies. The Czech Republic imposes transport fuel excise duties and is also part of the EU’s Emissions Trading System (ETS). Yet, effective carbon tax rates are among the lowest in the OECD (Figure 3), which limits incentives to save energy or to switch to cleaner fuels. Furthermore, carbon is inconsistently priced and tax exemptions are applied to various fuel uses, for instance in residential heating and agriculture. Once the high energy prices subside, the country should introduce an explicit carbon price to cover all emissions for sectors outside the EU ETS. Carbon prices have been shown to be a cost effective and efficient instrument to reduce emissions. Phasing in the carbon price with pre-announced emissions price trajectories can help reduce uncertainty about future costs, facilitating long-term investment in low-carbon technologies.

Figure 3. Effective carbon tax rates are among the lowest in the OECD

Percentage of GHG emissions subject to a positive Net Effective Carbon Rate (ECR), 2021



Source: OECD (2022), Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris.

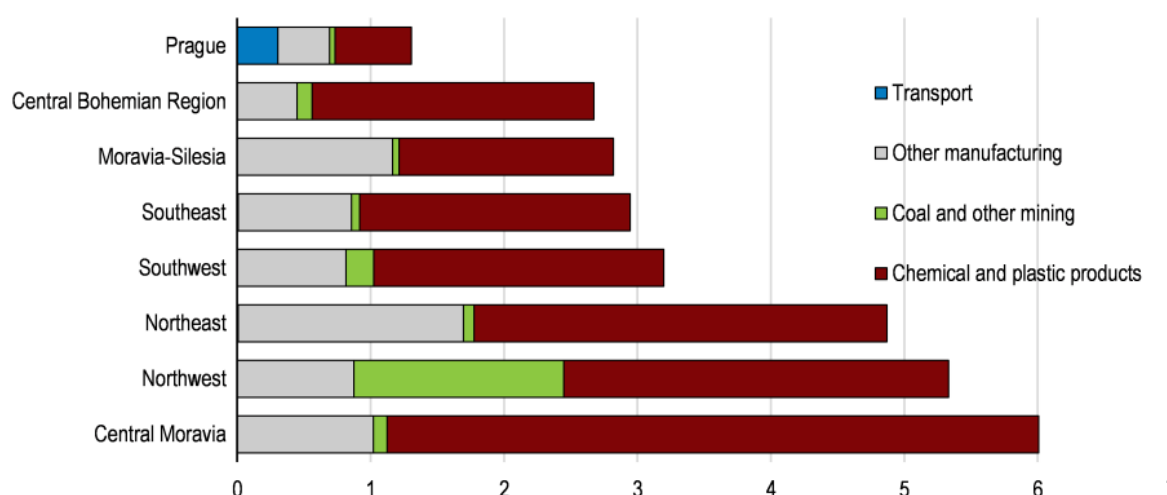
Policy needs to facilitate the transformation while sufficiently shielding the vulnerable to ensure a fair green transition. On the path towards net zero, the Czech economy will have to restructure. Some of this change will be disruptive. The price of products with high carbon-content and energy will likely rise. Since vulnerable households spend a larger share of their incomes on these items, they will be the most impacted. Redistributing revenues from environmental taxes towards vulnerable households, including to support their green spending, is essential to help mitigate energy affordability concerns and maintain public support for environmental policies.

During the transition, jobs in some sectors will be shed while other opportunities will arise. Employment in mining and quarrying of energy-related materials (mostly coal) has already decreased by more than 50% since the mid-2000s. In the meantime, total employment rose by almost 10% and the unemployment rate dropped to among the lowest in the OECD. Despite overall labour market conditions, job losses associated with the green transition can be concentrated in some sectors and regions (Figure 4). Avoiding long-lasting spells of unemployment for these workers must be a key priority. The Czech Republic spends close to the OECD average

on active labour market policies for the unemployed but spends very little on training programmes. The structural transformation brought on by the green transition calls for a review of these priorities. Spending on retraining and job-market advice must be boosted and targeted towards workers likely to be most affected, such as low-skilled and older workers, to help them find jobs more quickly.

Figure 4. Labour reallocation will continue with some regions and sectors more at risk

Share of jobs at risk of job losses related to climate mitigation, % of total regional employment, 2019



Source: Eurostat database; OECD Regional Statistics database.

References:

OECD (2023), *OECD Economic Surveys: Czech Republic 2023*, OECD Publishing, Paris, <https://doi.org/10.1787/e392e937-en>.