

BETWEEN THE RETURN TO EUROPE AND THE EASTERN ENTICEMENT: CZECH RELATIONS TO RUSSIA

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This study analyses recent Czech policies towards the countries of Eastern Europe, in particular towards Russia. It is divided into six sections. First, we briefly introduce the history of Czech–Russian political relations, mainly after the end of the Cold War. Second, we complement the analysis with an overview of the economic ties between the two countries. Third, due to the rising importance of energy security, a special section assesses Czech–Russian relations in the field of energy. Fourth, we explore Czech policies towards the other countries of the post-Soviet space. Here, particular attention is dedicated to the links between the steps of Czech diplomacy and the EU's European Neighbourhood Policy (ENP). Fifth, we add a brief evaluation of trade and investment ties. In the sixth and final part, we summarise our findings.

1) A brief history of Czech–Russian relations

The Czech attitude to Russia has historically always been ambivalent. On the one hand, Czechs, ever since the 19th century, perceived themselves as members of the larger family of Slavic nations and in the period of the national revival, Russia and Russians were idealised as the “Slavic oak” in the East and as the ultimate protection of Slavhood against the encroachment by Germans from the West. Yet, on the other hand, being Czech has always been interpreted as belonging to the Western civilisation. This

equally applies to religion (the predominance of Catholicism, but also the reformatory Hussite movement) and political allegiance (the Lands of the Czech Crown were part of the medieval Holy Roman Empire) as well as to cultural identity.

At the same time, Czechs – unlike Poles or the Baltic nations – were never exposed to a long-term influence from Russia prior to the second half of the 20th century. The result of the idealisation of Russia, coupled with the extremely low level of knowledge about the country, led to a rather positive, even if hazy, picture of Russia as a mighty advocate of Czech interests in the nationalist struggles. But on the political level, Russia was never seriously discussed as a potential ally at that time. With the Bolshevik coup in Russia in 1917, and with the inception of Czechoslovakia in 1918, in which the (Czech) nationalism could fully develop, even the once strong ethnic affinities to Russia were watered down. However, the strong conviction that Czechoslovakia and the whole of Central Europe are defined exactly as the “in-betweenness” between Germany and Russia, both in cultural and (geo)political terms, remained very strong for the greater part of the 1920s and 1930s.¹

The period of 1945–1989 was defined by the process of gradual disenchantment: Russians/Soviets were initially, no doubt, seen as liberators by the vast majority of the population, and the political life in early post-war Czechoslovakia was characterised by a political shift towards the left even without the Soviet influence. Yet, starting with the 1946 elections, where the Communists became the strongest party but failed to gain the majority, and in particular with the coup d'état of 1948, large parts of the population became suspicious if not outright hostile to Soviet intentions. In spite of this initial lack of consensual support, the attitude to the Soviet Union remained highly ambivalent. It was the invasion of the Warsaw Treaty armies in 1968 that marked a deadly blow to any remaining positive feelings about the Soviet Union. Beyond the official propaganda, it would be impossible to find any sustained societal discourse that would refer to Russia/the Soviet Union in a positive manner.

The recent history of the democratic Czechoslovakia (or, after 1993, the Czech Republic, respectively) can be divided into three phases in regard to Russia.² The *first phase*, spanning from 1989 to 1992, covers the

¹ See one of the most voluminous works of the first Czechoslovak president, Tomáš G. Masaryk, entitled *Russia and Europe* (T. G. Masaryk: *Rusko a Evropa*. Praha: Jan Laichter, 1921), where he describes Russia in exactly these terms. The Western nature of Central Europe being kidnapped by the East is also the main theme of Milan Kundera's famous essay “Un Occident kidnappé ou la tragédie de l'Europe centrale”, *Le Debat*, November 1983, No. 27.

² See a similar categorisation in V. Votápek: Policy of the Czech Republic towards Russia, the Ukraine and Belarus. In Pełczyńska-Nałęcz, K.; Duleba, A.; Póti, L.; Votápek, V (eds.)

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time when the main task for Czech politicians was to ensure the "escape" of the country from the Soviet yoke. Specifically, three tasks were seen as paramount: the removal of Soviet troops, who were stationed in the country since 1968, the dissolution of the Warsaw Treaty Pact, and the weakening or dissolution of the Council for Mutual Economic Assistance. To put it briefly, the aim was to break the military and economic dominance of the Soviet Union over the country. Interestingly, some key Czech political figures (such as Václav Havel) were convinced that the Czech Republic and Russia were "on the same boat" in this period, both struggling with the remnants of the past and trying to introduce democracy as fast as possible.³

Once these objectives were reached, Russia disappeared from the cognitive map of both the Czech political elite and the population at large – a feature prevalent for the whole *second phase*, 1993–1999. Although this could be explained by the split of Czechoslovakia and the break-up of the Soviet Union, which distanced the Czech Republic and Russia geographically, such an interpretation would miss the point of the discursive shift away from Russia, which was most famously summarised in the phrase "Return to Europe".⁴ Interestingly the growing geographical distance between the two countries is assimilated in the discourse on Czech Westernisation, and, as a result, it is seen as a positive shift. In this phase, Russia re-emerges only in two contexts. First, it is seen as the constitutive other, symbolising the Czech Communist past and the alternative future that might take place only if the Czech transformation is not successful. Second, Russia is seen as a negative factor in Czech foreign policy. It is Russia who opposes the Czech NATO entry and who grows suspicious about the eastern EU enlargement. The growing uneasiness about Russia in external relations is paralleled by the mounting criticism of Russia's domestic policies, in particular the war in Chechnya and the occasional clamp-down on critics of the Kremlin.

While the second phase was characterised by Russia's overall ignorance of the Czech Republic and the reciprocally negative "othering" of Russia on the part of Czech diplomacy, the *third phase* that started in 2000 led to a gradual warming in the mutual relations. The Czech NATO entry was forgotten for more pressing issues (such as new plans of NATO expansion) were perceived as more threatening in the Kremlin and the diplomacies of both countries had to deal with more pragmatic questions

Eastern Policy of the Enlarged European Union: Developing Relations with Russia, Ukraine and Belarus. A Visegrad Perspective. Bratislava: SFPA, 2003.

³ See, e.g., the speech of president Havel at the OSCE summit in Helsinki on December 6, 1992.

⁴ This phrase was used already by President Havel in 1990 (V. Havel: *Projev prezidenta ČSSR ve Federálním shromáždění*, 23 January 1990) Online: http://www.vaclavhavel.cz/showtrans.php?cat=projevy&val=325_projevy.html&typ=html

of mutual concern. These were typically related to the preparations for the Czech EU entry and pertained to visa issues and trade relations but also included other long-standing sore points such as Russia's debt, which was finally settled around this time. This period was marked by a substantial increase of mutual visits too. Russia's Foreign Minister Ivanov visited the Czech Republic in early 2001. The following year, Czech Prime Minister Zeman visited Russia and, finally, the March 2003 visit of the newly-elected President Klaus was interpreted as the ultimate reconciliation between the two countries. The Russian President Putin reciprocated the visit in 2006, which in a sense constituted the climax in Czech-Russian relations, which started to deteriorate shortly afterwards.

Two factors have contributed the most to this negative change. First, the overall Russian position *vis-à-vis* the West took a markedly different turn in Putin's second term (the disagreements over Iraq, Iran, NATO expansion, Russian WTO membership and the American bases in Central Europe, to name just a few of the most prominent examples), and gradually took over as the dominating elements in US-Russian and, generally, Western-Russian relations. The second factor was the domestic change in the Czech Republic where parties that were much more critical of Russia as well as much more pro-US than their predecessors came to power. As a result, the current Czech-Russian relations are strikingly similar to those at the end of the 1990s. In the understanding of the Czech political elite, Russia re-emerges as a major security threat, but this time not only in the traditional military sense of the word, but also in relation to the ever more prominent energy security.⁵

2) Trade and investment relations with Russia

The economic dimension of relations between the Czech Republic and the Russian Federation in the sense of the development of mutual trade and investment relations could be in a long-term perspective labelled as a promising dimension of bilateral relations in spite of the fact that after 1989 this dimension was also affected by the reorientation of Czech economic policy towards western markets and the members of West European integration bodies (with the EU in the first place). After 1989 the amelioration of mutual economic relations would begin a new chapter

⁵ For more details about the evolution of Czech-Russian relations in the post-Cold War period, see Petr Kratochvíl, Petra Cibulková and Vít Beneš: Foreign policy, rhetorical action and the idea of otherness: The Czech Republic and Russia, *Communist and Post-Communist Studies*, 39/2006, pp. 497–511.

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after the past, when both the CSSR and the USSR were members of the Council for Mutual Economic Assistance. In those times Russia did not belong among the priorities of Czech foreign policy, although in the field of trade relations the role of Czech dependence on the import of energy resources was still very important. The CR tried to reduce this dependence in the 1990s (see the section on energy security).

This trend changed by the end of the millennium, and today the importance of economic and trade relations between the CR and the RF is rising in parallel with the improvement of the economic strength of Russia, which, after the coming into power of president Putin, was recovering from the crisis. After 2001 the goal of Czech foreign policy in the relations with the Russian Federation was the development of standard contacts with an emphasis on the enlargement and deepening of economic cooperation and solving certain problems (Russian debt above all else). The *Conception of Czech Foreign Policy 2003–2006* states the need for preserving a mutually beneficial and pragmatic economic cooperation as well. The Ministry of Industry and Trade subsequently drafted the conception of a pro-export policy that was accepted by the government on 24 February 2003. Later (in March 2005), the subsequent *Strategy of Promotion of Trade-Economic Interests of the Czech Republic in the Russian Federation* was made.⁶ According to the strategy, the Ministry of Industry and Trade names the Russian Federation among the 19 priority countries for Czech exports.⁷

Since the beginning of the new century, Czech exports to the RF rose every year. In 2001 it was more than one fourth, although the balance of Czech foreign trade stayed passive in relations with Russia in the long term. The reason for this lies especially in the Czech imports of natural resources, the prices of which were rising in the world market until 2008. Russia did not want to accept the offer of the CR to partially pay for the supply of energy resources with industrial products, that would lower the deficit of Czech foreign trade. (Trade relations with Russia made up about one half of this unfavourable trade balance.)

In the last two or three years Czech exports to the RF rose significantly but rising prices of energy resources that represent the main import commodities from Russia prevented the deficit in bilateral trade to decrease substantially. In the first half of 2008, Czech exports to the RF rose by more than 120 per cent in comparison to the same period in the previ-

⁶ See Kratochvíl, P. (2008): *Rusko v české zahraniční politice*, in: Kořan, M. a kol.: *Česká zahraniční politika v roce 2007*, Ústav mezinárodních vztahů, Praha, pp. 220–231.

⁷ In this context it is important to stress the expected entrance of RF to WTO as an expected impulse for legislative transparency, widening of business and investment opportunities, and limiting of corruption. See Martin Říman: *Rusku udělujeme zvláštní pozornost*, *Hospodářské noviny*, 28 February 2008.

ous year. For the first time Czech exports were higher during this period than imports, which reached 164.3 billion USD. In these days around 5 per cent of Czech exports go to Russia. In 2006, Czech companies exported to Russia more than 1.8 billion USD worth of goods, in 2007 it was already nearly 2.9 billion USD, and during the first seven months of 2008, it was almost 2.4 billion USD.⁸

Table 1
Bilateral trade balance
(USD million)

	Exports to Russia	Imports from Russia	Trade balance	Turnover
2000	384.491	2073.799	-1689.308	2458.291
2001	489.679	2001.042	-1511.363	2490.721
2002	516.778	1843.952	-1327.174	2360.730
2003	584.382	2339.234	-1754.853	2923.616
2004	947.988	2771.040	-1823.051	3719.028
2005	1401.483	4360.250	-2958.767	5761.733
2006	1894.519	5593.601	-3699.082	7488.120
2007	2870.412	5629.099	-2758.687	8499.511
2008	3988.117	9141.000	-5152.882	13129.117
2009 (Jan-May)	758.868	1740.185	-981.316	2499.053

Source: Czech Statistical Office. Online: (<http://www.czso.cz/>); BusinessInfo.cz. Online: (<http://www.businessinfo.cz/en/>); Ministry of Industry and Trade of the Czech Republic. Online: (http://www.mpo.cz/default_en.html).

The main Czech export commodities to the RF are motor vehicles (especially cars, as their share of Czech exports to the RF has been rising during the last eight years), electric equipment, glass products, china, furniture, plastic materials and plastic products, paper, chemical products, medicines and products of the food industry. In contrast, the main import commodities from Russia are crude oil and other oil products (almost a 45 per cent share of the imports), natural gas (a more than 35 per cent share of the imports), other fuels, chemical substances, iron ore, non-ferrous ores, aluminium alloys, iron and steel, wood, rawhide, machine tools, cotton, rubber and rubber products. During the last eight years the position of the RF on the scale of the biggest trade partners of the CR oscillated between 7th and 10th place, and the turnover of goods exchange oscillated between 2.9 per cent and 3.5 per cent. The Czech EU accession

⁸ See Rusko: obchodní a ekonomická spolupráce s ČR. Online: <http://www.businessinfo.cz/cz/sti/rusko-obchodni-a-ekonomicka-spoluprace-s-cr/7/1000580/>

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⁹ See Kratochvíl, P.
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in 2004 influenced Czech-Russian trade relations without doubt, but the CR strived to preserve the possibility to develop trade relations with the RF on the basis of the most-favoured-nation clause (according to the Partnership and Cooperation Agreement).

On 27 April 2004 the protocol about the extension of the Partnership and Cooperation Agreement between the EU and the RF (PCA) was signed. In 2004 the preparation of a new intergovernmental agreement about economic, industrial and scientific technical cooperation between the CR and the RF was also closed. It preserved the existing principles of a mutually beneficial bilateral cooperation with the RF after the accession of the CR into the EU. It was signed in Moscow on 26 May 2005 and is valid from 18 July 2005. Most importantly, the new agreement simultaneously forms the legal framework for the activities of the new Intergovernmental Committee for Economic, Industrial and Scientific-Technical cooperation between the CR and the RF.

In a contractual dimension we cannot omit the important agreements either that were signed in the period 2001–2008 by professional groups, economic and trade organisations on both sides. Their frequency rose especially in 2001, which was quite a promising year in the development of mutual relations, including their economic dimension, for example, the agreement on the cooperation between the Czech Association of Small and Medium-size Enterprises and the Russian Association of Small and Medium-size Enterprises (signed on 22 September 2001 in Moscow), or the agreement about the cooperation between the Czech Union of Industry and Transport and the Russian Union of Industrialists and Entrepreneurs (signed in Prague on 10 October 2001). Important contractual relations in the financial sphere could also be mentioned (for instance the agreement on cooperation between Russian Ingosstrach and the Russian Avto-bank on one side, and the Czech insurance company, EGAP and the Czech Export Bank on the other).

In April 2007, the Czech president, Klaus visited Moscow with a numerous delegation of Czech businessmen. Czech companies signed there contracts for hundreds of millions of euros (e.g. the Czech company Alta, that concentrates on the post-Soviet area, signed a contract about supplies for Uralvagonzavod for approximately 1 billion euros; the ČEZ company signed a strategic partnership with Russian electricity producer TGK-4; Farmtek Jistebnice and Genoservis Olomouc signed with SamaraProdRezerv an agreement on building an agricultural complex for 644 million CZK, etc.).⁹

To avoid the high import duties on products the biggest Czech exporter, Skoda Auto was preparing (just before the impacts of crisis began

⁹ See Kratochvíl, P. (2008): Rusko v české zahraniční politice, in: Kořan, M. a kol.: *Česká zahraniční politika v roce 2007*, Ústav mezinárodních vztahů, Praha, pp. 220–231.

to influence Russian market) a plant for cars production in the industrial zone in Kaluga.¹⁰ Russia is also the most important market for Czech food industry among the countries outside the EU. For example Hame Babice company has its own plant in the RF.

Since 2003 the Czech Republic as a part of its long-term strategy for economic and trade relations with the RF, devotes special attention to the development of contacts not only with the centre (Moscow), but with other economically strong Russian regions too. As to the contracts that were closed one must mention the CBPS building company facility in the Bashkir region (almost 10 billion CZK) or the tender of ČKD Nové Energo for repairing energy serving facilities in Tatarstan (more than 1.1 billion CZK).¹¹ The cooperation between the Khanty-Mansiyskiy Avtonomniy Okrug and the South-Moravian District may serve as an example of the cooperation between a Czech region and a rich Russian region oriented mainly to energy export. Therefore the activities of the Moravian oil mines company were important there. But the cooperation takes place not merely on economic, but also on educational and scientific research basis.¹²

Table 2
Total amount of bilateral FDI flows in 2000–2009
(USD)

	General FDI flows to CR (from Russia)	General FDI flows to Russia (from CR)
2000	-2 667 500	-183 400
2001	2 297 200	970 100
2002	-5 233 100	1 121 200
2003	14 235 300	-5 401 800
2004	31 630 300	47 756 200
2005	3 706 500	15 297 900
2006	-22 878 300	78 872 800
2007	-11 239 000	32 181 400
2008	50 248 200	45 068 200
2009 (1st quarter)	-131 203 500	40 281 600

Source: Czech National Bank. Online: (<http://www.cnb.cz/en/index.html>).

¹⁰ Former Czech vice premier for economy and later the member of Skoda Auto board Martin Jahn became on 1 April 2008 the head of the Volkswagen Group Russia and replaced its former chief, who was a Russian. See Martin Jahn generálním ředitelem VW Group RUS, 31 January 2008. Online: (http://new.skoda-auto.com/CZE/news/info/news/News/Pages/2008_09_MartinJahndoRuska.aspx)

¹¹ See Kratochvíl, P. (2008): Rusko v české zahraniční politice, in: Kořan, M. a kol.: *Česká zahraniční politika v roce 2007*, Ústav mezinárodních vztahů, Praha, pp. 220–231.

¹² See Chanty-Mansijskij avtonomnij okrug – Jugra. Online: (www.admhmao.ru); Portál Jihomoravského kraje. Online: (www.kr-jihomoravsky.cz).

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To make the picture of mutual investment relations complete it is necessary, of course, to mention the efforts of Russian investors to take over some important or strategic economic objects in the CR. The Czech media were especially interested in the preparation of selling the state share in the Prague Ruzyně Airport company and in the sale of 90 per cent state shares in the CSA Airlines company.¹³ Relatively lesser attention was devoted to the licence granting to the First Czech–Russian Bank.¹⁴ As to Russian investment projects in the Czech energy (gas) market, the creation of a Czech–Russian joint venture running a project of underground gas reservoir in the Czech Republic (on the Czech side the Czech oil producer

¹³ See Aeroflot potvrdil zájem o ČSA, 7.2.2008. Online:

(http://ekonomika.idnes.cz/aeroflot-potvrdil-zajem-o-csa-d2k-/ekonomika.asp?c=A080207_082326_ekonomika_spi). Aeroflot potvrzuje zájem o koupi podílu v ČSA. Online: (<http://online.euro.cz/id/yhhd9388uh/detail.jsp?id=12682>). The Czech Ministry of Finance gave priority to the direct sale to one applicant instead of selling shares through the stock market. The main applicants for the purchase were the Russian Aeroflot, the Air France–KLM company, the Chinese airlines, China Southern, the investment company Penta, the owner of the Cedok travel agency, the Odien Group and consortium companies, the Unimex Group and the Travel Service. Aeroflot expressed the most serious interest. Their suggestion was to preserve the trade mark and tradition of CSA as a national air transporter with its base, the Ruzyně Airport. But as a company outside the EU Aeroflot needed a strategic partner to gain a more than 49 per cent stock share in CSA. The problem of CSA sale to Aeroflot took political dimensions when the chief of the opposition social democrats, Paroubek referred to the non-transparent ownership structure of Aeroflot and the complicated financial situation of the company as a result of the crisis at the beginning of 2009. In April 2009 the Czech government closed the first round of the CSA privatisation with the resolution to disqualify Aeroflot from the tender. See Aeroflot vyřazen z privatizace ČSA. 20 April 2009. Online: (<http://www.airways.cz/zpravy/clanek.asp?id=418>).

¹⁴ In 2007 The First Czech–Russian Bank applied for the licence at the Czech National Bank (CNB) for the third time, because its applications in 2004 and 2005 were not successful. According to the spokesman of CNB the first tender failed because the applicant did not submit all the necessary documents. The second application was refused because of an important change in ownership structure that happened during the licence procedure. As to the licence granting in 2008 CNB refused the rumours that its positive answer followed an intervention by the Russian government. Since the 6 May 2008 the decision of CNB became legally valid, and the First Czech–Russian Bank (PCRB) entered business in the Czech bank market as well as in the EU. The basic capital of the bank was 600 million CZK. PCRB and its subsidiary want to support export and import operations, especially financing Czech–Russian trade; it has Russian owners (the major share was owned by Roman Popov who was connected with Sroytransgaz before, and now he presents himself as an independent banker). It has also a valid bank licence for the Russian market. See První česko-ruská banka získala licenci v Česku, Finanční noviny, 18 April 2008. Online: (http://www.financninoviny.cz/tema/index_view.php?id=308206&id_seznam=5707). Komentář ČNB k vyjádření představitelů PCRB k procesu získání bankovní licence v ČR, 22 May 2008. Online: (http://www.cnb.cz/cs/verejnost/pro_media/tiskove_zpravy_cnb/2008/080522_pcrb_.html)

Moravian oil mines and the KKCG Group was supposed to take part) was also suggested.¹⁵

Last but not least the sector of services also represents an important area of mutual economic ties. As to the Czech Republic, it means not only financial services, but especially the tourism facilities connected with the growing share of Russian visitors to the CR. In 2007 (a year still relatively good for tourism when contrasted with 2008), the share of Russian tourists was the most important for the relative growth of foreign visitors (a 35 per cent growth, which was partially reduced by the relative decrease of the share of the tourists from Germany and Great Britain). The Russians were in the fourth place on the list of the most frequently accommodated foreign guests (after the tourists from Germany, Great Britain and Italy).

3) Czech energy security and Russia

The share of natural gas in the CR energy mix is 20 per cent. Liquid fuels (including oil) count for approximately 18 per cent. The share of nuclear energy reaches almost 12 per cent, renewable energy counts for 3 per cent, and solid fuels (including coal) count for 47 per cent.¹⁶ This structure of the energy mix makes the country relatively independent as to energy resources in comparison with other EU member states. (Thanks to nuclear energy and energy from solid fuels, the CR is still relatively independent in electricity production.) But the future, which is also determined by the demands of the approved EU legislative (especially the climate-energy packet) speaks rather in favour of a rising Czech dependence on external energy resources.

3.1. Natural gas

As to natural gas resources, the CR has a geostrategically important position as a transit country. The natural gas market is fully liberalised, which determined the Czech position as an EU member country as to the legisla-

¹⁵ See Moravské naftové doly podepsaly memorandum na výstavbu rafinérie v Rusku. Online: (<http://www.mnd.cz/pages/cs/media/tz/mndverk.pdf>).

¹⁶ The data is from 2007. See Hermann, M. (2007): Energetický mix ČR – fakta a priority. Praha, 17. května 2007. Online: http://www.oldrichvojir.cz/uploads/Herrmann_RWE_Transgas.pdf.

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tive proposals concerning the liberalisation of energy markets (electricity and natural gas; the so-called third energy liberalisation packet). Gas consumption in the CR reaches 9.5 billion cubic metres per year.

Through the area of the Czech Republic, natural gas is transported to Western Europe through the Tranzit pipeline (the transport began in 1972), which is connected with the Urengoy natural gas resources (in the past, the biggest natural gas resource).¹⁷ Parts of the Tranzit pipeline are also used for reverse gas flows (for instance during the gas crisis in January 2009; the RWE company transported in this way gas supplies from the Yamal gasoline, as the supplies went to Western Europe through Belarus and Poland, to the Czech-German border and then through the CR to Slovakia, which was isolated from Russian gas resources after the interruption of the gas supplies going through Ukrainian pipelines).

The Czech company, Transgas concluded in April 1997 a long-term contract for gas purchases from Norway (Statoil, Norsk Hydro, Saga Petroleum), which is to be valid until 2017 (the volume of gas was supposed to rise up to 3 billion m³ per year). Gas from Norway is transported eastwards through Germany to the Czech-German border. In April 2008 the joint-stock company Česká plynárenská concluded a long-term contract with the Norwegian producer StatoilHydro concerning gas supplies in volumes that cover 5 to 10 per cent of Czech gas consumption yearly. The agreement about Norwegian gas supplies from 1997 onward was an important step on the way to the diversification of gas supplies for the CR. A year later, in 1998, a contract with the Russian company Gazpromexport was signed concerning gas supplies in volumes of 8-9 billion cubic metres a year, which is valid till 2013. In 2006 the RWE Transgas company prolonged this long-term contract till 2035 with volumes of 9 billion cubic metres per year. As a result, natural gas imported from Norway accounts for approximately 24 per cent of Czech annual gas supplies; Russian gas makes up 75 per cent of annual supplies, and 0.4 per cent of natural gas comes from Germany.

In the Czech Republic 95 per cent of natural gas is used for household supplies. It is an important indicator of energy security and the extent of the vulnerability of the Czech economy in case of interruption in external supplies (on which the CR is *de facto* 100 per cent dependent). On the other hand, energy security in the CR is strengthened by the fact that besides external supplies, the CR has at its disposal 6 underground reservoirs of natural gas with an overall capacity of 2.3 billion. They secure gas

¹⁷ See Litera, B., Hirman, K., Vykoukal, J., Wanner, J. (2003): Ruské produktovody a střední Evropa. Eurolex Bohemia s.r.o., Praha, pp. 9-47.

supplies for 50-60 days.¹⁸ At the same time, the CR supports the building of other capacities of this kind in the EU and the strengthening of EU energy security also by way of gas stocking.

In May 2008, a meeting of an intergovernmental Czech-Russian working group for the cooperation in the field of energy took place, with the issue of a possible future increase of Russian gas supplies to the CR as an important programme point. This was connected, *inter alia*, with plans to build gas power stations in the Czech Republic. In 2008, there were negotiations between RWE Transgas and Russian suppliers about securing 1.5 billion cubic metres of natural gas supplies a year above the conditions of present long-term contracts. The creation of a Czech-Russian joint venture running a project of an underground gas reservoir in the Czech Republic was also suggested to be a part of the Russian investment projects in the Czech energy (gas) market.¹⁹

Among other plans, a new connecting gas line, the Gazela project could be mentioned, which is supposed to preserve (especially in connection with the building of new ways for Russian gas supplies to reach Western and Southern Europe – North Stream and South Stream) the strategically important Czech position as a transit country. Besides holding EU presidency since January 2009, the basic questions of Czech long-term energy security also forced to formulate official positions towards EU projects connected with the enhancement of the diversification of external energy supplies. As a presidency country, the CR supported further diversification of energy supplies, although the Nabucco pipeline is not unproblematic even from the Union's point of view (the EU Council and the Commission decided about a preliminary allocation of 50 million euros for this project, instead of the 250 million that were originally planned, as a part of the 3.98 billion euros financial packet for the support of new EU energy projects). As to the Nabucco project, the Czech energy transport system was supposed to be connected with this new pipeline from 2013. But as a part of CR energy security plans, because of the high sensitivity and uncertainty of the Nabucco project, other possibilities are considered as well (such as the further enhancement of the usage of LNG technology).²⁰

¹⁸ See the Tichý, L. (2009): Dvě kola rusko-ukrajinské plynové krize 2009. 16. března 2009. Online: <http://www.euroskop.cz/45/11211/clanek/dve-kola-rusko-ukrajinske-plynove-krize-2009/>.

¹⁹ See Moravské naftové doly podepsaly memorandum na výstavbu rafinérie v Rusku. Online: (<http://www.mnd.cz/pages/cs/media/tz/mndverk.pdf>).

²⁰ See the interview with the general secretary of Česká plynárenská unie Josef Kast, 13 May 2008, Hospodářské noviny.

3.2. Oil

Just as in case of gas supplies. Minor via. In spite of the production covers 1 is mainly supplied the longest from Samara with Poland. Since 1999, the Druzhba Pipeline is a Russian government project. It suggests an oil supply orientation. Announced by the Ministry, then realised on the enterprises.

These days the pipeline is approximately 65% full. It decreased because of the pipeline supplies. In this way the oil system enables the transport from the Caspian Sea to the Black Sea. It also supports the German Karlsruhe refinery. The Czech refinery supply the CR besides the North Africa (Algeria) supplies coming from Azerbaijan). It is preferred to Russian tankers through the Black Sea.

²¹ The Druzhba pipeline is a Russian government project. It suggests an oil supply orientation. Announced by the Ministry, then realised on the enterprises.

²² Viz. Litera, B., Hír, střední Evropa. Eurolex.

²³ See Téma: Družba, F. Online: <http://www.financni>

3.2. Oil

Just as in case of natural gas, the Czech Republic is dependent on external supplies. Minor oil resources can be found in the region of South Moravia. In spite of the high quality of oil from these wells, their annual production covers less than three per cent of consumption. Therefore the CR is mainly supplied since the 1960's through the Druzhba Oil Pipeline,²¹ the longest functioning oil pipeline,²² which connects resources near Samara with Poland, Germany, the Czech Republic, Slovakia and Hungary. Since 1994 the conditions of oil transfer to the CR through the Druzhba Pipeline are ruled by the protocol signed by the Czech and Russian governments on 4 December in the same year. The agreement suggests an oil supply in volumes of 5-7 million tons per year for the sake of orientation. Annually, before 30th September, the volume of supplies is specified by the Ministry of Industry and Trade. Particular oil supplies are then realised on the basis of trade contracts between Czech and Russian enterprises.

These days the share of Druzhba supplies to the CR accounts for approximately 65 per cent of overall annual oil supply. Since 1996 its share decreased because the CR gained an opportunity to supplement these pipeline supplies from the East through the IKL oil pipeline, and remove in this way the one-sided dependence on high-sulphur Russian oil.²³ This system enables the CR to transport oil with tankers first via the Mediterranean Sea to Terst Port. Then it is transferred via the TAL pipelines system that also supplies the Austrian refinery in Schwechat, the refineries in German Karlsruhe and Bavaria and, through German Ingolstadt, also the Czech refinery in Kralupy and Vltavou. In this way it is possible to supply the CR beside Russian oil with the qualitatively superior oil from North Africa (Algeria) or the Middle East. Following 2001 the share of oil supplies coming to the CR from the Caspian area increased (especially from Azerbaijan). Since September 2001, Azerbaijani oil is being transferred to Russian terminals in Novorossiysk Port, and then transported by tankers through Bosphor and Dardanel to Europe.

²¹ The Druzhba pipeline transports oil also from the biggest domestic producer, Moravské naftové doly.

²² Viz. Litera, B., Hirman, K., Vykoukal, J., Wanner, J. (2003): Ruské produktovody a střední Evropa. Eurolex Bohemia s.r.o., Praha, pp. 9-47.

²³ See Téma: Družba, Finanční noviny. Online: http://www.financninoviny.cz/tema/index.php?id_seznam=6267.

The share of IKL supplies in the overall Czech oil supplies is still rising after 1999 at the expense of the Druzhba Pipeline. Nowadays it accounts for one third of the supplies conveyed by the companies Česká rafinářská Inc. and MERO ČR. The reasons are not only geopolitical or geoeconomical (the way to lower the dependency on transit countries like Ukraine), but also technical, for being connected with an ageing and obsolete pipeline. At the beginning of July 2008, the oil supplies to the CR through the Druzhba Pipeline decreased sharply. Then Russia, without any serious explanation, declared that the decline of oil supplies in this route will be of a wider range. The Czech reaction came from the Ministry of Industry and Trade and the Ministry of Foreign Affairs through a diplomatic note. Speculations were rising about the coincidence of reducing Russian oil supplies and the project of the US anti-missile radar base in the CR. According to Russian official statements, the reasons were technical, not political. In the background, the Russian side was playing with the premeditated gradual outage of the whole pipeline system and the termination of Russian oil supplies to Central Europe through Druzhba. To some extent this is in accord with the Russian long-term energy strategy, which counts on the slow replacement of unreliable overland routes through transit countries with other alternatives (such as a greater use of sea lines for both oil and LNG transport).²⁴

²⁴ At the beginning of 2008, it was declared that one of the oldest European oil pipelines could serve as a further instrument to increase the diversification of oil supplies to new EU member states, which are highly dependent on Russian resources (especially Slovakia, the CR and, to a lesser extent, Poland). After the meeting of the Ukrainian president Yushchenko and his Slovak counterpart Gašparovič on 14 January 2008, the Ukrainian presidential office announced that Ukraine is thinking about a project of supplying the Druzhba pipeline not with Russian, but with Caspian oil. Primarily this project was supposed to touch Slovakia, but the Interfax Agency announced that destinations behind the Slovakian border were planned. This could be the Ukrainian reaction to the unsuccessful vision of the Caspian oil transport through the Odesa–Brody pipeline, which now transports Russian oil to Odesa. Projects of reversing the Odesa–Brody flow remain unrealised. (See Rusko prudce snížilo dodávky ropy do ČR. Česká tisková kancelář, 11 July 2008.) The Odesa–Brody pipeline was planned to be lengthened to Gdansk. There were also plans to connect it to the Druzhba pipelines in Brody. Through this project, the CR could *de facto* remain a transit country for Caspian oil supplies to German refineries near Ingolstadt. Therefore the reversing of the Odesa–Brody flow influenced to some extent the plans of Czech energy strategists (although in a somewhat fuzzy way). See Litera, B., Hirman, K., Vykoukal, J., Wanner, J. (2003): *Ruské produktovody a střední Evropa*. Eurolex Bohemia s.r.o., Praha, p. 24.

3.3. The Czech

The above mentioned official Czech positive independence of the possibilities of fuel also determines the though the former (at this point).²⁵ The Czech well as its external dependency on external supply this connection, it also potential to enhance dependency of some the *acquis communautaire* external trade relations the EU borders (e.g. in ways in accord with Russian side. But in adheres to a clear division EU energy policy on the other.²⁶

As to unbundling, the market could be labelled liberalisation packet of TSO alternative (the transit country, the CR repeated liberalisation packet²⁷ before the CR was active in the European Parliament. The fact is that this proposal of full property

²⁵ See European Strategies. E (http://ec.europa.eu/energy).

²⁶ See Communication from the Council. Eastern Partnership. COM March 2009. Presidency communication.

²⁷ Regulation (EC) No 1775/2005 of the European Parliament and of the Council of 26 September 2005 on conditions for the application of Directive 2003/55/EC of the European Parliament and of the Council concerning common rules for

3.3. The Czech position towards EU energy strategies

The above mentioned structure of the Czech energy mix suggests that the official Czech position (supporting, of course, the preserving of the relative independency of the CR, especially in electricity production) supports the possibilities of further exploitation of nuclear energy resources, which also determines the Czech position towards EU energy strategies (although the former Czech cabinet with the Green Party was not united on this point).²⁵ The Czech EU presidency chose energy policy (its internal as well as its external dimension, where CR takes into account its dependency on external supplies of oil and gas) as one of the main priorities. In this connection, it also supported external EU policy projects that have a potential to enhance diversification in the energy dimension, lower the dependency of some EU member states on energy suppliers and enlarge the *acquis communautaire* as to the area of the energy market, rules for external trade relations and norms in the field of competition even behind the EU borders (e.g. the project of the Eastern Partnership). This is not always in accord with both the political and the economic interests of the Russian side. But in negotiations with Russia, the Czech Republic usually adheres to a clear division between the economic and trade dimension of EU energy policy on one side and the strategic-political dimension on the other.²⁶

As to unbundling, it is necessary to take into account that the Czech gas market could be labelled as liberalised. In spite of this, if the third energy liberalisation packet comes into force, the CR will probably choose the TSO alternative (the transmission system operator). As an EU presidency country, the CR repeatedly spoke for an early approval of the third liberalisation packet²⁷ before the end of the EP term of office. In March 2009, the CR was active in the negotiations between the EU Council and the European Parliament, which led in the end to an informal compromise. The fact is that this compromise weakens the original Commission proposal of full property unbundling, not only in the field of the natural gas

²⁵ See European Strategies. Energy Policy for Europe. Online: (http://ec.europa.eu/energy/strategies/2007/2007_01_energy_policy_europe_en.htm)

²⁶ See Communication from the Commission to the European Parliament and the Council. Eastern Partnership. COM(2008) 823 final. European Council, Brussels 19th – 20th March 2009. Presidency conclusions 7880/09.

²⁷ Regulation (EC) No 1775/2005 of the European Parliament and of the Council of 28 September 2005 on conditions for access to the natural gas transmission networks and Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas.

market, but also in the electricity market. But it was reached in exchange for some concessions from the Council and member states concerning the role of the European Agency for the Cooperation of Energy Regulators (ACER), the role of national energy regulators, the market rules for the function of the TSO and some EP proposals concerning consumer protection.²⁸

4) Other post-Soviet countries in Czech foreign policy and the ENP

After more than a decade of distancing itself from the East, the Czech Republic was very slow in acknowledging the practical importance of the region for the country. In fact, it was only after its EU entry that the country started to take a more serious interest in the East. The major factor influencing the "return to the East" was that the country, like many of the other new member states, was looking for a "market niche" in the multilateral forum of the enlarged Union. The interest in the East seemed to be a natural option. However, unlike in the case of Poland or the Baltic countries, the Czech Republic was still rather reluctant to explicitly state its interest in the East. First of all, unlike virtually all the EU member states from the formerly Communist parts of Europe, the country does not share a common border with the post-Soviet space, and therefore threats coming from the region are perceived as less pressing. The country does not have any sizeable minority of East European origin (with the possible exception of Ukrainian migrant workers), and there is not a substantial Czech minority in Eastern Europe either, which also differentiates the country from Hungary, Poland and the Baltics. The second reason for the rather hesitant Czech approach can be explained by its long-lasting inter-

²⁸ The compromise included the decision that both in the area of the gas market and the electricity market, besides the complete unbundling of ownership, the gas and electricity companies would have two other possibilities: an independent system operator (ISO) would take over the control of the transmission system in place of the owner of the supply company without any changes in the ownership structure; the "third way" (defended especially by the representatives of France and Germany) would save a part of the decisive influence of the original owner (the energy company) as to the transmission system and energy distribution, in spite of the establishment of the operator TSO; the independence of the transmission network function should be secured through a control commission consisting of the representatives of the producers, the operator of the transmission network, and stakeholders (who should make all the decisions concerning the property share of the stakeholders).

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²⁹ Cf. Petr Kratochvil and
25/27 Watch. No.5. EU-25

³⁰ For instance, the official
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Working_paper_eng.pdf).

est in the Balkans.²⁹ Indeed, if we searched for expressions of mutual friendship and support, we would find that the Czech shoo-in is rather Croatia than Ukraine or Moldavia.

Besides the "market niche" motivation, the Visegrád cooperation has also been instrumental in increasing the Czech attentions in Eastern Europe. In contrast to the time of Prime Minister Klaus, the V4 format enjoyed a substantial level of support from Czech top politicians at the time of the Czech EU entry. With the loss of the original *raison d'être* of the V4, i.e. the mutual support in negotiations leading to the EU enlargement, the other three members were clearly inclined to move the focus of the organisation to the countries on their eastern borders.

Even though Prague acquiesced in this combination of external changes, it took at least two years for a more consistent Czech "Eastern policy" to be born. However, it is still presumptuous to speak about a full-fledged policy for at least three reasons. First, the policy still remains rather selective and its major focus is democratisation and human rights. The Czech Foreign Ministry established a special department in 2004 dealing with transition to democracy and increased its development assistance to these countries.³⁰ Within the EU, the country became one of the most outspoken critics of the Belarusian authoritarian regime, and several months before the start of the Czech EU Presidency it raised its profile on the Transnistrian frozen conflict as well. The same approach is also visible during the Czech Presidency itself. For instance, the summit in May, which officially launched the Eastern Partnership, was preceded by the Civil Society Forum and supported by the Czech Foreign Ministry explored the links between the nascent Eastern Partnership and good governance.

The second problem related to the EU's eastern neighbourhood is the double-track approach in Czech foreign policy. While most official political meetings are carried out under the aegis of the ENP, many issues, including those most relevant for the Czech Republic, are handled separately, on a bilateral basis. This pertains in particular to economic questions. No consistent strategy interlinking the EU-oriented multilateral level and the bilateral, predominantly economic level exists. Although this approach may not be so harmful in relations with the ENP countries, it is outright dangerous in Czech relations with Russia. There, the divergence between the booming trade and investment ties and the political freeze

²⁹ Cf. Petr Kratochvíl and Mats Braun: Czech Republic – the National Report. In: *EU-25/27 Watch*. No.5. EU-25/27 Watch. Berlin: Institut für Europäische Politik, 2007.

³⁰ For instance, the official aid quadrupled in the case of Ukraine (see Petr Kratochvíl and Elsa Tulmets: Checking the Czech Role in the European Neighbourhood, May 2007, Friedrich Ebert Stiftung, Online: http://www.iir.cz/upload/Projekty/2007/ENP-Working_paper_eng.pdf).

could hardly be greater. The consequence is frequent fears of Czech policy-makers that the country is becoming excessively vulnerable economically, both in terms of Russian investments in the CR and in terms of dependence on Russian imports.

The final problem lies in the fact that while the above-mentioned return to the East has indeed taken place in Czech diplomacy, a shift of a similar magnitude has not materialised in popular sentiment. Quite to the contrary, the general public remains entirely indifferent to matters pertaining to the East, and Eastern Europe still carries the stereotypical connotations of underdeveloped undemocratic countries, thus ironically reproducing the prejudices of some western countries towards the CR. The widening gap between the public attention dedicated to the ENP, which is extremely rarely mentioned in public debates, and the diplomatic focus on the region reduces the Czech contribution to the ENP to a technocratic exercise with no public control or support. In such an environment, it is extremely difficult to push through any steps that could be interpreted by the media as financially burdensome or otherwise disadvantageous for the country. For instance, despite the elevated rhetoric, the Czech Republic has been very timid in relaxing its visa regime *vis-à-vis* the ENP countries. Unlike Poland, which started to heavily lobby for a visa-free regime with Ukraine even before its EU accession, the Czech Republic withdrew from the visa-free agreement with Russia, Ukraine, and Belarus no later than 2000. A similar approach also defines the attitude to visa fee reduction – to put it bluntly, the Czech Republic certainly does not belong to those leading the way.

Even though the ENP has been playing a growing role in Czech foreign policy, the relevance of individual ENP countries for Czech diplomacy must be assessed on a case-by-case basis. As with all other Visegrád countries, Ukraine plays a central role and Czechs have recently become quite vocal in their support for Ukraine's membership aspirations. Measured by the level of attention, Belarus would come second; yet, while all other ENP countries are seen as more or less equal partners in the mutual dialogue, Belarus is an object of continuous Czech criticism. Third, Moldavia and Georgia have risen in importance for the Czech Republic too. The Czech Republic opened an embassy in Moldavia in December 2005 amidst the general trend of reducing the number of Czech representations abroad, which clearly shows the relevance of the region for Prague. Georgia is important both politically (*e.g.* in 2008 the prime ministers visited each other's countries) and economically (*e.g.* Czech investments into energy distribution and health care). The remaining two countries, Armenia and Azerbaijan have been ignored by the Czech Republic. This has somewhat changed recently, in particular with the growing awareness of the role of Azerbaijan for securing energy diversification for the EU (*i.e.* the Nabucco project).

5) Czech country

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5) Czech economic relations with eastern ENP countries

5.1. Ukraine

Ukraine undoubtedly plays the role of the most important economic and political partner of the Czech Republic among the eastern ENP countries. At the beginning Czech-Ukrainian economic relations were not without problems. In spite of the so-called Yamburg agreements, the problem of Ukrainian debt payment continued after 2000. The Czech claims towards Ukraine were not solved until 2003 as a part of the mutual cooperation in the field of nuclear energy. Before 2000, Czech-Ukrainian economic relations were mostly reduced to development aid. The main Czech export commodities are products of the food industry, consumer goods, machines and means of transport, cars and sanitary products. The CR imports iron ore, products made of iron or unalloyed steel, rude aluminium, food products, chemicals, consumer goods, machines and transport equipment from Ukraine. Czech exports to Ukraine were quite diversified but the unfavourable trade balance was decreasing only very slowly.

A more significant increasing of the trade exchange came after the period of 2003–2004. The Czech export increase was almost 55 per cent, while the import increase was more than 47 per cent. On 16 April 2004, the agreement on economic, industrial and scientific-technical cooperation was signed. In 2006 trade turnover reached almost 1.7 billion USD, and exports, with an annual increase of 45 per cent exceeded, for the first time, the margin of 1 billion USD.³¹

As to the investment projects of Czech companies in 2007, the KKCG company made a decision to invest into natural gas exploitation in Ukraine, amounting to 6.6 billion CZK. Also, the Sazka company tried to enter the Ukrainian market, and Skoda Auto company has several production branches in Ukraine. Some big Czech beer producers operate in Ukraine as well. But corruption, a lack of transparency in the business sphere and the unclear status of the so-called free economic zones persist as obstacles to any further strengthening of mutual trade and investment

³¹ See Zpráva o zahraniční politice za rok 2006.

http://www.mzv.cz/public/89/bb/a3/72806_14945_Zpravaozahranicnipolitice2006.pdf

relations, and until recently, they discouraged Czech entrepreneurs from investing projects in Ukraine.

An important problem closely connected with economic relations, but also with visa policy and internal security, is labour migration. According to estimations, more than 120,000 persons of Ukrainian origin reside legally in the CR, although the real numbers are probably much higher.³² The flow of the Ukrainian labour force was connected to a large extent with the economic growth of the last few years that preceded the current recession. Therefore the Czech business sphere was also interested in making the migration of the relatively cheap labour force from the post-Soviet area (especially Ukraine) easier (e.g. through lobbying pressure on the government).³³ But the new visa procedure after the Czech accession to the Schengen zone and the amendments of asylum and foreigner laws brought complications.

5.2. Azerbaijan

The second most important trade partner of the CR among the countries of the ENP's eastern dimension is Azerbaijan, due to the importance of energy trade.³⁴ Since 2001, there has been a sharp increase in bilateral trade relations in the wake of the soaring oil imports from Azerbaijan. The imports from Azerbaijan to the CR rose from 5.4 million USD in 2000 to 233.7 million in 2003, which exceeds 40 times the "basis" (99.4 per cent of the 2003 figure consists of crude oil and oil products). The Czech trade balance in relation to Azerbaijan is unfavourable in the long run. The turnover of bilateral trade reached 1.02 billion USD in 2006, while the trade balance showed a deficit of 923 million USD. Czech exports to Azerbaijan mainly include consumer goods, china, glass, machinery, electric equipment and food products. Imports from Azerbaijan consist of all oil products, foods, chemicals and semifinished goods.³⁵

³² See *Kolik je tu Ukrajinců*. Lidové noviny, 14 October 2007.

³³ The impulses to a facilitation of the labour forces movement also came from the EU (especially the proposal of the so-called blue cards facilitating access to the EU labour market for foreigners from third countries). Simultaneously the Czech Ministry of Labour and Social Affairs proposed the establishment of the so-called green cards for the Czech labour market.

³⁴ See Kratochvíl, P. (2008): Země východní dimenze Evropské politiky sousedství v české zahraniční politice, in: Michal Kořan a kol. *Česká zahraniční politika v roce 2007*, Ústav mezinárodních vztahů, Praha, pp. 232–244.

³⁵ See Zpráva o zahraniční politice České republiky za rok 2001. (http://www.mzv.cz/jnp/cz/zahranicni_vztahy/vyrocní_zpravy_a_dokumenty/zpravy_o_zahranicni_politice_cr/rok_2001/index.html) and Zpráva o zahraniční politice za

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³⁶ See Ázerbájdžán vystup Online: <http://www.busi.stinu-nezajmu/1001410>,

³⁷ See Zpráva o zahraničn (http://www.mzv.cz/jnp_o_zahranicni_politice_cj 2003 and Zpráva o zahra (<http://www.mzv.cz/pul>

The increase of the importance of Azerbaijan as a partner in the imports of fuels made the CR strive after for widening the contract basis that would contribute to an increase of Czech exports. In 2004 the agreement on the prevention of double taxation was negotiated. Its signing in November 2005 built the preconditions for further development of mutual relations, especially in the field of investment. A reason for this was the importance of preventing civil fraud in the field of income and property taxes. Czech companies were successful in a tender concerning road building from Baku to the Russian border in 2006, which has been financed with a credit of 180 million USD by the Czech Export Bank. In the autumn of 2007, the Azerbaijan Embassy was opened in Prague. New possibilities of economic relations and investment for Czech companies (which previously entered the Azerbaijani market mostly through subdeliveries from West European companies) were discussed during the visit of Czech Minister of Foreign Affairs, Karel Schwarzenberg to the Transcaucasus countries in July 2008. Especially in Azerbaijan, a quite great amount of attention was devoted to the visit.³⁶

5.3. Georgia

At the beginning, Georgia was a major object of Czech development and humanitarian aid. For instance, in 2005, the CR, through the World Food Programme, sent humanitarian aid amounting to 2 million CZK to Georgia to help overcome the impact of floods.³⁷ Generally, CR exports to Georgia include consumer goods, machines and transportation technology, illuminating equipment, pharmaceuticals as well as weapons. Imports from Georgia consist of food products, carpets, textiles and electric equipment. The trade balance is favourable.

Czech investors were successful in the privatisation of the energy sector (water-power stations). The joint-stock company, BLOCK Valašské Meziříčí established its subsidiary BLOCK Georgia. During the visit of the Czech Prime Minister, Topolánek in 2007, the representatives of BLOCK,

rok 2006, Online:

http://www.mzv.cz/public/89/bb/a3/72806_14945_Zpravaozahranicnipolitice2006.pdf.

³⁶ See *Azerbajdžán vystupuje ze stínu nezájmu*. Source: *Economia*, a. s., 19 January 2009. Online: <http://www.businessinfo.cz/cz/clanek/azerbajdzan/azerbajdzan-vystupuje-ze-stinu-nezajmu/1001410/51655/>.

³⁷ See *Zpráva o zahraniční politice České republiky za rok 2001*.

(http://www.mzv.cz/jnp/cz/zahranicni_vztahy/vyrocní_zpravy_a_dokumenty/zpravy_o_zahranicni_politice_cr/rok_2001/index.html), *Zpráva o zahraniční politice za rok 2003* and *Zpráva o zahraniční politice za rok 2005*

(http://www.mzv.cz/public/c/2a/f2/16756_14945_Zprava2005hlavnitext.pdf).

BLOCK Georgia and the Czech Export Bank signed a memorandum of mutual cooperation with the Georgian Minister of Labour, Health and Social Affairs and the Minister of Economic Development that concerned the development of hospital facilities in Georgia. The subject of the memorandum was the building of a network of new hospitals all over Georgia, which would qualitatively be comparable to European standards.³⁸

5.4. Armenia

Before 2000 economic relations between the CR and Armenia stagnated. Traditionally, the CR had a favourable trade balance with this country but the overall volume of trade exchange was rather decreasing. The development of trade and economic cooperation was for a long time negatively influenced by the incomplete contractual basis between the countries. Armenia did not recognize the principle of legal continuity of the agreements negotiated by the USSR and the former Czechoslovakia. Further obstacles lie especially in the low purchasing power of the local market, the limited potential of goods' exchange and the low activity of Czech economic subjects in the territory. CR exports to Armenia mostly include machines, transport equipments and products of non-metal minerals. The CR imports textiles and clothes, spirits and aluminium from Armenia.³⁹

Because of the above mentioned hardships, the bilateral economic cooperation was developing only slowly and tentatively. After trade turnover fall in 2003, a significant increase of trade was observed in 2004 and 2005. The reason was an increase of Armenian exports to the CR (almost five times of the initial quantity). Simultaneously, exports from the CR stagnated, and led to an unfavourable trade balance, for the first time since 1994. The balance was restored in 2006.⁴⁰

³⁸ See Gruzie: Obchodní a ekonomická spolupráce s ČR. Source: Ministerstvo zahraničních věcí (MZV). Online: <http://www.businessinfo.cz/cz/sti/gruzie-obchodni-a-ekonomicka-spoluprace-s-cr/7/1001372/>.

³⁹ See Zpráva o zahraniční politice České republiky za rok 2001. (http://www.mzv.cz/jnp/cz/zahranicni_vztahy/vyrocní_zpravy_a_dokumenty/zpravy_o_zahranicni_politice_cr/rok_2001/index.html).

⁴⁰ Zpráva o zahraniční politice za rok 2006 (http://www.mzv.cz/public/89/bb/a3/72806_14945_Zpravaozahranicnipolitice2006.pdf).

5.5. Belarus

The Czech-Belarus relations in the 1990's and at the beginning of the 2000's were years of negotiation and promise. The long-time character of the object of transformation of Czech diplomacy) the

The CR exports to Belarus equipment, chemicals and boilers. The CR imports equipment from Belarus in a long run. Since 2000 (more than by 36 per cent) state projects of reconstruction (beer production, glass) the Czech Republic achieved in years. In 2006, mutual trade USD (233 million USD) balance were almost equal on small and medium activities have to face the side of state organs.⁴¹

5.6. Moldavia

Czech-Moldavian relations they achieved a certain level in chemicals, motor vehicles products, optic and iron or steel products. Imports fruits and vegetables

⁴¹ See Bělorusko: Obchodní a ekonomická spolupráce s ČR. Source: Ministerstvo zahraničních věcí (MZV). Online: <http://www.businessinfo.cz/cz/sti/belorusko-obchodni-a-ekonomicka-spoluprace-s-cr/7/1001372/>.

5.5. Belarus

The Czech–Belarus trade exchange mostly stagnated in the second half of the 1990's and at the beginning of the 21st century. Not until 2001, after years of negotiations, did the Belarusian side recognise the debt from 1992 and promise to pay it. As to the type of the ruling regime and the long-time character of Czech–Belarusian relations, Belarus is rather an object of transformation and development aid (from the point of view of Czech diplomacy) than a trade partner.

The CR exports to Belarus mainly include machines and transport equipment, chemicals and chemical products, consumer goods, reactors and boilers. The CR imports consumer goods, machines and transport equipment from Belarus. The trade balance is favourable for the CR in the long run. Since 2003, mutual trade increased, especially Czech exports (more than by 36 per cent) as a result of Czech companies taking part in state projects of reconstruction of whole fields of the Belarusian economy (beer production, glass industry, energy sector). Trade exchange between the Czech Republic and Belarus has had a tendency to rise in the last five years. In 2006, mutual trade turnover overcame the limit of 200 million USD (233 million USD). The shares of both countries in the overall trade balance were almost equal in 2006. Trade cooperation is based especially on small and medium-sized enterprises. But Czech investment and export activities have to face administrative obstacles and other barriers on the side of state organs.⁴¹

5.6. Moldavia

Czech–Moldavian relations were sporadic before 2001, but afterwards they achieved a certain upswing. The CR exports sweets, live animals, chemicals, motor vehicles, boilers, glass, molten plastic materials and products, optic and health care equipment, paper, cardboard, tar paper, iron or steel products, furniture and meat to Moldavia. From Moldavia, it imports fruits and vegetable products, spirits, wine, tobacco, clothes and

⁴¹ See Bělorusko: Obchodní a ekonomická spolupráce s ČR. Source: Ministerstvo zahraničních věcí (MZV). Online: <http://www.businessinfo.cz/cz/sti/belorusko-obchodni-a-ekonomicka-spoluprace-s-cr/7/1000782/>.

accessories, aluminium and aluminium products, and other industrial products.⁴²

In March 2004, Moldavia was included among the eight priority countries for Czech foreign development cooperation in the period 2006–2010. The volume of Czech foreign trade relations with Moldavia rose by more than two times that year. The increase of Czech exports followed in the next few years, however, the annual report of the Czech Ministry of Foreign Affairs in 2006 stated that the volume of mutual trade was still relatively low. The reasons were perceived as the scarce knowledge of Moldavia on the side of Czech business and the limited financial potential and business and marketing opportunities on the Moldavian side. In 2006 the trade exchange, for the first time, decreased in comparison with the previous year (a decline of 11 per cent), especially because of the decline of Moldavian exports to the CR (more than 33 per cent). The Czech export decline was about 6 per cent.⁴³

Summary

The EU-related consequences of the above overview of the Czech eastern policy (or, rather, eastern *policies*) can be summarised in six points:

- 1) Although the Czech diplomacy has been consistently trying to diversify its approach to Eastern Europe, it is still dominated by the focus on Russia. Only Ukraine plays a role that, in some limited areas, comes close to that of Russia. The two dimensions – Russia and the ENP countries – are almost always discussed separately, even in areas where there is a clear connection (such as frozen conflicts).⁴⁴
- 2) Regarding Russia, the Czech Republic belongs to the group of new EU member states that are traditionally wary of the country. However, de-

⁴² See Zpráva o zahraniční politice České republiky za rok 2001.

(http://www.mzv.cz/jnp/cz/zahranicni_vztahy/vyrocni_zpravy_a_dokumenty/zpravy_o_zahranicni_politice_cr/rok_2001/index.html).

⁴³ See Zpráva o zahraniční politice za rok 2006. (http://www.mzv.cz/public/89/bb/a3/72806_14945_Zpravaozahranicnipolitice2006.pdf).

⁴⁴ This can be well demonstrated by an analysis of official Czech foreign policy documents. Here, post-Soviet countries, except for Russia, are almost never overtly discussed. The only other exception is Ukraine, but again, it is usually only mentioned as a supplement to a more detailed examination of Russia (see, e.g., Koncepce zahraniční politiky České republiky na léta 2003–2006 [The Foreign Policy Conception of the Czech Republic 2003–2006]).

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spite the current downward trend in Czech-Russian relations, its position on most issues puts it in a different camp than that of the more radical "northern tier" of the post-Communist EU members (Poland, the Baltic countries). Russia is not perceived as the greatest threat by the Czech population at large, and a substantial part of the political elite (President Klaus, the Czech Social Democratic Party, the Communists) tends to see Russia in pragmatic, if not outright friendly, terms.

- 3) Currently, the most relevant issues in Czech-Russian relations are (1) the radar base in the Czech Republic, (2) the security of energy imports from Russia, and (3) the Czech support for the recent revolutions in the post-Soviet space. It is only energy security that is consistently linked to multilateral EU discussions by Czech diplomats, while the other two are usually seen as coupling Czech policies to those of the United States.
- 4) Within the ENP, Prague naturally prefers its eastern dimension and its strengthening (such as the Eastern Partnership), and belongs to the vocal supporters of a new eastern enlargement. Its preparedness to support the EU aspirations of the ENP countries may, however, falter once the (alleged) costs of the enlargement become known to the Czech population.
- 5) Both in its relations to the ENP countries and in its Russia policy, the Czech Republic has so far not succeeded in implementing a unified strategy that would cover both political and economic ties. This is particularly striking in the case of Russia, where the negative political relationship is complemented by a rapid trade expansion.
- 6) Even though the Russian-Georgian conflict is not interpreted as a major watershed for the Czech Republic, it is still seen as a sign of the growing assertiveness of Russia's foreign policy. The possibility of Russia's military involvement in the Central European region is generally ridiculed by both the media and the political elite, but attempts to increase the Russian economic influence in the country are considered dangerous.
