



PERVERSE subsidies in the Czech Republic

*An analysis of state support with
a negative impact on the environment*

The aim of APEL series is to present new topics in the field of environmental protection that have been discussed only marginally in the Czech Republic, to present new perspectives, and to inspire others.

The first rule of sensible housekeeping should be to make sure that you do not spoil the results of your labour. This is not the case, however, when it comes to the Czech Government and its environmental policies. Each year, the state spends billions of crowns of taxpayer money on activities that effectively undermine its own work.

In their spending, the country's ministers contribute to the further development of mining and the burning of coal. They encourage farmers to plough under the last remaining green areas, while helping cities to expand onto surrounding arable land. Through their financial support, they encourage larger consumption of diesel. They pay for massive construction projects in popular protected landscape areas.

They finance the planting of spruce forest plantations. They pour state resources into projects that increase the threat of flooding for some towns and villages. They undermine waste recycling by providing advantages to incinerators.

At the same time, they expend a large amount of energy and effort to solve all these problems – high carbon dioxide emissions, the harmful effects of large-scale mining, the lack of green countryside, construction on farmland, the detrimental health effects of pollution, a reduction in attractive sites for tourism and recreation, widespread spruce monoculture, flood damage, and low waste recycling. Even the best measures lose all meaning, however, if the state undermines their positive effects through counterproductive subsidies that encourage the exact opposite.

Perverse subsidies

The phenomenon of contradictory state expenditures that increase environmental damage even has a name – perverse

subsidies. It was popularised in 1998 by Norman Myers and Jennifer Kent in the first edition of their book of the same name.

Perverse subsidies in the Czech Republic

The Czech Republic has a relatively high level of subsidies: in terms of state support as a share of gross domestic product (2.8%), it ranks second in the European Union right behind Austria.

In 2003, the level of state support in the Czech Republic was more than 2.8% of gross domestic product – roughly 71 billion crowns (€ 2.5 billion). Subsidies in 1999-2003 totalled 288 billion crowns (€ 10.2 billion), with significant annual fluctuation. The main factor in these figures is the volume of expenditures on bailing out and restructuring banks – without a doubt the largest bundle of money.

The size of explicitly counterproductive subsidies has significantly decreased in the past 15 years. Direct subsidies for fossil fuels alone have cost Czech taxpayers 56 billion crowns (€ 2 billion) in 1994-98, with total support reaching 197 billion crowns (€ 7 billion). Energy subsidies have in the meanwhile undergone fundamental reform, so today's situation is significantly more optimistic. But not completely. In our work on this report, we found and documented a whole series of subsidies that directly or indirectly support further environmental damage. These are partial one-off expenditures, subsidy programmes, and tax incentives that directly undermine attempts at reducing pollution, protecting the landscape or increasing waste recycling. We will show several examples of this.

An overview of state support with a negative impact on the environment

Lignite mines near Hodonín

At roughly 12 tonnes of CO² per capital per year, the Czech Republic is one of Europe's largest polluters. The greatest sources of pollution are coal-burning power plants, heavy industry, and the growing level of automobile and truck transport. The country's environmental policy places the lowering of carbon dioxide emissions among its main priorities. The government programme for protection from the effects of climate change and the Strategy for Sustainable Development, two documents approved by the ministries, directly anticipate reductions in pollution by 30 % by 2020, i.e. to 8.7 tonnes per capita per year. Paradoxically the same Government decided to financially support the mining – and thus the burning – of fossil fuels. In October 2004 it decided to provide a subsidy of 155.5 million crowns (€ 5.5 million) from the state budget for the further development of the Mír lignite mines in Mikulčice near the town of Hodonín, with the goal of saving 350 jobs. The mine will extract half a million tonnes of brown coal for the Hodonin power plant: The company has a contract with CEZ Group until 2010. Mikulčice is the only deep lignite mine in the Czech Republic. In 1998-2002 2.4 million tonnes of raw materials were mined at Mikulčice.

Preparation of industrial zones

“A significant amount of land is being taken up for new construction”, warns the latest government report on the state of the environment. Already in the introductory chapter, it describes this trend as one of the most serious environmental problems in the Czech Republic. The number of projects that would rather take up open agricultural land instead of using abandoned areas is increasing. New industrial facilities, warehouses and other structures are growing up around cities. Many of these greenfield developments are financed, however, by the same Government that published this report. In

2000, in an attempt to attract investors to Czech cities, it announced a programme for the preparation of industrial zones, which helps to finance the construction of sites where interested parties can be sure to find infrastructure, transport connections and other conditions required for their projects. CzechInvest spends hundreds of millions of crown (tens millions of €) in taxpayer money every year to take up ever more open landscape.

In the years 2001-2002 alone, the state spent nearly 1.8 billion crowns (€ 64 million) on the preparation of new industrial zones, with this support continuing today.

Forestation of agricultural land

Forestation of agricultural land – at first glance, this would seem without question a beneficial programme. If a portion of Czech fields are transformed into forest, this would make the landscape more diverse, the ground would be more resistant to flooding, there would be less erosion, and the new source of income would support the local economy. Despite all this, The government's forestation programme is possibly the worst aspect of the so-called second pillar – agricultural subsidies intended for landscape preservation and rural development. Forestation can have both positive and negative environmental impacts, depending on local condition on the selected range of planted trees. Planting a broad swath of local tree varieties in fields in the South Moravian basin would definitely be beneficial. But planting more spruce monoculture in wet herb-rich meadows in the Šumava foothills is severely detrimental to the environment and a waste of money to boot. Government subsidies support more of the second than the first cases. This has two causes: first, the aim of programme is not explicitly the planting of the natural range of trees on arable land. Second, the programme lacks any measures that would avoid the possibility of causing more damage than use.

Supplemental direct payments – arable land

In the year 2004, a new system of agricultural subsidies came into force into the Czech Republic. The new member states receive lower payments than farmers in the original 15 EU countries, one fourth in the beginning. This payments are lower but each year, these payments will be gradually increased until they reach the full height in 2013. By then, the new members have the right to provide their farmers with additional national supplemental payments can pay (top-ups) paid for from their own budgets. Supplemental payments may not, however, exceed 30 % of the level of subsidy in the old EU 15. It is precisely here that the so-called principle of equal support is violated. The Czech Republic pays out top-ups only for selected types of cultivated areas or types animals. In 2004, for instance, this included arable land, hops farms and cattle, among others. As a result, some forms of use of agricultural land receive more support than others. This encourages farmers to choose these types of agriculture or husbandry. A particularly big problem is subsidies for arable land: Since farmers only receive payments if they own fields, this naturally increasing their motivation to plough up fields instead of maintaining meadows, pastureland or orchards. Meanwhile, the Government itself points out that fields form an unsustainably large proportion of agricultural land in the Czech Republic.

In 2000-2002, the Government spent 72 million crowns (€2.5 million) from the state budget on similar types of support.

Market measures – sugar

If we were to choose one form of support that without a doubt deserves to be called the single most criticized subsidy, then this would be the subsidy for The export of sugar, combined with quotas greatly exceeding domestic consumption. This subsidy is criticized literally from all sides: from environmental organisations, humanitarian foundations, and economists. The cultivation of sugar beets causes unusually high environmental damage even for industrial

agriculture. Sugar beet fields are strongly susceptible to erosion, and the crop requires high amounts of pesticides. Although the Czechia Republic consumes the third largest amount of sugar in the EU per capita, it has a significant overproduction (more than 64,000 tonnes per year) and is a "long-term net exporter". The great majority of Czech exports are to EU markets, where they replace local producers and contribute to the EU's import/export balance.

Restructuring of fruit orchards

This programme – with which the Government aims to support the restructuring of fruit orchards – is one with unclear environmental impacts. It does not immediately deserve a red card: it could have significant benefits, but in some areas it represents a serious risk.

The subsidies go to support the cutting of fruit orchards and their replacement with new orchards that would exclusively make use of integrated pest management. This form of management ensures pest control with lower levels of pesticides than conventional intensive agriculture. On the other hand, there is the serious possibility that some old tall-tree orchards may fall victim to the programme – these orchards are among the most important refuges for life in the agricultural landscape.

Green Diesel

The Green Petrol programme is another label for a law that returns farmers and foresters 60 % of the excise tax on diesel and petrol – for each month, they present the financial office documentation of their fuel consumption and receipts for the purchase of fuels. The goal of the Green Diesel programme is to help a struggling branch of the economy. The Ministry of Agriculture and other proponents of the programme argue that its termination would have severe financial consequences for farmers.

Channelisation of the lower Elbe

Few projects in the past years have evoked such controversy as the plan by the Ministry of Transport to channelise the lower reaches of the Elbe (Labe) river between Ústí n.L. and Děčín through the construction of two new weirs, and thus facilitate water transport. According to the current budget, taxpayers would be asked to pay around 6.3 billion crown (€ 223 million). Critics warn, however, that construction would cause great environmental damage. The project would destroy one of the most valuable natural sites in the Czech Republic, home to many types of endangered plants and animals.

Government programme for motorway construction

In the years 2001-2010 (or 2015), the Government plans to construct around 1,350 kilometres of new motorways and limited-access highways along routes approved in 1999. For illustration: at the end of 2003 the Czech Republic had a total of 838 kilometres of motorways and limited-access highways. According to Government resolution, 394 billion crowns (€ 14 billion) shall be made available for the construction of motorways and limited-access highway in the years 2001-2010 (or 2015). This much money cannot be guaranteed, however, so in reality the programme will have fewer expenses.

Route of the D8 through the České středohoří protected area

Even though there are alternative routes, the Ministry of Transport insists on a route through a protected landscape area and refuses even minor changes – above all the construction of a long tunnel in the Central Bohemian Highlands (České středohoří) – that could limit the harmful effects of automobile traffic on the local population and the north Bohemian landscape. In June 1999, the Ministry of Environment asked the Government to either lead the road around the Central Bohemian Hig-

lands or to build a long tunnel under the protected landscape area. The then-Government refused this request, however, and decided to dig deeper into taxpayer pockets and cause greater environmental damage.

D3 motorway near the Sázava river

When in February 1997 the Government removed the construction of the D3 motorway from its programme, it stated that it was doing so because of the project's environmental impacts and financial costs. Two years later, however, the proposal was back on the table. Construction will cause severe damage to the landscape in a popular recreational area close to Prague. The project, meanwhile, is unnecessary: the transport connection between Prague and South Bohemia can be realized cheaper and with fewer damage. Affected municipalities along the Sázava river opposed to the construction presented an alternative technical solution. Despite the opinion of the affected municipalities and an expert analysis, the Ministry of Transport was able to push through its proposal.

D11 motorway across the Libický luh national nature reserve

The Libický luh national nature reserve near Poděbrady protects the largest alluvial forest in Bohemia. This forest is home to dozens of endangered species of plants and animals, and is the site of giant centuries-old oak trees. It is one of the most valuable forests and wetland biotopes in the country. Despite this, the Ministry of Transport plans to construct the D11 motorway through the reserve on a gigantic raised embankment – the only case of this kind in our country. It continues to insist on this alternative.

The ministry refused a proposal to route the motorway around the reserve as well as a more environmentally friendly alternative along the same route on a raised causeway instead of fill. As a result, in November 2004 an unnecessarily large area of forest of giant oaks was cleared, and the project impacts much more severely than necessary on areas that are home to endangered species.

Financial support for the removal of flood damage

This subsidy programme could be called the Programme for the Creation of Future Flood Damage – it anticipates the reconstruction of original regulatory works destroyed by floods. Rivers and creeks would thus be returned to a state that was already incapable of withstanding one flood and is thus obviously not working properly. These structures are repaired with the simple argument that they were there before and it is thus necessary to build them again. In the meanwhile, by simply removing flood damage without determining why the damage occurred in the first place, we ignore the lessons we learned and merely repeat past mistakes. The removal of flood damage should thus be preceded by an analysis of why the individual structures were destroyed.

In many cases, the conclusion would probably be that they were poorly chosen or are totally unnecessary.

In 2004, this form of support cost 1.49 billion crowns (€ 53 million).

Exemptions for municipal waste incinerators

The Czechia Republic produces 5 million tonnes of municipal waste each year. The overwhelming majority of this waste is stored in dumps or burned. Hundreds of thousands of tonnes of quality usable materials end up in Czech incinerators each year – a needless waste of secondary raw materials, as well as resulting in higher levels of toxic pollution. The expansion of incinerators undermines efforts at increasing the level of recycling, which is lower than the European average. In the Czechia Republic, only around 12% of waste is recycled. This unnecessary, toxic and expensive incineration of secondary raw materials is indirectly subsidised by the state: While taking waste to a landfill means paying a fee, this does not apply to incinerators. With incinerators freed from fees, cities are encouraged to invest in incinerators instead of improving their waste separation and recycling.

Recommendations

Using several cases from various branches of the economy, the study shows that some subsidy programmes, tax exemptions and state support result in increased pollution and landscape degradation. In many cases, the support is quite clearly of a dubious nature. For instance, there is no doubt that farmers can be helped in ways other than providing them discounts on diesel, thus encouraging additional fuel consumption, higher emissions and the use of less effective machinery. Tax exemptions for airplane transport, the dirtiest form of transport, is also difficult to justify. Almost none of the subsidy programmes contains any effective feedback that would assess actual costs (including environmental damage) and benefits, and thus make it possible to truly judge its need and legitimacy. And finally, the study in several places comes across the issue of the cost-effectiveness of state support, for instance among several transport construction projects. If the subsidy or the project cannot pay for itself, then from the viewpoint of public interest it is doubly wrong: There is no comparison of economic gain and environmental damage, instead it causes a double loss. It is extremely likely, for instance, that the controversy surrounding the channelisation of the lower Elbe could be ended by a solid assessment whether the project makes economic sense. We thus consider it absolutely necessary to:

- Perform a detailed review of subsidy programmes and other forms of state support, including an analysis of their environmental impacts and recommendations for the removal of counterproductive subsidies. Joint responsibility for this analysis should be carried by the ministries of finance and environment. The review should also include a recommendation on what to do with the individual support programmes (cancel, reform, establish environmental criteria).
- Introduce a mechanism to ensure an analysis of environmental impacts of all newly established state support programmes. We recommend that this mechanism be again proposed by the ministries of finance and environment.
- Assess the economic return on invested resources for state support programmes, especially those projects and programmes for which we may anticipate significant environmental impacts.

The summary

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*Edited by: Vojtěch Kotecký and Jaroslav Klusák
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Green Circle Hnutí DUHA

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