

A CRISIS PRESIDENCY: THE CZECH REPUBLIC AT THE HELM OF THE EU

Key takeaways from the Czech Presidency of the EU & its implications for international businesses

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Issues & Sectors	Security, Energy, Tech, Global Taxation, Climate, Gig Economy, Rule of Law
Stakeholders	Czech Republic, Council of the EU, EU Institutions, Ukraine

The Czech Presidency of the Council of the European Union, which will shape the EU's political agenda during the second half of 2022, comes at a critical time for the European bloc, with an unprecedented range of challenges facing the European community. Countering the impact of Russia's war against Ukraine will be the main driver of Prague's political agenda at the EU level, with special focus on supporting Kyiv and ensuring the energy security of EU member states.

Significant legislative changes are also expected at EU level during Prague's six-month Presidency, most importantly in areas including sustainability, global taxation, technology regulation, digitalization, the gig economy and free trade, with far-reaching implications for investors present in the CEE region.

Below, Aretera provides further insight into the Czech Presidency of the Council of the EU, as well as into its likely policy directions and legislative priorities. As the Czech Presidency unfolds, we will also be publishing a series of bulletins on the progress on key EU files and wider political objectives¹.

¹ To receive these bulletins directly into your inbox, please sign up via our website: www.arterapa.com

PRAGUE AT THE HELM OF THE EU

On 1st July, the Czech Republic took over the rotating Presidency of the Council of the European Union for the second half of 2022. Succeeding France in presiding over the Council of the EU for the first time since 2009, the Czech Republic will emerge as the top political stakeholder among European governments from July to December.

In the EU's institutional structure, the Council of the European Union – also known as the Council of the EU, the Council of Ministers or simply the Council – is one of the two bodies of the legislative branch. While the European Parliament represents EU citizens through directly elected lawmakers, the Council is composed of government ministers from each EU member state, who sit on policy-specific councils of EU legislature.

Holding the Council Presidency, the Czech Republic is tasked to prepare the political and legislative initiatives in the Council, organize and chair the meetings in its various, policy-specific bodies and represent the Council in its relations with other EU institutions, primarily the European Parliament, the European Commission (the EU's top executive body with power to initiate legislation) and the European Council, the body composing the EU heads of state and government who set the overall political direction in the European bloc. Three successive EU Presidencies are known as Presidency Trios; the current trio consists of France, the Czech Republic and Sweden, up until July 2023.

SECURITY RISKS TO SET CZECH EU AGENDA

The Czech Republic is taking on the EU Presidency at a critical time for the European bloc, which is beset with severe political, economic and social challenges. Russia's war against Ukraine is the most critical issue facing the European continent, closely followed by widespread spiralling inflation, worsening living standards and an overall economic slowdown threatening recession.

According to [a recent forecast](#) by the European Commission, Russia's invasion of Ukraine has significantly worsened the EU's economic outlook, triggering lower-than-expected growth and higher inflation pressure. The European Commission now expects the EU economy to grow by 2.7% this year and 1.5% in 2023, with record-breaking inflation levels to ease only next year. The outlook remains heavily dependent on how Russia's war will unfold, with severe implications for gas supplies to Europe and an unfolding energy crisis as the EU looks to secure consensus on how quickly and significantly it can reduce its energy dependence on Russia.

An additional security risk looming over Eastern Europe concerns Transnistria, the breakaway region along Moldova's eastern border with Ukraine. Supported by Russia but widely unrecognized by the international community, the Transnistrian leadership has recently reaffirmed its commitment towards gaining independence first and then joining Russia. Fears are growing that Moldova, an EU candidate country, could become further embroiled into the war should Russia choose to provide military support for Transnistrian "independence."

POLICY DIRECTIONS

These security, economic and energy risks are all reflected in the program of the Czech EU Presidency. Presented by the Czech government of Prime Minister Petr Fiala in June, the program includes five key agenda priorities:

➤ **Managing the Ukrainian refugee crisis and supporting the country's post-war reconstruction.**

Russia's war against Ukraine has resulted in the largest ever humanitarian crisis in Europe since WWII, with Prague taking the lead in ensuring the long-term integration of Ukrainian refugees into European society and the employment market and organizing financial support to the most impacted member states. Prague will also support Ukraine's post-war reconstruction by focusing on restoring the country's critical infrastructure, ensuring basic services, supporting the country's economic recovery and shoring up international financial support. Maintaining EU unity against Russia will be among the top challenges of the Czech Presidency, while the EU's support to Ukraine's reconstruction is yet to be defined. With Ukraine recently having been granted EU candidate status, Prague will also support Kyiv's European ambitions.

➤ **Ensuring energy security.** In wake of the Russian threat to drastically decrease energy supplies to Europe, the Czech government will prioritize political and legislative action to ensure the EU's energy security. While the EU has made a number of steps to rid itself of its dependence on Russian fossil fuels, the bloc remains heavily dependent on Russian gas, which Moscow looks set to use to shape the outcome of its war on Ukraine. This is also reflected by a recent EU decision to curb gas consumption by 15% to avoid a potential energy crisis this winter. As stated in the Czech EU Presidency program, ensuring energy security "is currently more pressing than the energy transition", signalling that sustainability, as an overall challenge, will be less prioritized as fears of an energy shortage continue to grow. At the same time, Prague has pledged to support the decarbonization of EU industry and the diversification of energy supplies with the use of renewables.

➤ **Strengthening Europe's defence capabilities.** With Russia posing a security threat not only to Ukraine but to the European bloc, the Czech Presidency will work in partnership with NATO to enhance Europe's defences. This will include investment in reducing technological dependence, ensuring critical supply chains and strengthening industrial capabilities. A special focus will be placed on cybersecurity, new technologies and countering pro-Kremlin disinformation attacks.

➤ **Achieving strategic economic resilience.** In order to mitigate the impacts of the worsening European economic climate, the Czech Presidency aims to "drastically reduce its dependence on hostile regimes", particularly Russia. Efforts to build economic resilience will include securing IT supply chains, further deepening the internal EU market, supporting the digitalization and automation of the EU industry and increasing free trade.

➤ **Strengthening democratic resilience.** Supporting the rule of law and democracy is a recurring element of recent EU presidencies, with Prague likely to play the role of an "honest broker" in the long-running rule-of-law disputes of European institutions with Poland and – particularly – Hungary, two countries that have repeatedly been accused of democratic backsliding. While the EU has recently agreed to greenlight post-pandemic recovery funding for Poland in exchange for the implementation of judicial reforms, disputes with Poland and Hungary continue to fuel divisions within the EU. Budapest has yet to secure post-pandemic recovery funding and faces the threat of losing billions of Euros in critical EU funding.

LEGISLATIVE PRIORITIES

Building on the Presidency priorities and program, Prague is widely expected to focus on the main direct consequences of Russia's war. However, the six-month Presidency could also introduce significant legislative changes in other policy areas and sectors, with wide-reaching implications

expected for international investors. Below, we outline those policy areas most likely to be impacted by legislative changes at the European level.

ENERGY

The Czech government is expected to endorse a number of initiatives to secure energy supplies for the European bloc. With the looming energy crisis, the main task ahead is finding common ground for ensuring energy security and tackling climate change at the same time, most likely at the expense of the latter. The Czech government will also work to support an accelerated implementation of the RepowerEU program, a plan put forward by the Commission to reduce dependence on Russia. However, the European bloc has already largely missed its original 2022 target of cutting dependence by two-thirds this year, as the program envisaged.

Concerning energy, one of the main preliminary challenges for Prague was to secure the approval of the European Parliament of the controversial Taxonomy Delegated Act, which labels nuclear energy and natural gas as green investments. This was achieved on 6th July when the majority of MEPs endorsed the corresponding resolution. If no objection from the Council, which is unlikely, the act could come into force on 1st January 2023, giving a role to private investors dealing with nuclear and gas to support European supplies security. Moving towards the end of this year, Prague will work to support joint voluntary purchases of gas at the EU level, shore up gas reserves by this winter and work on the implementation of its EU-level regulation.

SUSTAINABILITY

Although less of a priority for the European bloc due to the Russian energy threat, the Czech EU Presidency has pledged to support the EU's landmark Fit for 55 policy package, aimed at reducing greenhouse gas emissions by at least 55% by 2030. Shortly before the Czech Presidency began, EU heads of state agreed to revise the Renewable Energy Directive (RED), a key part of the Fit for 55 package, increasing the EU's renewables targets to 40% from 32%. While some progress is expected by the end of the year on climate issues, energy plans aimed at ensuring the security of supplies and saving energy use have a better chance of succeeding.

Sustainability advocates claimed a significant victory, however, when the Council of the EU agreed on 28th June to end the sale of combustion engine cars by 2035. The corresponding EU decision also endorsed the use of synthetic fuels, along with a five-year extension of exemption from obligations granted to car manufacturers producing less than 10,000 vehicles annually. The Czech EU Presidency will now guide inter-institutional talks within the EU to prepare the regulatory framework for the sales ban effective from 2035.

GLOBAL TAXATION

According to Czech Finance Minister Zbyněk Stanjura, the Czech EU Presidency will aim for an EU-level consensus deal on a 15% corporate minimum tax by the end of October. The 15% global corporate minimum tax was agreed by the OECD last year, with the European Commission having already prepared a draft proposal for EU-level implementation. However, Hungary, which applies a 9% corporate tax, reconsidered its position on the issue in June, arguing that the global minimum tax will hurt the country's investment potential.

Under our baseline scenario, the Hungarian government of Prime Minister Viktor Orbán will drop its opposition to the OECD-proposed global corporate tax if Hungary secures access to its post-

pandemic EU recovery funds by the autumn, clearing the way for a Czech-brokered agreement at the EU level. At the same time, disagreements between Budapest and Brussels could also lead to Hungary losing EU recovery funding opportunities for good, which will reinforce the Hungarian opposition to the OECD-proposed global corporate tax.

FREE TRADE

The Czech Presidency is also expected to focus on tying down multiple trade deal opportunities. In the years leading up to the COVID-19 crisis, the EU sealed or finalized a number of FTAs, including with Canada, Mexico, Singapore and Vietnam.

The Czech government is widely seen as a strong advocate for further extending the free trade opportunities of the European community, particularly in the wake of Russia's war on Ukraine and corresponding supply chain disruptions. While Prague is likely to push for extending free trade and a vast number of EU member states are in favour of such opportunities, the Czech EU Presidency will likely focus on more acute priorities. At the same time, the Trio Presidency could score significant results concerning free trade, given that Sweden, which will follow the Czech Republic in holding the EU Presidency, is among its strongest advocates and aims to finalize new deals as early as next year.

TECH & DIGITALIZATION REGULATION

Under its Czech Presidency, the European Union could become the first major economic power to regulate the use of artificial intelligence. The EU first proposed its Artificial Intelligence Act (AIA), which has been a major subject of interinstitutional debates, as well as between member states, due to subjects including rules of facial recognition, social scoring, algorithms and fundamental human rights. From the perspective of the AIA, the Czech government will have the delicate task of balancing the different positions of various member states, with Prague having already shared its first proposal to find a common ground for all members of the European bloc.

Another critically important draft piece of EU legislation in this field is the future regulation of the European Health Data Space. Presented by the European Commission in May, this initiative aims to drastically improve data exchanges in healthcare systems, as well as between patients, researchers and policymakers. Discussing the Commission's proposal, Czech Health Minister Vlastimil Válek [said](#) it was "possible to finish some discussions and reach partial conclusions", however, differences of opinion between member states, particularly regarding the use and protection of health data, could prolong the process.

GIG ECONOMY

As told by Czech Labour and Social Affairs Minister Marian Jurečka, the Czech EU Presidency will work to achieve a political agreement on the EU's Platform Workers Directive by the end of 2022. According to the draft proposal unveiled in 2021, the EU is aiming to harmonize the various country-specific regulations that have been either fully or partially imposed on digital platform workers.

As several EU member states have already rolled out their own regulations, the task of the Czech government will be to find a compromise solution acceptable for the majority of the European bloc. Despite the diverging positions, there is a broad consensus within the European bloc to agree on an EU-wide piece of legislation that provides protections for platform workers.

AN OPPORTUNITY TO PROVE

The six-month EU presidency could serve as a major political opportunity for Czech Prime Minister Petr Fiala and his five-party coalition government that was voted into office last October. The current economic situation is severely impacting the Czech government's approval ratings, a situation exacerbated by a recent corruption scandal.

In June, Prague's deputy mayor Petr Hlubuček and ten others were charged with bribery and organized crime linked to the DPP, Prague's public transportation company. This was followed by revelations claiming that Czech Education Minister Petr Gazdik – also a deputy leader of the minor ruling STAN party – had attended several meetings with Czech organized crime groups. Gazdik subsequently resigned after the revelations, plunging the five-party coalition into the centre of severe allegations.

While the country's five-party coalition is divergent on a set of issues (including the future of Europe) and disagreements grew after the corruption scandal, the coalition has pledged to stay together at least until Prague completes its EU Presidency. Fiala and his supporters will therefore be looking for a successful Presidency to increase domestic support for during this crucial period.

LOOKING AHEAD

While the Czech Republic has put forward an ambitious agenda to shape the future of the European bloc, its Presidency is widely expected to be pragmatic along a vast number of policy issues and legislative initiatives. Shaping the EU response to Russia's war on Ukraine, as well as to its political, economic and energy sector impact, will take the highest priority and most of the attention.

At the same time, the coming months could see significant legislative changes at the EU level, with the potential to impact international investors in a range of sectors, including digitalization, the gig economy, sustainability and global finances. From a corporate perspective, a key question is whether the Czech EU Presidency will be able to broker an agreement to seal the OECD's proposed 15% minimum corporate tax, currently vetoed by the Hungarian government.

On the new corporate tax rules, the Czech EU Presidency hopes to achieve a deal by October, which is largely dependent on whether Hungary drops its opposition. From this perspective, current debates between Budapest and Brussels over the fate of EU recovery funding could be defining.

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