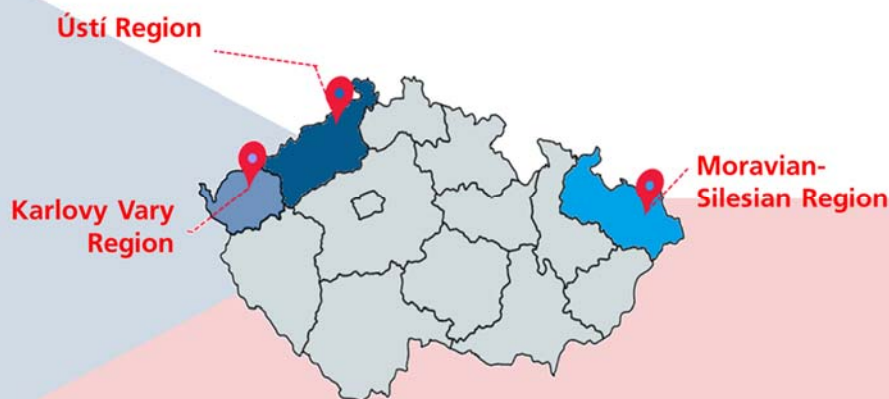


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Support to the preparation of a Territorial Just Transition Plan in the Czech Republic



D1. INCEPTION REPORT

SUMMARY

11.12.2020



Summary

This **Inception Report** (Deliverable 1) includes an update on the Technical Support Project context, key findings for the approach and methodology in the development of each deliverable, and further conclusions and recommendations for the implementation of the Technical Support.

Project Context

To support access for EU Member States to the Just Transition Fund (JTF), The European Commission, represented by DG REFORM has launched unprecedented **support for 18 European governments to help them finalise/elaborate their territorial transition plans**. The Czech Republic is one of those EU Member States who receive Technical Support for the three coal regions (Ústí, Karlovy Vary and Moravia Silesia). The Project is implemented by Frankfurt School of Finance & Management (as part of the AARC Consortium) in cooperation with Trinomics, Czech Technical University and Cambridge Econometrics. It started on October 5, 2020 and will last nine months.

At the time of writing this Inception Report, the current **policy framework** for the Just Transition Mechanism (JTM) is **under development** at the EU and at the national level. Here, constant communication with the European Commission about the progress in adopting the EU regulation for all three pillars will be of utmost importance.

There are a **number of financing agreements and operational programmes that are still under development**. Although the report at hand contains information on the possibilities of implementation of the second and third pillars of the JTM in the Czech Republic in the programming period 2021-2027, these are not yet decided at the EU level. However, these are of utmost importance for market-driven solutions of the transition such as projects to support large enterprises.

The development of automation and **Artificial Intelligence (AI) is advancing quickly in Czech Republic** and the long-term nature of the JTPs requires consideration of the application of digitalisation and the potential of AI/Machine Learning (ML) to develop **transition strategies**. The application of AI and ML could help the **dynamic modelling** of policy impacts; enable, measure, and operate more sustainable electricity systems; and optimise and improve transportation, while facilitating the shift towards smart buildings and smart cities. There are several use cases for AI/ ML in priority areas for the Czech Republic's Just Transition Plan attached to the report.

There are a **number of programmes targeting the three transition regions specifically**, the RE:START strategy, which covers measures from several Czech ministries, the Modernisation Fund, the START project, EU structural funds programmes and Technology Agency Programmes. These need to be properly mapped and overlaps need to be further analysed. The **mapping of ongoing support programmes** started but will continue in the coming months as many of the programmes are currently being approved or in a draft version (e.g. the draft of Structural fund OPs for 2021 and Recovery Resilience Plans etc.).

The **absorption capacity** for the use of financial sources from operational programmes of the three coal regions is in accordance with the national average. However, as indicated during the inception phase, there is a need to increase the local and regional capacity, which is particularly important for the implementation of the TJTP.

The overall regional characteristics qualify the three regions for **investment incentives to support direct investments**. From the three regions, Ústí is the most successful with respect to both number of investment projects received and investment per capita. However, the latest amendments to the investment incentives from September 2019 target the up-skilling and re-skilling of people with university degrees, not large-scale investments that create jobs for people with a lower level of education, which is to be expected from the coal phase-out.

Although the regions have a lot in common, there are also substantial differences and particularities in the following aspects:

- **Population:** the Moravian-Silesian region is larger than the other two combined. However, since 1989, the population of this region decreased from 1,3 million to 1,2 million. The population of the other two regions remained stable.
- The **unemployment rate** in all three regions has followed a similar pattern since 1989: Karlovy Vary kept the unemployment rate relatively low during 1994–2008. Since 2008, this difference disappeared and in recent years, the unemployment rate in Karlovy Vary has increased faster than in the other two regions.

- As for **GDP per capita**, all three regions lag behind the EU and Czech averages, with slightly better performance in Moravia-Silesia.
- The economically weakest region of Karlovy Vary shows highest **number of companies per 1000 inhabitants**. Nevertheless, even this region is under the Czech average.
- Regarding **investment in research and science per capita**, all three regions show weak values in comparison to the Czech average. The Moravian-Silesian region still shows some positive trends, but the other two regions rank lowest in the country.
- The **absorption capacity for research and innovation funding from a long-term perspective** is low compared to other regions in the Czech Republic. The Ústí and Karlovy Vary regions remain among the lowest in terms of performance and absorption in the Czech Republic. The Moravian-Silesian region shows a trend of improvement, but still reports lower performance dynamics compared to top regions like Prague and Southern Moravia

The **Territorial Just Transition Plan** of the Czech Republic was submitted to the Czech Government in the draft version 1.3 for informative purposes on October 16, 2020. This version (1.3) of the Plan includes rather general information, many subsections are still to be filled. The content and structure are derived from the EU JTF regulation proposal, with a disclaimer about the legal uncertainty. No substructures related to the three coal regions are included. Some open issues (legal uncertainty, support for large firms, territorial eligibility, sustainability of jobs supported) are only briefly mentioned.

In addition, the Government of the Czech Republic, in cooperation with the three coal regions, has been collecting **project proposals to screen the absorption capacity in the regions**. Nonetheless, no clear challenges and needs for the three regions were identified in an overall transformation agenda at the time of the issuance of the Inception Report, which would in turn steer the prioritisation of investments in the future.

The **upcoming deliverables (D) of this Technical Support Project** will provide key inputs to the Czech Government to further develop its Territorial Just Transition Plan. In particular the Technical Support will work to develop the following reports between January and July 2021:

1. A report on the governance mechanisms for all three pillars and stakeholder involvement and engagement (D2);
2. A report on the main technical elements for the transition process at the national level, providing the evidence base for the identification of the territories most negatively affected (D3);
3. A report for the most affected territories (Ústí, Karlovy Vary and Moravian-Silesian) that outlines their challenges and needs, including suggested measures to mitigate the socio-economic impact of the transition towards climate neutrality (D4); and,
4. A final report to present lessons learnt and recommendations from the whole project (D5).

Preliminary Governance Mechanism

This report presents an initial stock-taking and preliminary analysis of existing **governance structures**, and mechanisms that might be relevant for the design and implementation of the Territorial Just Transition Plan of the Czech Republic. After a more thorough analysis and given the existing mechanism for the preparation of the TJTP, a single option will be developed in the D2 report that already takes into account the governance for the TJTP preparation, followed by a more sophisticated structure when it comes to the implementation of the TJTP. In addition, the D2 report will contain advice on how **to design smart dashboards for monitoring and evaluation** of the planned measures, including use cases/best practices and in case a need appears advise on its design.

Preliminary Stakeholder Mapping / Engagement Strategy

The stakeholder engagement strategy which will be included in the D2 report will contain the overlaps and synergies of existing stakeholder coordination and will be linked to existing governance structures. It will also include proposals about the different communication channels (instruments) on how to engage with the various stakeholder groups.

Assessing the transition towards climate neutrality

The territorial eligibility will be assessed at a later stage based on the results of impact analysis and absorption capacity and eligibility of projects in the three priority coal regions. Preliminary analysis of the potential of AI/ML for supporting the transition to carbon-neutrality is presented in the full Inception report. **There might be delays as regards to the availability** of the stakeholders for interviews and

for the regional workshops due to the epidemic situation and its related impacts. Thus, most of the planned interviews and roundtables with stakeholders will be carried out online.

Action Plans for the territorial transition

As per the status quo analysis in the full Inception report, there is a strong need to articulate the transition and offer a layout and action plan with a road-map and specific measures to de-carbonize but also make sure the workers are re-skilled and the economies in the regions are rejuvenated.

The report suggests that **further assistance should be provided to the Ministry of Regional Development in the screening of prospective projects** and the determination of criteria for project screening. In the D4 report, the Technical Assistance team will also consider and propose a differentiated treatment for project proposals by SMEs (less requirements) versus larger projects.

Finally, for the most vulnerable industries (e.g. power sector, mining) disaggregation results could be made more robust with the usage of bottom-up modelling. A detailed disaggregation methodology is presented in the full version of the Inception Report.

Please note that this report has been updated after several rounds of comments by multiple stakeholders and contains the latest information as of December 11, 2020. The upcoming Deliverables will reflect any development of key issues happening after the cut-off date of this report.

Disclaimer

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