

The Economics of the Environment: Accession of The Czech Republic to the European Union

By Terence Hoverter and Michael Hoverter

As Central and Eastern European countries (CEECs) try to gain admittance to the European Union (EU), they face pressure to conform to EU legislation and directives, including those concerning the environment. By having one of the most extensive environmental policies in the world, the EU has become a model for environmental advocacy. The Czech Republic, as a current applicant country, must align itself with these policies for admittance. During more than forty years of communist rule, however, a country that was once one of the most technologically advanced and resource rich suffered intense exploitation of minerals and environmental degradation. The Czech Republic must erase this legacy if it is to meet the EU's exacting environmental standards.

Complicating Prague's efforts, however, is the sense that the EU's environmental strictures are a red herring, with economic reform holding the real key to Czech accession. There is no need, however, for economic and environmental reform to be at odds. By strengthening domestic environmental policies and increasing foreign direct investment (FDI), the Czech Republic can attain both its environmental and its economic goals, thereby strengthening its case for membership in the EU.

DEMOCRATIC TRANSITION

A critical part of the Czech Republic's transformation to a democratic state was the determination to establish a market economy. The requirements that go along with this transition, however, have left little room for environmental protection and conservation.

The Czech Republic lacks a strong administrative base from which to enact and enforce environmental policy. Communist Party members of the *nomenklatura* left positions as heads of large bureaucratic institutions to pursue managerial and entrepreneurial roles.¹ Rather than waste their energies attempting unique environmental solutions, this *grande bourgeoisie* remained fascinated with the girth of the Czech wallet, opting for the "tried and true" technologies associated with global markets and neglecting environmental protection.²

In addition, many government officials who occupied midlevel bureaucratic posts in the communist system stayed in their positions. Even though they now had more

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freedom to develop and direct policy, they did not exercise it. Bureaucrats who had their training under communism continued their old habits and operational characteristics. As Barbara Jancar-Webster finds, a change in political culture requires “a new people dedicated to the introduction of new policies.”³ Without a turnover in personnel, a transition in policy was not forthcoming.

Without a strong administrative base, two key components in the battle against environmental degradation were nonexistent: regional agencies and public participation. With the government struggling to raise living standards, environmental enforcement and standards have understandably received less attention than combating unemployment and restructuring the economy.

APPROXIMATION OF ENVIRONMENTAL GUIDELINES

The EU has issued several policy statements and papers that outline the timing and requirements for accession of the CEECs. The most relevant for our purposes are the White Paper of 1996 and the European Commission’s Opinion on the Czech application for membership.

White Paper. On April 17, 1996, the EU issued a White Paper that deals with the integration of the CEECs into the Single Market. The document’s purpose is “to provide a guide to assist the associated countries in preparing themselves for operating under the requirements of the European Union’s internal market.”⁴

The White Paper stipulates that the CEECs must carry the burden of aligning their markets with the internal market of the EU. Toward this end, the EU offers financial aid under its Poland Hungary Aid for the Reconstruction of the Economy (PHARE) program. PHARE, launched in 1990 and joined by the Czech Republic in 1993, assists with the implementation and approximation of legislation—the process of making Czech legislation close to, or compatible with, EU legislation. Approximation is the means used to overcome the disruptive impact on the common market of differing national provisions established by law, regulation, and administrative action. The EU stresses that the approximation must be implemented in a way that will “allow the internal market to function properly after enlargement, to the benefit of all members.”⁵

The White Paper states that the promotion of the Single Market will have a spillover effect into other policy areas, one of which is the environment. By advocating for the alignment of environmental legislation while focusing on the economic goals of the internal market, the EU is ensuring “balanced and sustainable growth respecting the environment.”⁶ By citing the Treaty on European Union (TEU), the White Paper further ties economics to the environment, affirming the idea that sustainable growth is “not only vital for the environment itself, but also for the long-term success of the internal market.”⁷ It addresses the CEECs directly, stating that environmental legislation there is uneven and that the CEECs are aware of the costs involved in bringing their environmental legislation up to acceptable levels. While the costs of environmental compliance are great, the inclusion of environmental policy

reform “is essential to the functioning of the internal market.”⁸

The White Paper also calls for an improvement in the Czech Republic’s administrative structure. In June 2000, the Czech government updated its regional bodies, aligning them with the EU’s Nomenclature des Unités Territoriales Statistiques (NUTS) classification system. In 2000, the Czech Republic completed the creation of fourteen new *kraj* (departments) compatible with NUTS level 3, along with eight regions at the NUTS 2 level.⁹ The Czech Republic also has taken steps to improve the regional bodies of the Czech Environmental Inspectorate. However, while the staff of the Inspectorate has been beefed up quantitatively, the quality of its work, due at least in part to a lack of qualified staff, an unclear division of labor, and inadequate financial resources, is of significant concern to the European Commission.¹⁰

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EC Opinion. The European Commission (EC) is the policy initiator of the EU. Central to its tasks is ensuring that EU policy is applied correctly within the member states. The EC also negotiates international trade and cooperative agreements.¹¹

The EC predicated its opinion upon whether the Czech Republic can satisfy the economic and political conditions of membership, which requires:

- that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic, and monetary union.¹²

Whereas the White Paper expressed the coupling of economic with environmental goals, the Commission’s opinion strictly is concerned with the economic and political goals that the Czech Republic must reach. It does mention the environment, pointing out that while the Czech Republic is “one of the most polluted regions of Central Europe,”¹³ its environment has improved since 1989 due to impressive levels of investment and industrial reconfiguration. However, more needs to be done.

Air pollution remains the chief concern, with sulphur dioxide and nitrogen oxide hovering at unacceptable levels. However, it should be noted that any improvements thus far have mainly to do with the closure of plants and reduced production associated with the transition from a planned economy to a market economy.¹⁴ Protection of the Czech environment is also hampered by the lack of an effective environmental legal framework. Even the laws that do exist are virtually useless without clear enforcement measures. For example, a Clean Air Act was enacted in 1991, and additional guidelines for ambient air quality exist. Air pollution continues, however, be-

cause polluters prefer paying the relatively cheap fine to spending money on pollution prevention technology.

Waste and water pollution also remain at unacceptable levels and need to be more firmly addressed in the policies formulated by the Czech Republic and through increased implementation strategies.¹⁵ The current legislation dates back to 1977; it needs to be updated to address technological advances. Of even more concern is that, according to the Czech Republic's Ministry of Environment, the act "is considered a good system of regulations *that have not been enforced*" (emphasis added).¹⁶ As with air pollution legislation, the fees and penalties are negligible, and polluters continue to pay the penalties rather than reduce pollution.¹⁷ Both surface and ground water remain considerably polluted, with roughly 60% of Czech waterways heavily polluted and more than 23% of river lengths classified in the worst pollution category (that is, unable to sustain current fish population).¹⁸ The Ministry of Environment estimates that more than half of the potable water supply is substandard, while "highly and severely polluted" water constitutes 34% of the total water flow.¹⁹

The waste sector is another critical area that must be administered closely for entry into the EU. While solid industrial waste is a serious problem in the Czech Republic, hazardous and toxic wastes make up the larger portion of this category.

The 170 Soviet military installations that graced the Czech landscape left behind a legacy of hazardous waste. Mismanagement, substandard craftsmanship, and a lack of routine inspections at the Soviet command base and airfield in Milovice, thirty-one miles northeast of Prague, have resulted in leaky underground storage tanks. This waste has made its way to a well that supplies Prague's drinking water.²⁰ This is not an isolated incident: it will cost approximately \$56 billion Czech crowns (\$1.5 billion) to "remediate the most significant previously damaged sites."²¹ If the Czech Republic is to join the EU, it must reconstruct its waste-management practices: its current waste production (50 tons per annum) is several times higher than that of the average EU member state (17.3 tons per annum). A waste study completed in 1992 estimated that hazardous waste alone accounts for 5.4 million of those tons per annum.

The Czech Republic is making some significant strides in the waste sector. Its efforts include incentives for compliance with EU standards on the issuance and management of licenses and the transportation and storage of waste. Currently, these waste regulations are not as detailed as those of the United States, let alone the EU, but they can become so through improved technical guidelines.²²

The EC's opinion also highlighted weaknesses in enforcement measures. While the EC commends the efforts of the Environment Ministry, it states that the current administrative structure is not enough.²³ Recognizing that environmental protection spans ministries, the commission advocates substantially reinforcing the environmental ministers and their subsidiaries through increased hiring of professional environmentalists and environmental policymakers to effectively administer the environmental acquis.²⁴ In addition, the commission found that the Czech Republic suffers from "inefficiency of economic instruments by low level of fines, gaps in sectoral and subsidiary legislation covering implementations, and low environmental awareness and

public participation.”²⁵

The commission concluded that most of these deficiencies (in environmental administration and implementation and enforcement measures) can be addressed by 2005, the year that the EU is to determine which CEE countries will accede in the “first wave.” While the basic environmental legislation is present, there is still a need to transpose (incorporate) EU legislation concerning air, water, and waste, as well as to draft financial strategies for adopting these standards. The EC recommends that the Czech Republic’s own accession strategy include timetables for transposing the *environmental acquis*.²⁶ Some legislation, however, will require a significantly high level of investment in administrative improvements in order to reach the goal of transposition in the long (post-2005) term.

THE ACCESSION AGREEMENT

In December 1997, the Czech Republic took an important step toward environmental compliance with the ratification of the Accession Partnership. Building on the EC’s opinion, the Accession will enable assistance to the Czech Republic to be directed toward the specific needs addressed therein.

The main purpose of the Accession Partnership is to

Set out in a single framework the priority areas for further work identified in the Commission’s 1999 regular report on the progress made by the Czech Republic towards membership of the European Union, the financial means available to help the Czech Republic implement these priorities and the conditions which will apply to that assistance.”²⁷

In order to reach this goal, the Accession Partnership will examine the Czech Republic sector by sector. In the environmental sector, monitoring and implementation control structures and capacity must be developed along with the continual approximation of the *environmental acquis*, with special emphasis on the air, water, and waste sectors. Environmental protection concerning sustainable development must be integrated into national and sectoral policies in the medium term as well.²⁸

THE POLITICAL ENVIRONMENT

There is an air of environmental indifference in the Czech Republic. As in several of the EU member states, there is a Green Party, but it possesses virtually no power in the parliament. Even a national recycling program resembling those in the EU remains nonexistent. In an attempt to rectify the legacy of degradation, Prague has kept the large environmental sectors (water, waste, nuclear, and energy) under government control. While critics have advocated for privatization of the environmental sector, these sectors would be difficult due to the costs associated with environmental cleanup and compliance with EU and international standards. The key will be getting people involved in environmental issues on a grassroots level. Efforts to do so are hampered,

however, by a lack of public information, with current efforts at environmental education in an infant stage, primarily being carried out by international NGOs and national universities.

THE PATH FORWARD

Taken together, the White Paper, the EC's opinion, and the Accession Strategy set out the Czech Republic's path to accession. The Czech Republic has begun to rebuild its environmental legislation, beginning with the State Environmental Policy of 1995, which addresses areas highlighted by the EU. Implemented through legal provisions that form economic, informational, and institutional instruments within the state apparatus, the policy's provisions seek to "systematically improve the quality of the environment in the Czech Republic and to contribute towards the solution of global environmental problems."²⁹

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From 1990 to 1994, the State Environmental Policy sought to correct the policies and practices that had led to severe environmental degradation under the communists. As a consequence of the hasty drafting and ratification of environmental legislation, some of the policies enacted between 1990 and 1994 were inefficient and had little or no effect. There are eight reasons for implementation of the new policy.

1. The speed and degree to which the transition to a market economy has produced positive results;
2. The need to develop an adequate legal and institutional framework for applying civil law to protect those components of the environment whose character is appropriate for such legal action;
3. The need to increase the efficiency of environmental protection policies and to incorporate economic principles in these policies;
4. The need to implement economic policies which will induce changes in production and consumption patterns and encourage desirable behavior towards the environment;
5. The need to inform the private and financial sectors of current and future and environmental policies so as to create a stable investment climate;
6. The need to support entrepreneurial activities in the environmental protection areas and the introduction of environmentally friendly technologies;
7. To facilitate the Czech Republic's accession to international organizations and harmonize the Czech Republic's legal system with developed countries;
8. To comply with and respond to new developments and recommendations

stemming from important international activities and events.³⁰

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The new State Environmental Policy also addresses the key areas of air, water, and waste. While emission limits have been set, the incentives for industry to limit emissions and introduce pollution-control technologies remain inadequate. Ownership is one problem. For example, provisions are established for the protection and management of water, but determining who owns what portion of the waterways is difficult, leading to problems in assessing responsibility for environmental cleanup and fines. The waste sector is the least addressed. Current legislation fails to provide incentives for waste minimization, and current economic instruments encourage undesirable types of waste disposal (i.e., unsorted land filling). Consequently, the Czech Republic's waste management does not comply with EU standards.³¹

The Czech government must take on three responsibilities in order to achieve its environmental goals. First, it must amend the current legal provisions while drafting new and improved environmental legislation. Secondly, while trying to improve and maintain the environment, the government must guarantee that international commitments and obligations will be met.³² In 1993, the government budgeted 20 billion Czech crowns for environmental concerns; in 1994, this figure rose to 28 billion Czech crowns. Thirdly, the government must channel financial resources, both public and private, to the environmental sector.³³ Key to its ability to do so will be the extent to which the Czech Republic can attract foreign direct investment.

FOREIGN DIRECT INVESTMENT

Economic assistance can come from several sources. Under the auspices of PHARE, monies are allocated to private enterprises in order to build sustaining infrastructure and eliminate government subsidies if they exist.³⁴ Phare's assistance is in the form of grants: the EU countries contribute 50% of the funding, with the other 50% coming from the PHARE countries themselves. Between 1990 and 1993, the Czech Republic received 25 million ECU under the PHARE program.

Another external source of funds is the Organization for Economic Cooperation and Development (OECD), which assists the Czech Republic by providing a forum for the study and exchange of information relating to environmental issues and the coordination of problems related to the environment. The OECD has encouraged movement toward a balance between quantitative and qualitative growth by emphasizing "complementarity and compatibility of environmental and economic policies."³⁵ In 1970, the OECD created the Environment Committee, which:

- investigates the problems of preserving or improving mankind's environ-

- ment with particular reference to their economic and trade implications;
- reviews and confronts actions taken or proposed in Member countries in the field of environment together with their economic and trade implications;
- proposes solutions for environmental problems that would as far as possible take account for all relevant factors, including cost effectiveness;
- ensures that the results of environmental investigations can be effectively utilized in the wider framework of the Organization's work on economic policy and social work.³⁶

Together, the OECD, PHARE, and the EU have provided a solid financial foundation for the Czech Republic and its quest for EU accession and environmental improvements.

Foreign direct investment (FDI) consists of investment by foreign companies in overseas subsidiaries or joint ventures. However, it is not the only source of funds moving internationally. In 1995, FDI represented only 54% of total private capital flows into emerging markets. The other 46% was split between debt finance (33%) and portfolio equity investments (13%).

In this regard, countries look at financial institutions, such as the World Bank, as one investment instrument to help them get on their feet. In the past, the World Bank has been accused of being more concerned with quick loans in order to obtain personal promotions, ignoring the social impact of its projects and policies. For example, the bank should fund conservation programs rather than build hydrodams, or worse—thermo power stations. The bank's preoccupation with production forestry has resulted in massive destruction of tropical rainforests.³⁷ That the World Bank often deals with governments who do not care about indigenous minorities and the poorer classes and do not, therefore, respect their basic human rights or the environment only complicates its work.³⁸

To address these shortcomings, NGOs initiated the Multilateral Development Bank Campaign in the late 1980s.³⁹ The crux of the campaign was to reform the environmental policies of multilateral development banks (MDBs).⁴⁰ The World Bank was targeted because it plays a major role in global development finance and has a powerful impact on both the local and the global environment. For example, in 1989 and 1990, the World Bank financed just under \$21 billion in development projects.⁴¹ It must be stated that the World Bank was included in the MDB campaign because of not just the amount of money it lends but also the influence it has on private investors who follow its lending lead. As Kenneth Piddington, former director of the Environment Department at the World Bank, points out, the MDB campaign began as a method of exposing mistaken priorities as well as modifying specific projects and even reforming the MDBs themselves.

As is the case with all banks, the World Bank has an understandable habit of assessing projects on the basis of a quantifiable rate of return.⁴² Increasingly, however, it is funding environmental projects—those that possess a good rate of return and

clean up the environment. For example, the World Bank approved a \$246 million loan to the Czech Republic in May 1992 for the improvement of power-plant efficiency and the reduction of air pollution in Northern Bohemia. The project, successfully completed in June 1999, improved the environment and health of the local population, modernized the transmission system, and facilitated the interconnection of the Czech Power Enterprise and German power grids.⁴³

The costs of implementing stricter environmental legislation, coupled with revenue loss from incentives, is minimal compared to the gains enjoyed in the EU market.

In many industrialized states, new laws, regulations, and private efforts have enhanced environmental protection. Some companies respond by seeking out developing countries where environmental regulation is not as strict, creating a system that effectively rewards the permissive attitudes of developing countries. As a transition country (from a closed to a market economy), the Czech Republic receives FDI from companies that have relocated their operations from industrialized nations due in part to the limited environmental laws. Prague must recognize, however, that despite the short-term economic benefits, further delay in enacting stricter environmental regulations will jeopardize its admission into the EU. Therefore, new environmental legislation must offer incentives to companies that decide to relocate to the Czech Republic as well as provide for enforcement measures. The costs of implementing stricter environmental legislation, coupled with revenue loss from incentives, is minimal compared to the gains enjoyed in the EU market.

PRIVATE SECTOR INVESTMENT

Private sector investment is now a decisive factor in environmental protection, and its role will likely increase rapidly.⁴⁴ In terms of environmental investment in the Czech Republic, Bradford Gentry identifies four channels into which FDI can be funneled:

1. *Environmental companies*: privately held or publicly traded companies.
2. *Environmental projects*: stand-alone investments arising from specific projects.
3. *Environmental improvements*: investments designed to improve environmental effects of already existing projects.
4. *Environmentally efficient companies*: companies not in the business of providing environmental goods and services but effectively manage the environmental opportunities/concerns facing their business.⁴⁵

By providing the necessary finances to support these types of companies and projects, the private sector can play an important role in the achievement of a sustain-

able future. Through the creation of an appropriate economic and legal framework, public-sector involvement can induce such private-sector investment.⁴⁶

When choosing to invest in a foreign country, there are certain risks and obstacles that companies need to consider: business risks; unstable reforms; legal and administrative uncertainties; environmental issues (liability); exchange-rate volatility; political instability; expropriation and/or nationalization of property; and inadequate physical and commercial infrastructure.⁴⁷ Some of these areas, such as business risks, can be eased with so-called grease payments, or payments made to expedite paperwork through the proper channels. Grease payments, while obviously illegal and not to be advocated, are commonplace in many countries, including in Eastern Europe. Other areas of risk, such as exchange-rate volatility, are impossible to predict or control. For companies that have some investment experience in the Czech Republic, environmental liability ranks near the top of their list of concerns: that is, the legal obligation to make a future expenditure due to past or ongoing manufacture, use, release, or threatened release of a particular substance, or other activities that adversely affect the environment. Even today, questions about environmental liability are so critical as to deter companies from investing altogether.

Investors do not want the burden of being held responsible for past mistakes. Their main concern is: Who pays the environmental liability that exists? The most common method of solving this problem is indemnification, according to which the private seller or host government agrees to pay the costs associated with the liability. Other methods of remuneration include:

1. Purchaser price reduction: Will the seller reduce the purchase price by the anticipated amount of liability from past environmental practices?
2. Remediation of site contamination: Who will pay the costs to limit the risk of contamination's spreading off-site in the future?
3. Increased foreign controls: Will the buyer ensure compliance with environmental standards and reduce risks?
4. Limiting investment to underdeveloped sites: Will buyers consider investing in underdeveloped sites? More important, will the government or another seller be willing to allow underdeveloped sites to grow?
5. Liability insurance and environmental liability insurance: Who will cover both of these insurances—the buyer or the seller?
6. Delaying investment: Buyers must gain full information about a site before deciding to invest in the site. Will the seller be willing to supply information?
7. Limited ownership/selection of enterprise component: With a joint venture, who is responsible for what part of the operation? Will that party be solely liable?
8. Tentative/indirect investment: If giving indirect investment (such as technical advice), is one still liable for poor environmental conditions?⁴⁸

Business Forms within the Czech Republic. The most common forms of FDI are joint ventures and “green field” projects, which are implemented in areas where no previous construction has taken place. The beauty of investing in the Czech Republic is that there is no upper limit on the level of foreign investment.⁴⁹ In some countries, foreign entities can hold a maximum 49 percent share in a joint venture. In Hungary, the limit is 75 percent.

Joint ventures, relatively new to the CEECs, are becoming increasingly popular in the Czech Republic as well as other emerging markets. Since the Velvet Revolution, Slovakia has invested millions of koruna in Czech companies, and vice versa.⁵⁰ But for privatization purposes, the Czech Republic has used other methods.⁵¹ At the beginning of the Czech Republic’s existence, large state-owned enterprises were partially privatized. Some that were not privatized were given to the public through restitution—the returning of previously confiscated property to former owners or their heirs.⁵² But this raises the question: what if there were no heirs to the property?

Voucher privatization addresses this question. In 1993, citizens of the Czech Republic and Slovakia registered to receive vouchers, which could be kept or exchanged for shares in an investment fund. The fund, owned by the voucher holders, could buy shares in companies offered for voucher privatization.

Legislation/Laws Protecting Investors. The Czech Republic offers limited protection to foreign investors. Foreign investments and double-taxation avoidance treaties are guaranteed through a number of intergovernmental agreements.⁵³ However, under Article 25 of the Czech Commercial Code, the property of foreign persons (corporate or private) or of Czech nationals with foreign participation may be expropriated. Also, the rights and interest in such property may be restricted in accordance with rules of law, in the public interest, and when no other possibility to satisfy this public interest exists. However, it is customary for the foreign investor to receive compensation corresponding to the actual value of the property affected at the time of expropriation. This level of protection is not as open as that of the Western European countries. Since the Czech Republic is still in transition, new laws will have to be enacted to offer greater protection to foreign investors.

FDI and Environmental Policy. The protection and maintenance of the Czech environment is primarily financed through a policy of charges or penalties, such as for the discharge of wastewaters into surface waters; for the release of harmful substances into the air; for waste disposal; and for the withdrawal of ground water. The revenue generated from these charges is funneled into the State Environment Fund, which finances environmental improvements for municipalities and small- to medium-sized enterprises. The Czech Republic also gives tax relief for companies with products and activities that are judged environmentally friendly. Examples include reduced VAT taxes, temporary relief from income taxes, relief from real-estate taxes, and temporary relief from road taxes.⁵⁴

Environmental damage caused by previous owners in the Czech Republic must be proved by environmental audit. The costs to remove the damage are usually covered by a reduction in the sale price of the company.⁵⁵ Potential foreign investors

must be aware of the possibility of getting stuck with the cost of environmental damage.

One successful example of FDI in the Czech Republic is the project to convert coal-fired heating to natural gas in the city of Decin in northern Bohemia.⁵⁶ The heating station in Decin switched from lignite coal to natural gas, improving efficiency. As a result, carbon dioxide emissions decreased by 30–65%. This project was part of the U.S. Joint Implementation Initiative aimed at reducing severe air pollution. Three private-sector entities—the Wisconsin Electric Power Company, the Edison Development Company, and NIPSCO Industries—together contributed 40% (\$600,000) of the total costs, with the expectation of ultimately gaining regulatory concessions.⁵⁷

CONCLUSIONS

While Czech accession rests ultimately on the country's ability to satisfy economic and political, the EU recognizes the importance that the environment can play, as noted in the White Paper, the accession strategy, and the EC's opinion. While the environment is to some extent intertwined with economic concerns, it will not receive the attention that it needs to comply with EU standards unless it is addressed by itself.

The Czech Republic is making significant strides toward attracting FDI, particularly in the environmental arena. It is offering various tax breaks and incentives for foreign investors. It is aligning itself for admission into the EU with guidelines set forth by the White Paper and Agenda 2000, as well as voluntarily participating in PHARE, therefore showing current EU members the seriousness of its intentions. It is clear that, through the transposition and alignment with the EU's guidelines and *acquis communautaire*, and the government's willingness to offer tax breaks and incentives, the Czech Republic wants investors that are not only sensitive to local and EU guidelines but also willing to help correct the legacy of environmental degradation.

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More needs to be done to transpose the *environmental acquis* and provisions of international treaties such as the Kyoto Protocol. In addition, the Czech government must implement the necessary measures to ensure that FDI not only helps prepare the country for the Single Market but also protects and preserves the environment.

This is not a domestic issue. As more international environmental treaties are ratified, the Czech Republic will be, as a future member of the EU and a current member of the UN, forced to adhere to these new standards. Therefore, finding an

economic solution now to an environmental problem will save domestic monies and FDI in the long term.

FDI can aid in the rectification of past environmental damage. By encouraging foreign companies to invest in environmentally sound practices, joint ventures, and projects, the Czech Republic will ensure environmental protection that meets EU and international standards. However, these efforts must be in conjunction with improvements in environmental legislation and enforcement measures that compel companies to act in an environmentally friendly manner.

Economic policies and environmental legislation should be focused around environmental cost efficiency.⁵⁸ By the same token, the Czech Republic must be careful in its choice of enforcement measures. Environmental taxes can only be effective if “agents having to pay [the tax] have alternative ways to behave . . . and are sensitive to price stimuli.”⁵⁹ Therefore, by encouraging the influx of FDI and decentralizing state-owned industries, as well as adopting strong environmental standards and enforcement measures, the Czech government would be encouraging the development and protection of not only the economic sector but also the environment.

The environment would be a big winner in the Czech Republic if companies were encouraged to “green” their FDI. Developing economies are often tempted to offer special conditions to foreign companies in order to attract investment. If this were to happen in the Czech Republic, the environment would be the first casualty.

As the Czech Republic’s own Ministry of the Environment has recognized, “environmental policy must seek the most economically effective solutions, create the necessary conditions for non-distorted market relations, recognize the limits of macro and microeconomic spheres and protect regional and local interests.”⁶⁰ Linking the environment to the development of a market economy is not the way to address environmental degradation. Environmental concerns need not be secondary to economic growth. Communism showed all of Eastern Europe that neglecting the environment for more coins in the coffer leads to extreme inefficiency and ultimately lower profits. If the Czech Republic pursues a rigorous environmental action program, industries and sectors, while becoming less polluted, could reach a level of efficiency and profitability they have never seen before, making the Czech Republic a model for other CEECs.

Notes

¹ Barbara Jancar-Webster, “The Environmental Legacies of Communism,” in *The Legacies of Communism in Eastern Europe*, Ed. Zoltan Baraby and Ivan Volgyes (Baltimore, Md.: The Johns Hopkins University Press, 1995), p. 88.

² *Ibid.*, pp. 88–89.

³ *Ibid.*, p. 90.

⁴ European Union. Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union” (hereafter, White Paper), April 17, 1996, p. 1.

⁵ *Ibid.*, Section 1.1, p. 2.

⁶ *Ibid.*, Section 2.1, p. 8.

⁷ *Ibid.*, Section 3.10, p. 15.

⁸ White Paper, Section 6.4, p. 37.

⁹ European Commission, "Czech Republic 2000: Regular Report—Progress towards Accessions," November 8, 2000, p. 80.

¹⁰ *Ibid.*, p. 85.

¹¹ See www.europa.eu.int/comm/role_en.htm.

¹² European Commission, "Agenda 2000: Commission Opinion on the Czech Republic's application for membership of the European Union," *Bulletin of the European Union: Supplement 14/97*, 1997, p. 9.

¹³ *Ibid.*, p. 65.

¹⁴ National Intelligence Council, "The Environmental Outlook in Central and Eastern Europe," ICA 96-08D, December 1997, p. 21.

¹⁵ European Commission, "Agenda 2000," p. 66.

¹⁶ World Bank, "Czech and Slovak Federal Republic Joint Environmental Study: Vol. II—Technical Report, Report 9623-CS, p. 55.

¹⁷ *Ibid.*, p. 54.

¹⁸ Alena Cerná et al., "Economic Transformation and the Environment," in *The Czech Republic and Economic Transition in Eastern Europe*, Ed. Jan Svejnar (San Diego, Calif.: Academic Press, 1995), p. 378.

¹⁹ Moldan, Bedrich. "Czech Republic" *The Environmental Challenge for Central European Economies in Transition*. Ed. By Jurg Klarer and Bedrich Moldan. West Sussex: John Wiley and Sons Ltd., 1997: 107-130 p. 112.

²⁰ World Bank, "Czech and Slovak Study," p. 66.

²¹ Ministry of Environment of the Czech Republic, "State Environmental Policy," Prague, August 1995.

²² Bowman, Margaret and David Hunter. "Environmental Reforms in Post-Communist Central Europe: From High Hopes to Hard Reality". *Michigan Journal of International Law*. Vol. 13: No. 4 (Summer 1992): 921-980. p. 943-944.

²³ European Commission, "Agenda 2000," p. 79. The Environment Ministry employs 460 staff personnel. Monitoring is carried out by sectoral authorities and enforcement is carried out by the ministries and nine regional inspectorates.

²⁴ *Ibid.* The *Environmental Acquis* comprises more than 200 legal acts covering a wide range of environmental matters.

²⁵ *Ibid.*, p. 66.

²⁶ *Ibid.*

²⁷ The European Union. *Accession Partnership 1999: The Czech Republic*. DG Enlargement, May 1999. p 2

²⁸ *Ibid.*, pp. 10.

²⁹ Ministry of Environment of the Czech Republic, "Analysis of the State and Development of the Environment in the Czech Republic after 1989—Sources of funding for environmental protection in the Czech Republic," A.2.

³⁰ *Ibid.*

³¹ *Ibid.*

³² *Ibid.*, A.2.

³³ Ministry of Environment of the Czech Republic, "Analysis of the State."

³⁴ European Commission, *Europe*, CD-ROM (Washington, DC: European Commission, Institut fur Europaische Politik, 1998).

³⁵ Lynton Keith Caldwell, *International Environmental Policy: Emergence and Dimensions*, 2nd edition (Durham, NC: Duke University Press, 1990), p. 98.

³⁶ OECD, *At work for the Environment* (Paris: OECD, 1973).

³⁷ Piddington, Kenneth. "The Role of the World Bank". *The International Politics of the Environment: Actors, Interests, and Institutions*. Ed. Andrew Hurrell and Benedict Kingsbury. Oxford: Clarendon Press, 1992. pp 214-217.

³⁸ *Ibid.*

³⁹ Barbara J. Bramble and Gareth Porter, "NGOs and the making of US Policy," in *The International Politics of the Environment: Actors, Interests, and Institutions*, Ed. Andrew Hurrell and Benedict Kingsbury (Oxford: Clarendon Press, 1992) pp. 325–330. It was important in terms of both the major changes and the results it

generated.

⁴⁰ Other banks targeted by the MDB Campaign were the Inter-American Development Bank, the African Development Bank, and the Asian Development Bank.

⁴¹ Bramble and Porter, p. 324.

⁴² *Ibid.*, p.327.

⁴³ World Bank, Power and Environmental Improvement Project [online: www4.worldbank.org/sprojects/Project/asp?pid=P008381].

⁴⁴ Bradford S. Gentry, "Private Investment and the Environment," United Nations Development Programme, Office of Development Studies, Discussion Paper Series, October 1995. As an example, it is estimated that \$300–600 billion of private investment globally by the year 2000 went to pollution-control goods and services, rivaling investment in the pharmaceutical industry.

⁴⁵ *Ibid.*, pp. 6–7.

⁴⁶ *Ibid.*, p. 7.

⁴⁷ Jonathan Klavens and Anthony Zamparutti, "Foreign Direct Investment and Environment in Central and Eastern Europe: A Survey," *Report for the Environmental Action Programme for Central and Eastern Europe* (Washington DC: The International Bank for Reconstruction and Development, 1995), pp. 4–6. Gentry summarizes these issues more concisely into five main areas: information, location, sector, size, and level of local government support required.

The questions posed are the work of the authors and not Klavens.

⁴⁸ See *Ibid.*, pp. 12–14. In the Czech Republic, remuneration usually occurs through reduction of sales price. (The questions posed are the work of the authors, not Klavens.)

⁴⁹ CzechInvest, Czech Agency for Foreign Investment [online: <http://www.czechinvest.com>].

⁵⁰ Paul Welfons and Piotr Jasinski. *Privatization and Foreign Direct Investment in Transforming Economies* (Aldershot: Dartmouth Publishing, 1994), p. 194.

⁵¹ Joint ventures were the first method employed to eliminate state-owned industries.

⁵² Marjorie T. Stanley, *The Irwin Guide to investing in Emerging Markets* (Chicago: Irwin Professional Publishing, 1995), pp. 344–346.

⁵³ CzechInvest, Czech Agency for Foreign Investment [online: <http://www.czechinvest.com>].

⁵⁴ Ministry of Environment of the Czech Republic, p. 5.

⁵⁵ CzechInvest, Czech Agency for Foreign Investment [online: <http://www.czechinvest.com>].

⁵⁶ U.S. Ambassador Ralph Johnson, Meeting at U.S. Embassy, Bratislava, Slovakia, May 28, 1998.

⁵⁷ Gentry, "Private Investment and the Environment," p. 77.

⁵⁸ Oliver Godard, "On Markets and the Conditions of a Profitable Use of Economic Instruments for Environmental Policy in Countries in Transition to Market," in *Role of Economic Instruments in Integrating Environmental Policy with Sectoral Policies* (Prague: Ministry of the Environment, pp. 11–22), p. 11.

"Environmental cost efficiency" refers to the achievement of a given environmental target with the least possible cost to society.

⁵⁹ *Ibid.*, p. 12.

⁶⁰ Ministry of Environment of the Czech Republic, p. D1.