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Flaws in the Czech political culture

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1. Introduction

This paper argues that the process of democratic consolidation in the Czech Republic has not yet reached the desired levels. Particularly, it focuses on the capture of the state by different actors affiliated to political parties who economically exploit the state. This problem concerns the whole of Central Europe and to some extent also Western European states. In the long term, this exploitation will have negative effects on the further development of the Czech Republic which has otherwise been positive since the “Velvet Revolution” of 1989. The paper also tries to provide the answer to a closely related question of how influence is exercised through the Czech media by Czech tycoons.

We begin by tracing the causes of certain flaws in the Czech political culture. It is argued that part of the problem has been created by the legacy of the communist era. In particular, the moral values of post-communist countries’ citizens have been systemically destroyed since the end of the Second World War when the Soviet Union imposed communism in Central and Eastern Europe. In the 1990s, the new political culture experienced some turbulence. The first blow was the division of Czechoslovakia into two separate states. The second important moment was the division of power between two major political parties, the social democrats and the liberal democrats in 1998. This has marked the country’s development up to now.

This is followed by an exposition of two characteristic examples which took place in the last decade. Both illustrate the ways politically connected people can exploit the state. The Czech police force has been at times unable to complete investigations of these particular cases because of its weakness and the influence of political parties. The examples also show a lack of political responsibility and competence in managing public assets.

We then explore potential solutions to these problems. A crucial solution is to implement laws which will make the state more efficient. It has been demanded by different non-governmental organisations (NGOs). However, the present political situation in the Czech Republic is unclear. There has been a strong rise of a new political party “ANO” which is controlled by the agricultural and chemical tycoon, Andrej Babiš. Mr. Babiš is currently the Minister of Finance and a member of the ruling coalition. It will be crucial to observe whether his anti-corruption rhetoric will be fulfilled and how his unclear political program will be shaped.

The last section deals with the present state of the Czech media which have recently been allied to politics and business much more closely than before. The financial crisis in 2008 started a vast transformation of the media landscape. We have seen a huge slump in the advertising market mixed with a progressive increase of internet readership. These factors contributed to a decline in circulation and in profits especially in the newspaper market. The most turbulent year came in 2013 when three big media companies were sold. The new owners are all Czech tycoons including Mr. Babiš, which poses a huge risk to both the impartiality of the media and the freedom of the press in the country.

2. The Communist legacy and the capture of the state

Many of the current problems of Central European, post-transitional societies, including the Czech Republic, have their origins in the communist era. Post-war development in the region was marked by socialism and especially during the so called 'normalization years' of the 1970s and 1980s, Czech society was undermined by "the gradual erosion of all moral standards, the breakdown of all criteria of decency, and the widespread destruction of confidence in the meaning of values such as truth, adherence to principles, sincerity, altruism, dignity, and honour."¹

The communist regime had a vast impact on the individual values of citizens and their relationship to the state. There was a widespread lack of respect for private ownership, and communism tolerated the theft of public property. The state controlled all the production chains and was the sole provider of services ranging from health services to hairdressing. The general misery and lack of consumer products made it acceptable to take home materials from the work place. People distrusted state institutions and lost a sense of participation in political and civic life.²

After 1989 the states in Central and Eastern Europe had to be re-built. There was no post-war tradition of democracy building in Western Europe after the Second World War when citizens of a ruined continent sought solid bases for democratic society.

Among Central European states, the Czech Republic started well. There were relatively functional administrative and fiscal legacies (the lowest level of public debt compared to other post-communist states), low inequality and relatively high socio-economic development. In the early 2000s, the Czech lands were described as "a nearly consolidated democratic state"³, where the population could exert

¹ Havel, Václav. *An Open Letter to Dr. Husak, General Secretary of the Czechoslovak Communist Party*. 1975, downloaded from <http://www.vaclavhavel.cz/index.php?sec=6&id=2&kat&from=6&setln=2>, November 2, 2014.

² See the article: Pop-eleches, Grigore – Tucker, Joshua, *Communism's Shadow: Postcommunist Legacies, Values, and Behaviour*, *Comparative Politics*, 2011, Vol. 43(4), p. 379-408.

³ Grzymala-Busse, Anna – Luong, Pauline, *Reconceptualising the State: Lessons from Post-Communism*, *Politics & Society*, 2002, Vol. 30(4), p. 544.

pressure on political representatives through strikes, media campaigns and elections. It may have been true, but this statement overlooked some important flaws.

The 1989 revolutionary ethos had quickly faded away and the elites of the new born democracy changed. The first turning point happened with the divide of Czechoslovakia into two separate states in January 1993. In 1992 the right-wing conservative party, ODS (Občanská demokratická strana, Liberal Democrats) won the elections. Its leader Václav Klaus had gradually become the main opponent of President Václav Havel. Former dissidents, who had triggered democratic changes, became a minority force on the political scene. A possible explanation of the pushback was later offered by President Havel himself. “Though it was certainly not my intention, many saw me as their own bad conscience, not only in the period of dissent but also when I was president. And that kind of thing cannot be forgiven.”⁴

The dissidents – or the “intellectual elites” – were very soon replaced by so called “mass elites”. This term was developed by American scholar Shari J. Cohen “to describe the product of Czechoslovak communist socialisation” which is “ideologically non-committed and hence motivated by short-term personal self-interest”.⁵ This proved to be true in the 1990s when rapid privatisation of the state assets took place and financial misconduct prevailed.

A breaking point was 1998. The 1997 elections had resulted in a narrow victory for the ČSSD (Česká strana sociálně demokratická, Social Democrats) which failed to form a coalition government. In the end ČSSD made a “toleration” agreement with the liberal democrats, ODS. This meant that the opposition *de facto* ceased to exist. The opposition party ODS had promised, in exchange for influential posts, to cooperate over the whole four year period of government and it really happened. According to many observers it was pure conspiracy.⁶

The new social democratic cabinet, where Mr. Miloš Zeman served as Prime Minister, quickly approved a resolution that state owned companies would be controlled by both major parties. In just two weeks the government appointed their own people to major state owned firms and public institutions like the Czech Railways and the Supreme Audit Office. Politicians were keen to get a seat on the

⁴ Michnik, Adam, *When Socrates Became Pericles, Vaclav Havel's "Great History", 1936-2011*, Common Knowledge, 2012, Vol. 18(3), p. 388.

⁵ Innes, Abby, *The Political Economy of State Capture in Central Europe*, Journal Of Common Market Studies Volume 52 (1), 2013, p. 92.

⁶ According to Pavel Seiftner, a former Czech ambassador to the United Kingdom, the “toleration” agreement started an era of massive corruption in the Czech Republic; an interview on November 6, 2014, Oxford.

supervisory boards of state owned companies because it gave access to “commissions” when placing contracts into the hands of private companies.

The 1997 pre-election promises were no more on the front burner. The capture of power meant that no former corruption scandals or dubious privatisation cases were investigated. There was no danger of invoking a no-confidence motion against the government. The “opposition party” ODS participated in the process because their politicians were suspected and investigated in corruption cases.⁷ The next step of the government aimed to take control of the police and security organisations by appointing new people into key posts. Miroslav Šlouf, a former communist and then adviser to Prime Minister Zeman, exercised a huge influence. According to the Confederation of Industry of the Czech Republic, the amount of money stolen in these years reached tens of billions of crown a year.⁸ The major figures of that era were Václav Klaus and Miloš Zeman. Both later became Presidents of the Czech Republic.

In contemporary political economy literature on post-communist countries, the formation of the state is seen as a competition between elites. The fight is for influence over the new legislature and institutions. Actors are elites with significant economic power e.g. political parties, businessmen, international financial institutions, trade associations, other states, interest groups, oligarchs, and social movements. If we examine the situation in the Czech Republic closely, there are cautionary signs of state capture driven by motives of economic exploitation and control. The two examples outlined in the next chapter show how politicians both provided a space for corruption and harmed the state.

⁷ In the documentary movie *Vládne, nerušit* (We’re Governing, Do not Disturb, 2007), it is said that when speaking with politicians, they still retained the sentiment of the “opposition agreement” as the best solution to govern the state.

⁸ Press release from the Confederation of Industry, the biggest employers association in the Czech Republic. <http://www.spcr.cz/en/vystoupeni-predstavitelu/sp-cr-firmy-stale-vice-financne-zatezuje-korupce>; downloaded on January 3, 2015.

3. Two case studies

By the end of 2010 the Czech Republic had become one of the biggest producers of solar energy in Europe. This happened due to a combination of state subsidies and the decreasing costs of technology. However, consumer prices for electricity were negatively affected and politicians played a part in this. This first example describes implementation of European Union's clean energy goals through the Czech legislation framework. It shows how the sluggish reaction of lawmakers during the so-called solar boom made possible the enrichment of a few individuals.

The subsidy for renewable energy sources was approved in 2003 by the social democratic government of Prime Minister Vladimír Špidla. The guaranteed buyout electricity price was set to help meet EU requirements to produce eight per cent of electricity from renewable sources by 2010. In 2005 the social democratic cabinet of Jiří Paroubek pushed through an amendment to this law which set only a five percent reduction limit for buyout electricity prices. The original bill set the reduction limit at ten percent a year.

The construction of photovoltaic power plants had increased dramatically by the end of 2010 when prices of solar equipment fell sharply. In January 2010, the combined power output of Czech solar plants amounted to 463 megawatts. In November 2010 it exceeded 1,000 megawatts and by the end of December it rose again to 1,650 megawatts. Plants finished by the end of 2010 were entitled to generous subsidies. Later – due to the introduction of a new tax – the pace of construction slowed significantly and the combined installed capacity of solar plants reached 2,131 megawatts which is slightly more than the capacity of the Czech nuclear power plant, Temelín.

The costs of the solar boom have been significant. Subsidies amounted to tens of billions of crown a year. In 2013 they totalled CZK 44.4 billion (£1.3 billion). Part of it, CZK 11.7 billion, was paid directly from the state budget; the rest was included in the price paid by consumers. As one business journalist wrote,

“The mistakes can be blamed either on politicians' sluggishness or intention. The ‘subsidy turbulence of 2010’ brought profit to a few farsighted investors who cheaply built giant solar parks and managed to sell them advantageously shortly before the energy buyout price was sharply cut. The identity of these ‘winners of the roulette worth of billions of

crowns' has remained unknown to date, though solar deals were mapped by the secret services at the time and have been checked by the police since. It is clear that the solar swing in 2010 created a corruption-friendly environment. Bribery flourished as investors were trying hard to complete their solar parks before the deadline, using dubious means to gain the necessary state permits.”⁹

The brief and intensive period of the solar boom came to an end in November 2010 when a new solar tax was approved and the governmental withdrew its support for large installations built in 2009 and 2010. The tax was set at 26 percent and was valid for three years. In 2013 the validity of the tax was renewed for plants in operation in 2010 and the rate was lowered to 10 percent.

The tax has become an important issue because of its retroactive effect. It was challenged in the Czech Constitutional Court by a group of senators. Later a group of investors initiated arbitration proceedings against the Czech Republic. The company Global Solar also filed a complaint with the European Commission. Since 2011 the Czech State Attorney's Office (SAO) has taken 22 legal actions against investors who obtained licences at the end of 2010. According to the SAO, some of the Energy Regulatory Office officials may have been corrupted.¹⁰

The Czech police also investigated the purchase of three big solar power plants by the state owned utility company ČEZ in late 2010. According to the police statements the building permits for the plants were obtained illegally. Later the investigation was suspended. ČEZ bought three gigantic solar plants (Ralsko, Mimon and Ceska Lipa) from the company Amun.Re which has not disclosed the structure of its ownership. However, based on indirect evidence it could be owned by Ivo Rittig who has been investigated for illegal practices in other cases. Lawyers acting on behalf of Amun.Re have worked in Mr. Rittig's team in the past. Mr Rittig's company has been charged with illegally making a profit as an intermediary between a printing company and the Prague Public Transport Company. This case is currently on trial.

⁹ A commentary of one of the best local business journalist published in the Czech daily paper Mlada Fronta DNES. Kubatova, Zuzana, *Czechs short-sighted in their hatred of solar entrepreneurs*. 25 September 2014.

¹⁰ The action of the SAO was reported by several Czech newspapers. A summary of the case can be found here in the weekly magazine Respekt: <http://respekt.ihted.cz/c1-62611600-nejvyssi-statni-zastupce-uderil-na-stredne-velke-solarniky>; downloaded on January 3, 2015.

ČEZ paid roughly CZK 5 billion (£142.5 million) for the three solar plants and it is estimated that up to one fifth of the price was net profit for Amun.Re.¹¹ In November 2014 the Czech daily Lidové Noviny published the statement of a police investigator ‘J.V.’ (his full name was not published for security reasons). J.V. claimed that he was not allowed to go on with his investigation of the ČEZ case following an intervention by his supervisor.¹²

The “solar case” demonstrates one way the Czech state has been ‘captured’. Some individuals well-connected to politicians took advantage of a gap in the legislation by building at a low cost large solar plants and then managing to sell them on to a state owned firm. Their profit of roughly one billion crowns is the cost of a lack of effective and transparent oversight of deals such as these.

The second example that follows gives an idea of how lucrative state assets can be when transferred into private hands with dubious intentions. The following transaction was described by the Czech press, and particularly in detail by the daily MF Dnes and the investigative news website www.motejlek.com.¹³ According to these reports, the former CEO of the biggest Czech state-controlled company ČEZ, Martin Roman, is alleged to have made a considerable amount of money from selling a profitable holding company to his business partners.¹⁴

The details are as follows: in June 2008 the Hungarian oil and gas company MOL bought the firm I&C Energo from the Czech utility conglomerate ČEZ. I&C Energo is an engineering firm providing regular service works and refurbishments of electrical systems in the nuclear power plants Dukovany and Temelín owned by ČEZ.

The official statement said that MOL asked to buy the company in September 2007. The transaction price was not disclosed at the time. According to

¹¹ See an article by the Czech daily Hospodarske noviny (Business Daily): <http://byznys.ihned.cz/c1-61427120-martin-shenar-a-solarni-zazrak-amun-re>; downloaded on January 3, 2015.

¹² The article was published and downloaded on November 14, 2014: http://www.lidovsky.cz/zametena-kauza-amun-re-vedeni-mi-zakazalo-ji-setrit-tvrdi-detektiv-106-/zpravy-domov.aspx?c=A141113_151446_ln_domov_ogo#utm_source=ceskapozice&utm_medium=txt&utm_campaign=lidovsky

¹³ All the articles published on the case by motejlek.com can be found here: <http://www.motejlek.com/zprofanovane-i-c-energo-skoncilo-nezapomeneme>; downloaded January 3, 2015.

¹⁴ <http://www.motejlek.com/trio-fatale-oszkar-vilagi-geza-pap-a-martin-roman>; downloaded January 19, 2015; http://zpravy.idnes.cz/cez-pustil-firmu-i-c-energo-d0v-/domaci.aspx?c=A130206_203957_domaci_brd, downloaded January 19, 2015.

the subsequent annual report of MOL it was roughly CZK 660 million (£18.8 million). This price was nine times I&C Energo's net profit, which should be considered a fair price.

Before the deal happened, the Supervisory Board led by Mr. Martin Roman (then the CEO of ČEZ) requested an essential condition of the sale: ČEZ would not in the following years jeopardize services provided to ČEZ by I&C Energo. ČEZ was I&C's biggest contracting authority at the time, representing over 90 percent of its contracts. Simultaneously, long-term contracts were signed until 2015 with I&C Energo.

I&C Energo immediately increased sales and profits once it was under Hungarian control. In 2009 it won a tender placed by Škoda Praha Invest (which is a ČEZ subsidiary) for building cabling systems at the Ledvice power plant. The contract amounted to CZK 900 million (£25.7 million). In 2010 the firm received contracts from ČEZ for CZK 730 million (£20.9 million); in 2011 they were worth CZK 1.2 billion (£34.4 million).

Nevertheless, the main profit was expected from a tender on completion of the Temelín nuclear power plant. The Czech government aimed to invest a sum of roughly CZK 200 billion (£5.7 billion). The placement of the contract was put on hold in late 2013. Nevertheless, a new public tender is projected for the future. I&C Energo would participate in it with up to 15 percent of the works.

In 2010 Mr. Roman became a member of the Board of Directors of MOL and continues to serve in this capacity up to now (November 2014). He is no longer CEO of ČEZ.

In 2012 I&C Energo was bought by a privately owned Hungarian company Olajterv, which is owned by the tycoon Geza Pap. The price was again not disclosed but MOL had previously valued the company at 18 billion forints, which was about CZK 1.5 billion (£ 43 million).

However, MOL had no future plans with I&C Energo except perhaps for the collection of dividends. Both parties made a 'call option' contract with the Dutch company Yellowraazd that was signed a few months after the sale (on 2 December 2008). This information was published by MOL as late as the first half of 2012 in its financial statement. According to this statement, Yellowraazd was set up by a Mr. Josef Broz who had been known as a close colleague of Martin Roman. So the "shell" company Yellowraazd served as a link between ČEZ and Olajterv.

Mr. Broz is an expert in setting up offshore schemes. Earlier he had helped to create a structure of firms and funds that allowed Mr. Roman and his colleagues

to take control of a group of engineering firms, now called Skoda Investment. It is significant here that the company Appian Machinery, which is the owner of Skoda Investment, was based in Amsterdam at the same address as Yellowraazd.

An interesting fact is that Yellowraazd was set up just three days before ČEZ announced the sale of I&C Energo. The ultimate beneficiary of Yellowraazd could be anyone, including Mr. Roman. Formally Josef Broz ended his engagement with Yellowraazd on 27th June 2012, the same day that the company taken over by the Olajterv Asset Management. The next day I&C Energo was sold to Olajterv.

The relationship between Olajterv, Josef Broz and Martin Roman was laid out in the Czech press. Olajterv has been controlled by Olajterv Asset Management since 2006. The latter was headquartered in Budapest and was managed by International Trust Management which had shared the same address as Yellowraazd. It can be assumed that the individuals mentioned above had acted in close cooperation.

So in summary, we can say that:

- Although Mr. Roman has denied responsibility for any wrongdoing in this case, and even if he did not make a profit on the transactions described above, he was – as a former CEO of ČEZ – responsible for getting rid of a profitable company that had a huge potential for the future.
- The Czech state as the major shareholder should have played a supervisory role. Both politicians appointed to ČEZ's supervisory Board and Ministry of Finance officials failed to manage the state owned company.
- The state also failed in addressing security issues: I&C Energo is a specialized company focusing on the control systems of nuclear power plants and had the know-how to control the Temelín nuclear power plant.

In early 2013, the Ministry of Finance asked ČEZ for an audit of the original purchase of I&C by MOL, but as expected, the auditors did not find any wrongdoing.

4. Current Czech society and possible remedies

The period following the “opposition agreement” witnessed considerable attention paid by politicians and their “friends” to the privatization of state banks, factories, coal mines etc. because of the prospect of “fees” to be earned. Later, after the majority of state firms had been sold, attention switched to contracts placed by the remaining state companies, especially ČEZ, and other institutions. As one observer remarked, “Exploitation of public contracts was approaching its climax between 2010 and 2012. Currently the main focus is on health services. You can trace there a lot of cases when overpriced materials were purchased. Corruption is where you can find weak regulation.”¹⁵

According to a recent study,¹⁶ a third of the funders of Czech political parties are linked to public procurements. Between 2006 and 2013, these sponsors gained public procurement contracts worth CZK 390 billion (£11.2 billion). Many of their owners were based in so-called tax havens or preferred not to disclose their identity. Among identifiable party donors we can find firms with no employees and also state-owned enterprises; the latter is actually not legal. The study claims that the law has been violated by all the major Czech political parties: the social democratic CSSD, the liberal democrat ODS, Christian democratic KDU-CSL and the Communists.

It transpires that every tenth public contract since 2006 has involved a firm which sponsors one of the political parties at the same time. There is a huge risk of conflict of interests. The results show that firms donating to parties obtained between 40 to 60 percent more contracts than firms that didn't.

Stories about corruption are now common in Czech society. Citizens have realized that the situation could be harmful for the future development of their country. Maybe this is why the Czech political scene has been so turbulent in recent years. The once stable political landscape fell apart in the 2010 Chamber of Deputies' elections when a new political party – *Public Affairs* – entered parliament. Originally a local Prague party, it obtained 10.88 percent of votes, easily polling above the five percent threshold for entering the parliament. Nevertheless corruption scandals soon arose. In April 2011, Vít Bárta, a driving force in the

¹⁵ An interview with Jiri Skuhrovec who is an economist at the Institute of Economic Studies, Charles University, Prague. He is also an adviser of the Ministry of Finance. November 2014.

¹⁶ Vítězslav Titl – Miroslav Palanský – Jiří Skuhrovec, *Analýza darů právnických osob politickým stranám*, Centre of applied economy, October 2014.

party and Minister of Transport at that time, was accused of bribery by his Public Affairs colleagues, deputies Jaroslav Škárka, Stanislav Huml, and Kristýna Kočí. This incident caused serious problems in the Czech government coalition.

The parliamentary elections of 2013 witnessed an even bigger change in politics. The liberal conservative party ODS, the party most associated with corruption, ended up gaining only 7.72 percent (down by 37 percent). At the same time, the ANO party, founded by the Czech agricultural and chemical billionaire Andrej Babiš, became a rising star. It obtained 18.65 percent of the vote, becoming the second strongest party in the Czech political scene. Later a left-centrist coalition was formed between the Social Democrats and Christian Democrats. One of the ANO party's political programs is anti-corruption and it calls for responsible running of the state.

We have witnessed a very interesting phenomenon in the Czech Republic: a blurring of left- and right-wing policies. The whole political scene is focused on technical problems like reducing the state debt burden and efficient tax collection - the ideological debate runs only in the background. Some commentators have expressed their scepticism regarding the future aims of ANO party and its leader Mr. Babiš.¹⁷ His idea that the state should be run as an enterprise is often criticised, as demonstrated by the following statement of Prague-born political scientist, Jacques Rupnik, Senior Research Fellow at Sciences Po, Paris:

“[...] In the Czech Republic, the party in charge controls also state institutions,¹⁸ which means that the state governance is mixed up with business in the end. Deterioration of an established party system – this applies to ODS, and partly also to social democrats – has created a ground where businessmen can easily enter politics. They later become “political entrepreneurs”. Vit Barta and his party Public Affairs were just a prelude to Mr. Babiš. He linked his movements not only with the government and business, but also with the media.¹⁹”

¹⁷ See the interview with Petr Pithart who is a Czech politician, lawyer and political scientist. Downloaded on November 24, 2014: <http://byznys.ihned.cz/c1-63110760-petr-pithart-17-listopad-1989-privatizace>

¹⁸ The Czech Republic is the only country in the EU where public officials are not protected from political pressure by a Civil Service Act although it was required by the EU at the time of accession.

¹⁹ *Jacques Rupnik on the Czech Republic: Bárta and Public Affairs were just a prelude to Mr. Babis' political movement.* Published and downloaded on November 9, 2014: <http://nazory.aktualne.cz/rozhovory/jacques-rupnik-opomenute-dedictvi-roku-1989/r~6b44b19a641911e4a10c0025900fea04/>

According to the author of this study, a partial improvement of the current situation in Czech society can only happen when the legal system is strengthened. There is a platform of non-governmental organizations called 'The Reconstruction of the State' which attempts to promote nine key anti-corruption laws. These are:

- transparent financing of political parties (there is a draft of this law),
- declarations of assets on taking up an office (draft),
- the advertising of public contracts on the internet (parliamentary committees are commenting on this law currently),
- the abolition of anonymous shares (this law has been passed),
- the control of appointments to state companies' boards (draft),
- the establishment of an independent public administration (draft),
- the banning of political interference in investigations (draft),
- a more transparent legislative process (passed)
- the extension of the powers of the Supreme Audit Office (Senate).

Before the 2013 elections most politicians supported those laws. At the end of September 2014 the Reconstruction of the State group released a summary review of the political parties' record on meeting their commitment to these laws.

On two bills, namely on extending the powers of the Supreme Audit Office and creating a more transparent legislative process, most parties provided worthwhile positive contributions. However, the ČSSD and ODS plan to block the extension of the independent control in the Senate, and have voted against it in the Senate committee. The online publication of contracts was solidly upheld only by TOP 09/STAN, KDU-ČSL and partly also by the Úsvit parties, which did not oppose the basic principles of the measures proposed. The Reconstruction of the State working group has a negative view of the Civil Service Act in its current form, chiefly brought about by pressures from the opposition ODS and TOP 09 parties, which have threatened to filibuster in the lower house.²⁰

Overall, it is common for parties to block the passing of anti-corruption bills. The example of the Register of public contracts is illustrative. It is still not law although all the current coalition parties have agreed to pass it. The parties have chosen a strategy of inaction during which the law is gradually weakened. In the summer, a proposal was promoted which exempts from this law the state-owned company ČEZ

²⁰ Reconstruction of the State situation report reviews one year of anti-corruption pledges. September 30, 2014. <http://www.rekonstrukcestatu.cz/en/news-archive/9248-reconstruction-of-the-state-situation-report-reviews-one-year-of-anti-corruption-pledges>

and also most state-owned companies and cities. There are also currently efforts to delete a record of payments. The idea of this law is very simple: it works to make public contracts available to a wider group of suppliers in order to improve cost effectiveness and performance. However, it is yet to be enacted.

5. The media as an instrument

Czech political culture has its counterpart in the world of media outlets. A recent development across Europe confirms that media are particularly vulnerable after the recent economic crisis.²¹ For Central and Eastern Europe the crisis was a turning point when foreign investors started to pull out having seen falling revenues and shrinking newspaper circulation.²² Over the last ten years the circulation of Czech dailies has fallen from almost two million to 800 thousand a day.

The departure of foreign investors has had a big impact too. The media houses were bought not by the other large media companies but mostly by local investors. The big shift started in 2008 when the German Handelsblatt Group sold its majority stake in the Economia publishing house to local mining tycoon Zdeněk Bakala. The flagship of Economia is a business paper *Hospodarske Noviny* (Economic Daily), and the weeklies *Ekonom* and *Respect*.

In September 2011, Jaromír Soukup, owner of the largest Czech media agency, bought the weekly magazines *Týden* (The Week) and *Instinkt* from Sebastian Pawlowski, a Swiss real estate entrepreneur based in Prague. Just one year later Soukup added Television Barrandov to its portfolio.

The year of the biggest media transactions came in 2013. In April the owner of Economia, Zdeněk Bakala, expanded his media business to incorporate Centrum Holdings which was the third biggest on-line news portal on the Czech media market. The American investment fund, Warburg Pincus, sold the financially poorly performing company after six years. The next large transaction took place only two months later when Andrej Babiš bought the Czech publishing house Mafra from the German group Rheinisch-Bergische Verlagsgesellschaft. Mafra publishes a number of major and serious daily newspapers, including *MF Dnes* and *Lidové noviny*. The Mafra Group employs about 1,100 people. Mr. Babiš is a politician and also the owner of Agrofert, a conglomerate of food processing, chemical and agricultural companies, with an estimated wealth of between US\$2-3 bn. Other tycoons, Daniel Křetínský and Patrik Tkáč, bought a local branch of the Swiss

²¹ Detailed examples of Spain and Austria were described by Reuters Fellows Jairo Mejia (Washington correspondent, Agencia Efe) and Sonja Gruber (Austrian Press Agency) at a RISJ seminar in Michaelmas Term 2014.

²² Stetka, Vaclav, Media Ownership and Commercial Pressures, Media and Democracy in Central and Eastern Europe ERC funded project, Pillar 1 – Final report. University of Oxford, September 2013, p. 13.

media company, Ringier Group. Ringier Axel Springer CZ publishes the top-selling tabloids, Blesk and Aha, and also the popular weekly magazine, Reflex. Both entrepreneurs also own Energetický a Průmyslový Holding (EPH) which is among the largest Central European energy groups.

The motivation of these new media outlet owners remains ambiguous but it can be assumed that, as well as future profits, they seek other advantages. The majority of the publishing houses have produced losses in recent years and the Czech advertising market has experienced a sharp downturn. As one academic argues,

Owners may be considering their media investments as a defensive tool that can be used when they feel under pressure or threatened by competitors. I believe this is happening in the Czech Republic. Moreover if the new owner is an active politician at the same time [Mr. Babiš], it is very risky. I see the situation as very serious and truly unprecedented in the history of the Czech media after the fall of communism.²³

Mr. Andrej Babiš has acquired the Mafra media house as a part of his entry into Czech politics. It is reported that after buying the media outlet he made a phone call to one of the editorial staff. The issue was why they had not covered a press conference given by his political movement ANO. Later he apologised for this interference; but the pressure remains. For a journalist at the Mafra company, there is always a question – how far can I go? Mr. Babiš recently admitted that the acquisition of a serious newspaper in Mafra was a mistake. He claimed that a better choice would have been to buy tabloids – a Czech branch of Ringier.

Ringier was bought by two young financiers Daniel Křetínský and Patrik Tkáč, whose case is different as they are not directly involved in politics. Nevertheless, they do business mostly in highly regulated energy sectors like the production and distribution of electricity and natural gas. The fate of these sectors is often dependent on political decisions. A certain clue to explain their interest in media has been provided by a comment made by Daniel Křetínský. He reportedly said that he considered the newly acquired company publishing the biggest tabloid, Blesk, as a ‘security asset’.²⁴ He did not explain what he meant by that but his statement reflects a wider view of how the media in the Czech Republic is perceived.

²³ An interview with Vaclav Stetka, a Senior Researcher, Leader of PolCoRe Group, Institute of Communication Studies and Journalism, Charles University in Prague, October 2014.

²⁴ Quoted by the Czech on-line daily Echo24.cz: <http://echo24.cz/a/iJT23/partnerka-kretinskeho-bude-dohlizet-na-soudce-a-zalobce>

The EPH has also used media as a retail trade channel. In November 2014 their publishing house, Czech News Center, started to sell households gas and electricity via its papers. The selling of energy is not the most important non-media activity of the publishing house. Earlier it set up a virtual mobile operator, BleskMobil, which gained roughly 400,000 customers in two years.

New ownership has also had a substantial impact on the way journalists work. The biggest economic pressure on media comes from advertisers who seek to obtain the best return for the money spent. Aware of the shrinking advertising market, media houses sell advertising in a package with “an interview”. The interview – normally with a CEO or a higher rank manager – is then understood as a sort of self-presentation. The firm usually has full editorial control over the article, which can be very humiliating for the journalists producing it.

There has been a huge rise in so called native advertising in recent years.²⁵ The problem is that often it is not clearly marked that the material was produced in cooperation with an advertiser. Apart from well-known factual content, whole sections of magazines are introduced by publishers to increase revenue, with a tendency to distort news stories. There is also something like “a list of prohibited names” of the biggest advertisers who are not covered. The unwritten list changes over time and the reason for “being placed on it” is not necessarily a published advertisement. It may be friendship with the owner of the paper; very often it is an affiliated political party because one of the sources of revenues for newspaper is also government advertising. Sometimes it happens that such articles are withdrawn from the press. However, even more damaging is the self-censorship carried out by editorial staff.

For example, when the parent company of the weekly news magazine *Týden* was a media agency called *Medea*, there was often a problem when covering the agency’s clients. The owner Jaroslav Soukup didn’t want the magazine to delve into issues concerning the biggest advertisers *Medea* represented.

Sometimes politicians also try to exert an influence on Czech public television, *Česká televize*. An example of this is the departure of Daniela Drtinová, a well-known TV show host. She was suddenly removed from the flagship news program *Události, komentáře* (Events, Commentaries) in August 2013. According to

²⁵ Native advertising fills the gap between brand publishing and banner adverts. It often takes the form of “normal” newspaper articles which are written by the advertising team or the advertiser itself.

the TV unions this happened because of her uncompromising interview style with politicians.

In May 2014, Daniela Drtinová with her colleague Martin Veselovský and three other people from *Česká televize* started their own project, the internet television *Diskurz TV*. They supply content for the Economia publishing house, guaranteeing impartiality. Once a day they produce an interview, typically on a political subject.

Their new project is not unique; there have been other new projects on the Czech media scene. Surprisingly, we have seen a renaissance of paper news magazines. The magazine *Reporter* was established in summer 2014 by a former editor of the daily *MF Dnes*, Robert Čásenský, who left the post after the parent company Mafra was bought by Mr. Babiš. An editorial team was put together of former editors of daily newspapers. *Reporter* is funded from advertising revenues, market stalls, subscriptions, sales via partners (e.g. airlines) and also by a newly established endowment fund for the Reporter.

A similar desire for independence and integrity prompted the creation of the *Echo24* website. Editorial staff have been recruited from Mafra's other daily, *Lidové noviny*. "We aim to stand as a counterbalance to the Czech media seized by oligarchs", they say on their website.²⁶ In autumn 2014 the Echo appeared also as a printed weekly. In 2011, a local version of the monthly magazine, Forbes, was brought to the Czech Republic. In November 2014 the first edition of the Czech version of Bloomberg Businessweek also appeared. *Mafra* has also started to publish its own weekly magazine, *Téma* (Topic); a first edition was published in September 2014.

In addition to these, there have been a couple of new on-line news projects. In early 2013 a small company called Tablet Media started to publish its newsmagazine, *Dotyk* (The Touch) which has been designed for tablet users only. There is speculation that the project is financed by Mr. Martin Roman (see chapter 3 above). Regarding these successful on-line projects, the most popular and profitable so far has been the business news website, *motejlek.com*. The website publishes corporate news and makes its profit from a paywall and advertisements. A similar one-man-show website, focused on news from the Czech entertainment industry, is *borovan.cz* which recently claimed to be making a profit.

²⁶ Downloaded on November 17, 2014: <http://echo24.cz/>

6. Conclusions

This paper has focused on a number of problems in Czech political culture and in Czech journalistic practice. There have been examples of gross misconduct which clearly characterize the behaviour of certain political and business elites. As the author does not believe that the course of the history itself is going to increase the moral qualities of people and politicians, the reasons behind the misconduct is mainly the lack of an appropriate legal framework which could prevent it.

It seems clear that unless such a framework is established, the future development of the country will be harmed as business and political interests increase their control. The media landscape follows in the footsteps of the dominant political culture.

The dismal picture of the political culture in the last quarter of a century portrayed in this paper has to be balanced with some economic figures. The Czech GDP (the common measure for people's economic welfare) has more than doubled in real terms since the "Velvet Revolution" in 1989, which is an extraordinary expansion. The average monthly salary has nominally increased from CZK 3,170 to CZK 25,800 (£739) which is an increase of more than eight times. Adjusted for inflation, the rise was 52 percent. The productivity growth was almost 60 percent in real terms.

In economic terms, the Czech Republic is a very successful country, which has undergone a huge transformation in the last twenty five years. However, in the course of these changes a large degree of corruption, and allegations of corruption, in both political and media circles, have accompanied the greater production of wealth.

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