

BETTING AGAINST OUR FUTURE

How Czech coal companies derail decarbonization - and insurers are helping them stay afloat



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Summary

With the climate crisis occupying the top of the political agenda in recent years, there has been an increasing willingness among insurance companies, especially in Europe, to adopt progressive investment and underwriting policies on climate, particularly by excluding new projects in coal.¹

However, as recent examples in the Czech Republic show, glaring gaps in insurer's coal policies remain open, allowing dirty Czech energy companies like Se.v.en Energy to prolong the operations of outdated coal power plants, contravening both the state's own energy strategy, and, more importantly, the European Union climate strategy embodied in the European Green Deal.

In short, insurers such as Allianz, Generali and Vienna Insurance Group (VIG), are insuring dirty energy companies with no viable, Paris-compatible decarbonization plans. The Czech Republic and other CEE countries are coming to terms with the

imperative to phase out coal by 2030 at the latest, and governments are starting to grapple with the need to transition to climate-safe energy that will preserve a habitable planet over the long-term.

In this context, insurers must decide which side they are on: will they enable the transition to a fossil free energy system, or hinder it?

"Phasing out coal from the electricity sector is the single most important step to get in line with the 1.5 degree goal. I urge all OECD countries to commit to phasing out coal by 2030."

Antonio Guterres, UN Secretary-General²

Insurance companies should:

- **immediately cease insuring the most polluting and carbon intensive Czech coal power plants like Počerady and Chvaletice, and thus supporting the extension of their operations.**
- **commit to stop coverage for the mining and burning of coal as fast as possible. Immediately cease insuring coal companies like Se.v.en Energy, EPH and ČEZ, unless they present credible plans to phase out in line with the Paris target of keeping global warming under 1.5° C, i.e. by 2030 at the latest.**
- **commit not to insure nor finance any new fossil fuel infrastructure projects, especially in extraction and combustion of fossil gas.**

Fake decarbonization: ČEZ selling coal plants instead of closing them

The gaps in the insurers policies are evidenced in particular by the recent findings on the continued insurance for the operations of two of the most inefficient and polluting coal power plants in the Czech Republic: Počerady, and Chvaletice.

These coal projects were originally owned by the ČEZ group, the semi-state-owned energy giant and largest of the energy incumbents in the country, whose power-plants are being insured by all three of the aforementioned insurers:

"I can't sleep, I can hear it even now. There's a lot of dust. We had to buy an air purifier, my son is allergic and he's suffocating."

Andrea Drienová, a resident of Mariánské Radčice, describes the life in the vicinity of the Bílina mine³¹

Allianz, Generali and Vienna Insurance Group.³ Both power plants were also originally scheduled to be among the first coal plants to be shut down according to the updated State Energy Policy of 2015, which set out the goal to gradually phase out the most inefficient thermal power plants.⁴

Instead, both have then been sold to Sev.en Energy, a climate wrecking private coal company. Wholly dependent on these power plants to consume the low-quality lignite from its two giant open-cast mines in the ravaged landscape of northern Bohemia, the owner is now actively pursuing efforts to prolong the operations of these plants for years to come, by either securing exemptions from the upcoming new European air-quality regulations (so called BREFs), or retrofitting them.

ČEZ itself does not yet have any viable, Paris-compatible climate strategy, and currently plans to operate some of its plants potentially up until the half of this century. To keep its recently retrofitted power plant at Ledvice – previously insured by Generali and VIG – running

beyond 2030, it has even secured a permission to expand its open-cast lignite mine Bílina.⁵ The mine is thus supposed to come up to 500 meters close to the homes of the people in the neighboring community who are already afflicted by high levels of noise and dust.⁶

Instead of cleaning up its act, ČEZ is thus so far effectively only faking decarbonization, nominally reducing emissions, but in fact selling dirty, obsolete plants to even less scrupulous coal companies, such as Sev.en Energy.⁷

Chvaletice and Počerady: a tale of two power plants

Chvaletice, an 820 MW installation east of Prague was originally scheduled to be shut down in 2016. Instead, it was the first power plant sold to Sev.en Energy in 2013, thus providing vertical integration to the company, securing a steady consumption of the coal from its mines and revenues from the electricity. Since Chvaletice was purchased by Sev.en Energy, the once "soon to be shut down" plant is now running on full power, setting records not only in the production of electricity, but also emissions of pollutants like toxic mercury.⁸

In 2016, Sev.en Energy began to retrofit two of the four blocks of the plant, successfully lobbying the regional authorities to exempt the project from the need to apply for an Environmental Impact Assessment (EIA), effectively excluding the public from the proceedings, prompting protests from ecologists and locals alike. In October of that year, after protests by local associations went unheeded, eleven Greenpeace members scaled a cooling tower of the plant and unfurled a giant banner reading "soon to be out of order", drilling tiny holes into

the concrete structure to fix their message with bolts.⁹

For this action, despite the holes not interfering with the function of the tower in any way and later being patched during operation, five of the climbers were later charged with the "endangerment of the operation of a critical infrastructure", prompting a protracted trial. In the end, after the accused paid the costs of the repair, their actions were reclassified as a minor offense. However, it was from the court documents – specifically the statement of the technical director of the plant to the court – that it became apparent that Allianz insured the plant in 2016, with the option to renew the contract in 2019.¹⁰

"As a doctor, I have always been against expanding the limits of coal mining. As a doctor, I am also in favor of reducing the power plants that use coal to produce electricity. After all, it is the emissions from these power plants that contribute significantly to reducing the length of life in regions such as Ústí..."

Alena Dernerová, senator from Ústí region¹¹

Even after Sev.en's retrofit of Chvaletice, the plant did not fulfill the new air-quality regulations. Sev.en has thus applied and is aggressively lobbying for an exemption from the limits. If granted, this would allow it to emit four times the allowed limit of toxic mercury, among other toxic substances. The Ministry of Environment has denied the application already twice – most recently at the beginning of March – meaning the company might have to put the plant on standby come August, but it is still determined to pursue further attempts to prolong the plant's operation.



How Czech coal business affects communities in the Czech Republic and abroad

Coal industry in Lusatia and Leipzig: dirty power plants and demolished homes
Company: EPH (Daniel Křetínský)
Insured by: Allianz, Generali, Kooperativa
Details: power plants Boxberg, Jämschwalde, Schwarze Pumpe and Lippendorf with the total capacity of 9260 MW and CO2 emissions reaching 55.65 million tons. Opencast mines Nochten, Welzow-Süd, Reichwalde, Jämschwalde, Vereinigtes Schleenheide and Profen.

The coal business in Eastern Germany was acquired from the Swedish state-owned company Vattenfall by the EPH group owned by the Czech coal baron Daniel Křetínský in 2016. Four of his power plants in this area have emissions equal to a half of emissions of the Czech Republic and they rank among the worst in Europe both in terms of CO2 and toxic emissions. Expansion of the mines has been threatening people's homes, historically having had the worst impact the local Lusatian Serb minority. At the time of publishing this report, LEAG was demolishing the village of Mühlrose - Miloraz, despite the fact that it did not yet have a permit to mine coal under it. For the planned cessation of mining in 2038, Křetínský lobbied for „compensation“ of 1.75 billion Euros from the German government – apparently under the risk of arbitration lawsuits. This is despite the fact that this amount, even according to a leaked internal analysis by the German Ministry of the Economy, exceeds the actual costs by up to fifty times.¹² The case is being investigated by the European Commission as a potentially illegal state aid to a private company.



Mühlrose - Miloraz

Bílina mine: noise and dust five hundred metres away from people's homes
Company: ČEZ (semi-state-owned)
Insured by: Allianz, Generali, Kooperativa
Details: annual coal production of 8-9 million tons.

The Bílina mine is one of the largest open-cast mines in the Czech Republic. It mostly supplies coal to the nearby power plant Ledvice that the semi-state-owned utility may potentially operate until approximately 2050. The Ledvice plant was provably insured by Česká pojišťovna (Generali) and Kooperativa (Vienna Insurance Group) and its other power plants have also been insured by Allianz. In order to run its power plants beyond 2030, ČEZ used lobbying to secure expansion of environmental mining limits in the Bílina mine in 2015, right before the Paris agreement was signed. The mining will thus expand up to 500 metres close from people's home in Mariánské Lázně that is already afflicted with dust and excessive noise.

Chvaletice power plant: exemptions from toxic mercury emission limits instead of planned shut-down
Company: Sev.en Energy (Pavel Tykač and Jan Dienstl)
Insured by: Allianz
Details: capacity of 820 MW; CO2 emissions of 3.72 million tons (ranks 36th in the EU).

Running from 1979, Chvaletice is the youngest lignite power plant in the Czech Republic. In 2016, it was supposed to be one of the first ones to be shut down as part of the plan to reduce the Czech economy's dependency on coal and unnecessary power export. However, ČEZ sold it to secure consumption of low-grade lignite from its Vřany mine. It also repeatedly applies for exemptions allowing it to emit up to four times higher amounts of toxic mercury than the EU limits permit. Local citizens' initiatives and nearby municipalities of Veltruby, Nebouze and Bukovka continuously protest it. The Ministry of the Environment has rejected exemptions twice already, so the plant may have to stop its operation in summer. So far, nevertheless, the once "soon to be shut down" plant has been running on full power, setting emissions records.

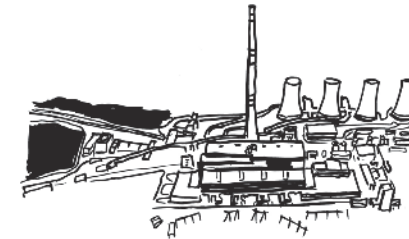
Bílina mine



Počerady power plant

Počerady power station: biggest polluter in the Czech Republic
Company: Sev.en Energy (Pavel Tykač and Jan Dienstl)
Insured by: Allianz, Kooperativa
Details: capacity of 1000 MW; CO2 emissions 6.01 million tons (ranks 14th in the EU).

Chvaletice set a dangerous precedent which was now repeated on an even larger scale with the Počerady power plant, the Czech Republic's biggest source of CO2 and toxic emissions – while also ranking among 30 worst plants in the EU in both categories. The Počerady plant with its five outdated units running since 1970s produces the same amount of annual emissions as all the delivery trucks and buses in the Czech Republic and is responsible for more than 100 premature deaths per year. It is also the most wasteful Czech power plant with highest CO2 emissions per unit of generated power – approximately two thirds of all the energy from combusted coal are lost as waste heat. This makes it a hot candidate for a quick shut-down, but instead of shutting it down, ČEZ sold it to Sev.en Energy which applies for more exemptions and wants to keep it running. The acquisition, exemptions and extended operation by Sev.en have been repeatedly protested by local municipalities, environmental organizations as well as medical doctors.



Chvaletice power plant

This precedent was followed by a second, larger and dirtier plant: Počerady. With 1000 MW installed capacity of early 1970s technology and the same amount of annual emissions as all the delivery trucks and buses in the Czech Republic, Počerady, in Ústí region of Northern Bohemia, is the dirtiest power plant in the country, and amongst the 30 dirtiest plants in the EU in both carbon and toxic pollution.¹³ Despite long-time pressure from locals, ecologists and medical professionals calling on the government to use its ownership rights to force ČEZ to close the plant instead of selling it, the company once again decided otherwise, and sold the plant to Sev.en Energy in 2019.

Originally to be transferred only in 2024, the deal was hastened last year and on 1st of January 2021, the plant was transferred to Sev.en, who is now, just as in the case of Chvaletice, lobbying the regional authorities for an air quality exemption, which would allow it to emit four times the allowed limits of mercury. In this case, according to an entry in the European tenders database TED from November 2020, **Allianz, along with VIG and Generali, have signed a contract to insure the plant along other ČEZ assets,** shortly after the deal with Sev.en was announced. Generali later stated it had withdrawn from the deal by the time of the transfer.¹⁴

Sev.en Energy: The Czech climate-villain No.1

In both these cases, Allianz and potentially also VIG are supporting a highly objectionable company which is known as the most aggressive and dangerous opponent of any climate and health protection policy in the Czech Republic.

Sev.en Energy, previously known as the Czech Coal Group, originated as the “Most Coal Company”, which was famously stolen from the state by its own management during the 1990s “wild privatization” which lies at the origin of modern Czech capitalism.¹⁵ For years the company has been trying to abolish the so-called “environmental limits to mining”, which have protected towns and villages in Northern Bohemia from being razed to the ground since 1991, in order to secure access to millions of tons of coal under the town of Horní Jiřetín. This has led to a protracted conflict with the local community who refused to give up their homes and repeatedly managed to convince the government to confirm the limits.¹⁶ As a result, one of the company’s two mines – the “Czechoslovak army” mine – will most likely run out of coal this year.

Acquiring Chvaletice in 2013 and Počerady in 2021 has become vital to Sev.en’s business model, securing a steady consumption of the lower-grade lignite from the second of the mines, Vršany, and revenues from cheap electricity production, stimulated by the famously bloated Czech energy exports.¹⁷ Thanks to this, the company has become a source of tremendous wealth for its two owners – Pavel Tykač and Jan Dienstl – who have been able to siphon-off billions in untaxed dividends that were transferred to letterbox companies in Cyprus and Liechtenstein, through which the group is owned.¹⁸



Big insurance companies and Czech coal corporations in a nutshell

	Allianz	Generali	Kooperativa (VIG)
ČEZ	✓	✓	✓
EPH	?	✓	?
Sev.en Energy	✓	✗	?

✓ We know for sure that insurance services are provided. ? We have indications that insurance services may be provided. When asked directly, the company did not rule it out. ✗ No insurance services provided. Explicitly negated by the company.

EPH

Majority owner: Daniel Křetínský
Emissions from coal power plants: 64.14 Mt CO₂
Phase-out plan: none

Energetický a průmyslový holding (EPH) owned by the Czech oligarch Daniel Křetínský is one of the largest coal corporations in Europe. Its coal assets alone emit more CO₂ than the other two Czech coal corporations combined or also more than the less polluting half of the EU countries. This is mostly due to coal mines and power plants in Lusatia and near Leipzig in Germany where some of Europe's dirtiest lignite power plants operate. Its subsidiary EPH LEAG is responsible for the currently discussed demolition of people's homes in the Lusatian village of Mühlrose -

"Bottom-of-the-barrel" climate destroyer

Gloomy prospects for the coal business notwithstanding, Sev.en has reorganized and announced plans for an international expansion in recent years. In 2019, it acquired 50% in the international InterGen Group with 1770 MW of coal capacity in Australia, and further 2490 MW of gas plants in the UK, along with the Chinese energy companies China Huaneng and Guangdong Energy. Also in 2019, the firm acquired two Czech municipal combined heat-and-power plants in Kladno and Zlín, bringing the total coal capacity of the group to over 4000 MW, the share of coal in its generation capacities to 62%, the rest being fossil gas.

In addition to its coal-based business strategy with a shady corporate structure, Sev.en is also notorious for its track record in

Miloraz. The company's coal portfolio also includes a power plant in Italy, two power plants in Slovakia and three heating plants in the Czech Republic. Křetínský's empire is able to significantly influence the Czech debate on energy and climate through his huge media corporation CNC.

Sev.en Energy

Majority owner: Pavel Tykač and Jan Dienstl

Emissions from coal power plants: 22.88 Mt CO₂

Phase-out plan: none

Together with Australian power plants Callide C and Millmerran which Sev.en Energy owns through its InterGen Group with Chinese energy companies China Huaneng and Guangdong Energy, its coal-fired power plants rank second in greenhouse gas emissions among Czech energy corporations. From the beginning of 2021, Sev.en Energy has operated the Počerady plant, the country's biggest source of CO₂ and toxic pollution.¹⁹ Its operation is responsible for 111 premature deaths per year and causes dangerous levels of mercury deposition in an area with the population of approximately 1,000 people.²⁰ Since 2013, the company has also owned the Chvaletice power plant in the Pardubice region. It currently lobbies for exemptions from valid EU pollution limits for both these plants. Sev.en Energy is also notorious for its aggressive PR methods against its opponents, unscrupulous political lobbying including conflicts of interests and non-transparent corporate structure with letterbox companies residing in tax havens in Liechtenstein and Cyprus.

trying to influence politics and the public debate in its favor.

Last year, the company was involved in a conflict of interests, whereby its assistant CEO has come to represent the Ústí region in the governmental commission deciding on a coal phase-out ("Coal Commission"), bearing witness to the level of corporate capture in the regional government.²¹ Sev.en is also well known for using aggressive public relations (PR) methods against its opponents, including fake social-media profiles, climate denial and stealth campaigns spreading misinformation about environment protection – an unethical PR strategy which has been called out by the association of professionals in the PR industry.²² To conclude: all of this completes the picture of a "bottom-of the barrel climate destroyer", a company committed to keep extracting and burning fossil fuels as long as possible.

EPH: the fossil giant with emissions of a mid-size country

As dangerous and dirty as Sev.en Energy is, it still remains only the smaller and less successful cousin of the other major private Czech coal company with international ambitions: Daniel Křetínský's EPH, which, according to one of its daughter company's final reports, has previously been insured by both Allianz and Generali – and according to reports in the media is also being covered by VIG.²³

Acquiring Vattenfall's German lignite assets in the Lusatia and the Leipzig region in 2016, EPH has become known in the European Union for its "vulture-like" strategy of picking up unwanted coal assets which more climate conscious companies have spurned.²⁴ This created a fossil giant that operates many of the dirtiest coal-fired power plants in Europe – such as

ČEZ

Majority owner: Czech Republic
Emissions from coal power plants: 19.81 Mt CO₂ per year
Phase-out plan: by 2050

Despite being the Czech Republic's biggest energy company, ČEZ comes after Sev.en Energy in the ranking based on the amount of coal-fired power plants' emissions. This is partly caused by the fact that instead of shutting down its dirtiest lignite power plants such as Chvaletice and Počerady, ČEZ shuffles off responsibility by selling them to Pavel Tykač's Sev.en Energy. ČEZ operates nine coal-fired power plants in the Czech Republic and two in Poland. Due to the plan to keep its coal burning business running after 2030, among others, ČEZ's subsidiary Severočeské doly strives to expand its open-cast lignite mine Bílina. This would bring mining as close as 500 metres from homes of local inhabitants who are already afflicted by excessive noise and dust.

Insurance companies:

Allianz

Country of origin: Germany
Insure our Future score: 1.33 out of 10

What we know:

Allianz Czech Republic is a subsidiary of the German insurance company Allianz. It currently insures ČEZ and Sev.en Energy, including their power plants Chvaletice and Počerady. In the past, the company also insured EPH and when asked directly, it did not rule out having an ongoing contract. Its policy from 2022 on will exclude companies that derive 25% or more of their generated electricity from thermal coal and

Boxberg, Schwarze Pumpe, Lippendorf and Jänschwalde.

In 2018, its coal assets alone had higher emissions than a half of the states of the European Union had at that time. Its subsidiary LEAG in Lusatia has also been threatening people's homes with efforts to expand mines and demolish villages, which historically have worst impacted the local Lusatian Sorb minority. At the time of publishing this report, LEAG, among other things, was currently demolishing the village of Mühlrose – Miloraz, despite the fact that it did not yet have a permit to mine coal under it.²⁵

"It is cynical to destroy a village due to an opencast lignite mine, which is not necessary from an energy point of view or acceptable from a climate policy point of view."

Felix Ekardt, Friends of the Earth Saxony²⁶

The company's strategy is then to keep the coal in operation for as long as possible, to receive so-called „capacity payments“, or to pressure states and lobby for generous „compensation“ for their shutdown under the threat of arbitration lawsuits under „international state-investor dispute settlement“ treaties, such as the Energy Charter Treaty.²⁷

For the planned cessation of mining in 2038, LEAG is now about to receive a „compensation“ of 1.75 billion euros from the German government – apparently under the risk of arbitration lawsuits. This is despite the fact that this amount, even according to a leaked internal analysis by the German Ministry of the Economy, exceeds the actual costs by up to fifty times.²⁸ The compensation, completely disproportionate to the actual loss that Křetínský could suffer as

have 5GW or more installed thermal coal capacity. This policy is insufficient as it would still consider Tykač's and Dienstl's Sev.en Energy insurable, for example. Furthermore, no policy excluding support for gas and oil has been introduced yet.

Generali Česká pojišťovna

Country of origin: Italy
Insure our Future score: 2.34 out of 10

What we know:

Generali Česká pojišťovna is a subsidiary of the Italian insurance company Generali. It insures ČEZ, and in the past it also insured EPH and when asked directly, it did not rule out having an ongoing contract. In its official policy, it refuses support for new coal projects and attempts to terminate existing ones. However, there is an exception for ČEZ's coal projects. Furthermore, no policy excluding support for gas and oil has been introduced yet.

Kooperativa (Vienna Insurance Group)

Country of origin: Austria
Insure our Future score: N/A

What we know:

Kooperativa is a subsidiary of the Austrian insurance company Vienna Insurance Group (VIG). It insures ČEZ and according to media, Křetínský's EPH might be among its clients. The company did not rule out providing insurance to Czech coal companies when asked directly. Based on its business policy, VIG does not support coal in countries where coal phase-out has been scheduled. As the Czech government has not approved the coal phase-out yet, Kooperativa can continue insuring domestic coal projects. Its policy is therefore very weak and moreover, there is no policy excluding support for gas and oil.

a result of his bad business decisions, is so controversial that it now faces European Commission's investigation into whether it does not constitute illegal state aid to a private company.

Czech “coal barons” are betting against our future. Will the insurers keep them afloat?

Both Sev.en Energy, who are trying to mirror EPH's strategy with considerably less success, and EPH itself, are effectively betting on the failure of proclaimed European Climate Targets and the prolongation of coal plant operations beyond 2030, spinning this cynical strategy as providing a “bridge between conventional and renewable energy”.

Thankfully, this bet is now starting to look increasingly risky, as the price of emission permits under the EU's ETS trading system is soaring, and obsolete, carbon intensive coal power plants are beginning to lose money. Despite their aggressive posture and talk of international expansion, the future of companies like Sev.en Energy is becoming more and more uncertain.

Nevertheless, there are insurers who are helping to keep Sev.en and EPH's obsolete and dirty power plants running. Allianz is able to provide insurance for coal through loopholes in their policy that allow them to continue to insure coal companies until the end of 2022 and even after that date will only exclude companies that derive 25% or more of their generated electricity from thermal coal and have 5GW or more installed thermal coal capacity. Given that Sev.en owns less than 2 GW installed capacity in Czech Republic, and less than 4GW including its Australian assets, it will still be insurable after 2023 unless Allianz strengthens their policy.

With the Czech government now wavering between setting the final phase-out date for coal to 2033 (supported by scientists, local front-line communities and ecologists alike) or 2038 (as the coal industry prefers)²⁹, insurance companies, such as Allianz, Generali and VIG, have a decision to make: Will they keep coal afloat or speed up its demise? Will they enable the transition to a climate-safe energy system of the future or hinder it?

All these examples should make it abundantly clear that it is not enough for insurers to exclude new coal from their underwriting policies. Decarbonization, in line with science and justice as outlined by the 1.5 °C of the Paris Climate Agreement demands, in the Czech Republic and elsewhere, that existing old coal plants have to be shut down quickly, as coal has to be phased-out completely in OECD countries by 2030.

Allianz, Generali and VIG should thus close the loopholes in their policies and exclude all coal companies, including “smaller” ones like Sev.en Energy, from their portfolio.

“Coal combustion is the largest source of greenhouse gas emissions in the Czech Republic and thus ranks it among the countries with the highest emissions in Europe... The rapid abatement and cessation of coal combustion for energy production is therefore also the main measure for Czech Republic to fit into its carbon budget.”

Committee for the Environment of the Academy of Sciences of the Czech Republic, expert opinion on the issue of coal phase-out³⁰



Re-set:

platform for socio-ecological transformation is a Czech organization that uses research, education and public engagement to support efforts for a more sustainable and just society. We develop and popularize concepts for a social, ecological and democratic economy, we investigate the causes of social and ecological problems and we look for solutions. We support bottom-up initiatives and work with social movements that strive for a good life for all in diverse fields. We help people organize and promote their interests together.

In our Climate justice program, we conduct research and organising activities to support the rapid phase out of coal and other fossil fuels, and the transition to a new energy system based on decentralized, democratically controlled renewables.

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Credits

Betting Against our Future: How Czech coal companies derail decarbonization – and insurers are helping them stay afloat

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what they paid the state in royalties) in dividends from the companies between 2009 and 2016. They have done this using an accounting trick, which allowed them to circumvent Czech law by overpricing their assets and creating a fictional profit from previous years. All this information comes only from daughter companies in Czech Republic, required to publish annual reports by law. The group itself doesn't disclose any information. Source: Greenpeace, Friends of the Earth Czech Republic, March 2020, Summary of the analysis of annual reports of Czech lignite companies. Available at: https://re-set.cz/wp-content/uploads/2021/04/Summary-analysis_ENG.pdf

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21 Deník Referendum, November 2020, An Exemplary Conflict of Interests: Ústí Regional Authorities Represented by a Coal Lobbyist in the Coal Commission. Available at: https://re-set.cz/wp-content/uploads/2021/04/DR_Stret-zajmu-v-UK_ENG.pdf

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