

»Škodaexport« and the Shentou Project —A Controversial Case of Czech (Czechoslovak) Export

Aleš Skřivan, Jr

Abstract

The late 1970s were marked by the start of the reform period in the PRC, which initiated substantial, yet mostly positive changes in the Chinese economy, but also brought about some new, noticeable economic difficulties. The long-term expansion for instance caused an increase in power consumption and a related growing need for a rapid expansion of the power plant capacity. This process became a new opportunity for foreign producers of power plant equipment to considerably assert themselves in the Chinese market. In the course of three decades, the Czech (Czechoslovak) company »Škodaexport« repeatedly became involved in the expansion and modernization of the Shentou Power Plant, thus playing an important role in the Czech (Czechoslovak) export to the PRC. Nowadays, based on information from archived documents as well as other relevant circumstances, the Shentou project has been considered controversial to say the least and economically almost indefensible contract from the standpoint of the Czech (Czechoslovak) party. Particularly the last stages of the Shentou Plant's expansion (commenced by signing of the pertinent contract in 1999) were repeatedly harshly criticized by the media, and its contribution to the Czech economy was challenged. This contract also has had an important political dimension, primarily for the Czech Social Democratic Party whose minority government was directly responsible for negotiating the final stages of the Shentou project.

At the outset, allow me a few words about the history of »Škodaexport«. This company was established in Czechoslovakia on July 1st, 1966,¹ as a foreign trade enterprise focusing primarily on the export and import of complete plant equipment, machines and equipment for the power, metallurgical and engineering industries. After the fall of the communist regime and related factual abolishment of the state monopoly, the company was transformed into a joint-stock company in the mid-1990s. Gradually »Škodaexport«'s problems were growing primarily due to its high level of debt. At the turn of 2002 to 2003, »Škodaexport« was taken over by the state (Ministry of Finance of the Czech Republic). In spring 2007, the government announced its intention to sell »Škodaexport« which took place in 2008. In the same year, the new owner renamed the company, after which »Škodaexport« ceased to exist.²

From the perspective of the development of Czechoslovak-Chinese trade, »Škodaexport«, a foreign trade company, was established in rather unfavourable times—considering the starting ‘cultural revolution and tense relations between the Soviet bloc and communist China. The conditions for trade with the PRC improved at the beginning of the 1970s when the period of the greatest repressions and chaos related to the cultural revolution ended and at the same time the Beijing government started to gradually normalize its relations with the outside world. »Škodaexport« managed to take advantage of this new situation. In 1971, »Škodaexport« signed a contract for the delivery of equipment for power plants in Nanjing and Anshan, which were put into operation in 1973 (table 1).

Table 1
*»Škodaexport«'s Deliveries for Power Plants in Anshan and Nanjing
 in the First Half of the 1970s*

Project Name	Number of Units	Output (MW)	Year of Launch
Anshan	2	110	1973
Nanjing	1	110	1973

Source: <www.skodaexport.cz/reflist.asp> (Aug 20, 2007). Currently, the internet website is inactive (Aug 24, 2011).

- 1 A regulation by the Ministry of Foreign Trade dated Dec 28, 1965, concerning the establishment of »Škodaexport«, a foreign trade company (148/1965 Sb.) It came into effect on July 1st, 1966. Its full version is available at <aplikace.mvcr.cz/archiv2008/sbirka/1965/sb61-65.pdf> (last retrieval Aug 10, 2011).
- 2 The successor company ČKD EXPORT, a.s. (at present PA EXPORT, a.s.) has not yet managed to successfully overcome the problems inherited from »Škodaexport«.

At the turn of 1978 and 1979, the process of economic reforms commenced in the PRC, bringing about many changes, but primarily striking economic growth. Irrespective of some of the failures of the reform processes, most economists agree that in the past three decades, the People's Republic of China experienced a remarkable boom, which contributed considerably to the economic strengthening of China, among other things. The economic expansion naturally also entailed many expected as well as surprising problems. One of them, closely related to the long-term boom, is insufficient power generation capacities. The fast growing economy led to an increased pressure for the production of electric power (for details on the production of electricity in 1990–2005, see Table 2) and related coal mining.³ This problem was also aggravated by the relatively unsuccessful effort of the Beijing government to lower the overall electric power demands of the Chinese industry, whose share in the total consumption of electric power in the middle of the first decade of the 21st century amounted to three quarters.⁴ The abovementioned as well as some additional factors have resulted in long-term high demand for power generation facilities in the PRC. Although communist China is able to produce gradually more of these facilities on its own and despite the fact that the regulation of power generation facilities has not been completely eliminated (for instance restrictions concerning the import of lower energy output units), there is still considerable room for foreign producers in the Chinese market. Some views have suggested that the planned investments into the expansion of power generating facilities in the Chinese market are exaggerated and that they will eventually lead to excessive production capacities throughout the entire power industry, nevertheless, these fears have as yet not been fulfilled. Communist China still draws considerable attention of the producers of power generating facilities from around the world.⁵

3 The annual volume of coal mining in the PRC in 2005 was approximately double compared to year 1990. See *China Statistical Yearbook 2006*, ed. by National Bureau of Statistics (Beijing: China Statistics Press, 2006), 264.

4 *Ibid.*

5 For more information, see *Čínská lidová republika, souhrnná teritoriální informace* [The People's Republic of China, Summary Territorial Information], ed. by Embassy of the Czech Republic to the People's Republic of China (Beijing; 2005; updated version, Apr 28, 2006), 41–44 and 80. Cf. »Westinghouse a Shaw uzavírají historickou smlouvu na výstavbu čtyř jaderných elektráren AP1000 v Číně« [Westinghouse and Shaw Are Concluding a Historic Contract for the Construction of Four Nuclear Power Plants AP1000 in China], *Protext—Czech Press Agency*, July 25, 2007 <www.protext.cz/english/zprava.php?id=8589> (last retrieval Aug 20, 2011).

From the late 1970s, that is from the beginning of the reform process, the name of »Škodaexport« had been linked with the city of Shentou in the area of the Shanxi province with important coal resources. In 1979, »Škodaexport« and China National Technical Import & Export Corporation (hereafter CNTIC) signed a contract for a delivery of equipment for four generating units of 200 MW for the Shentou I power plant. That was the beginning of long co-operation between Czechoslovak and Chinese companies in the area of the development of the energy-producing infrastructure in Shentou. Over the course of the three ensuing decades, many Czech and Slovak companies, such as Škoda Praha, Škoda Energo, ZVVZ Milevsko and SES Tlmače, became involved in the deliveries for Shentou. The first two generating units, agreed on in the contract of 1979, were launched in 1985, the remaining in 1987. Obligations of the Czechoslovak party, naturally, did not merely involve the production and delivery of the power plant equipment, but also other responsibilities, such as training of Chinese staff in the Chvaletice power plant, which was at the time similar to the Shentou power plant as to the output and technological equipment.⁶

Table 2
Production of Electricity in the PRC in Selected Years Over 1990–2005
(in 100 Millions of kWh)

	1990	1995	2000	2003	2004	2005
Total production	6212.0	10 077.3	13 556.0	19 105.8	22 033.1	25 002.6
hydroelectric power plants	1267.2	1905.8	2224.1	2836.8	3535.4	3970.2
thermal power plants	4944.8	8043.2	11 141.9	15 803.6	17 955.9	20 473.4
nuclear power plants	—	128.3	167.4	433.4	504.7	530.9
Import	19.3	6.4	15.5	29.8	34.0	50.1
Export	0.9	60.3	98.8	103.4	94.8	111.9
Total consumption	6230.4	10 023.4	13 471.4	19 031.6	21 971.4	24 940.4

China Statistical Yearbook 2006, 264.

On August 22nd, 1985, a new contract between CNTIC and »Škodaexport« was concluded. It concerned a delivery of two units, each of 500 MW for the Shentou II power plant, totalling 525 million Swiss francs (hereafter CHF).

6 Internal information of »Škodaexport« (Beijing office), undated.

Signing of this contract was preceded by difficult negotiations with one of the most sensitive issues being that of delivery times. Just two days before signing the contract, the Chinese party raised a demand to shorten the delivery time for each unit by 18 months. Li Peng, the deputy chairman of the State Council, justified this proposal, which was unfavourable for the Czechoslovak party, by the PRC's critical situation in power generation. The final version of the contract thus required the deadline for deliveries for the first unit before June 30, 1988, and for the second unit by June 30, 1989. Both units were to be put in operation by the end of 1990 the latest.⁷ One of the basic conditions for the contract to come into force was concluding a supplementary barter agreement specifying Chinese deliveries as payment for the Czechoslovak equipment for the Shentou power plant. Cotton was the most important item on the list of Chinese goods (for approx. CHF 122 million), followed by four seafaring ships, various consumer goods, soybeans, bauxite and tungsten concentrate.⁸

The Czechoslovak government authorized the Shentou contract despite the fact that a preliminary analysis of this commission considered the realization of the deliveries in the contracted deadlines as highly implausible. Essentially, at the moment of signing the contract it was obvious that the Czechoslovak party would fail to abide by the contracted times for the equipment. On September 5, 1985, just two weeks after the signing of the contract, a meeting took place in Prague concerning the Shentou project, in which representatives of several ministries, »Škodaexport«, Škoda Works Plzeň and other companies participated. A preserved record from this meeting states, among other things, that »it is necessary to expect from the very beginning an approximate six-month delay in the realization of both units.«⁹ From the very beginning, there were also

7 »Zpráva o opatřeních k zabezpečení prací a dodávek technologického zařízení pro parní elektrárnu v Čínské lidové republice« [Report Concerning Measures to Ensure Work and Deliveries of Technological Equipment for a Steam Power Plant in the People's Republic of China], *National Archives*, Prague, *Government Presidium Office-Common Records Office* (hereafter *NA. GPO-CRO*), ref no 19294/85, f no 302/1/7, unprocessed, 1.

8 »Listina dodávek zboží z ČLR do ČSSR k úhradě elektrárny 2 x 500 MW« [Documentation for the Delivery of Goods from the PRC to the ČSSR as Payment for the Power Plant of 2 x 500MW], *NA. GPO-CRO*, ref no 19294/85, f no 302/1/7, unprocessed.

9 »Záznam z připomínkového řízení u 1. náměstka ministra zahraničního obchodu s. Ing. F. Langra, CSc. ze dne 5. září 1985« [Report from the Consultation on the Contract with the First Deputy Minister of the Foreign Trade, Ing. F. Langer, CSc.], dated Sep 5, 1985, *NA. GPO-CRO*, ref no 19294/85, file no 302/1/7, unprocessed. The project ended up being realized with several years of delay, with the first unit being launched in July 1992 and the second in March 1993.

speculations about the total of penalty required in accordance to the contract by the Chinese party—the first estimates were about CZK 200 million. In this context, we should emphasize the fact that the contracted price was another controversial issue of the project. The Czechoslovak government certainly did not consider the new deliveries for Shentou a deal which would yield an interesting profit. On the contrary, at the moment when the contract came into force, the current calculation of this trade case stated the expected loss at approximately CZK 1.3 billion.¹⁰

The presented facts naturally raise the question of whether signing the contract had been a correct step from the viewpoint of the Czechoslovak government. It is likely that there was not a single, highly important reason that would determine the final decision of the Czechoslovak government. Several factors played a bigger or smaller role. First, new deliveries for Shentou were perceived as an important incentive for a more rapid development of the trade relations with the PRC as well as an essential prerequisite for potential future contracts of a similar type and main scope. The Beijing government purposefully encouraged the prospect that this project would not be the sole one of its kind in the long run by tentatively creating the demand for other units of 500 MW for the same power plant. Available documents also suggest that the Czechoslovak government did not adhere to purely economic aspects when considering this case. The Shentou case was also of political importance in a certain respect. A delivery of large complete plant equipment was also a question of a stronger presence of Czechoslovakia in the Chinese economy and society as well as a certain expression of lasting economic supremacy of the more highly developed Czechoslovakia over less developed China. The importance of these 'psychological factors' was accentuated by the fact that the agreement concerning deliveries for Shentou was concluded at the time when the PRC had for several years been in a process of more-or-less successful economic reforms while the prospects of Czechoslovak export were far from optimistic. In brief, the Czechoslovak government was rather afraid of long-term economic as well as to some extent political consequences of the loss of the commission (that is, failure to sign the contract). Apart from this, it also questioned the possibility to negotiate better conditions in a situation of rapidly growing competition in the

10 »Zpráva o opatřeních k zabezpečení prací a dodávek technologického zařízení pro parní elektrárnu v Čínské lidové republice« [Report on the Measures Adopted to Ensure Work and Deliveries of Technological Equipment for a Steam Power Plant in the People's Republic of China], *NA. GPO-CRO*, ref no 19294/85, file no 302/1/7, unprocessed, enclosure II, 4-5.

Chinese market since Western companies were able to realize project of the Shentou kind in shorter delivery time compared to Czechoslovakia.¹¹

The new contract for Shentou became an extraordinary case in the Czechoslovak export as it represented approximately 90,000 tons of different types of equipment. In some respects, it was also a test for the Czechoslovak industry, its capacity to realize such a demanding project in the expected quality and deadlines. The Czechoslovak government considered Shentou a priority task. Work on equipment for the Chinese power plant also affected the schedule of work on other important commissions. Financial incentives for involved personnel were used to ensure the successful realization of the project. The government appointed a representative in charge of the supervision of work and deliveries who was to also propose bonuses as well as personal recourse of the responsible personnel according to the fulfilment of the goals set.¹² To ensure the production for Shentou, it was necessary to purchase specific equipment in developed democratic countries—such as computer technology, computer systems, modern machines for metallurgical production, among others. On the one hand, these purchases naturally augmented the total cost linked with Shentou, but on the other hand, they were also an investment whose expected benefit would become evident in the long run and not only in connection with production for the PRC.¹³

In 1987–89, the equipment for Shentou amounted to approximately one third of the Czechoslovak export to the PRC.¹⁴ Many Czechoslovak companies partook in its production, with SES Tlmače, Škoda Plzeň, Elektromont Praha

11 Ibid.

12 »Statut zmocněnce vlády ČSSR pro zabezpečení prací a dodávek pro parní elektrárnu Shen Tou v Čínské lidové republice« [The Status of the Representative of the Government of the ČSSR for Ensuring the Work and Deliveries for the Shentou Steam Power Plant in the People's Republic of China], *NA. GPO-CRO*, ref no 19541/86, file no 302/1/7, unprocessed.

13 »Zpráva o opatřeních k zabezpečení prací a dodávek technologického zařízení pro parní elektrárnu v Čínské lidové republice« [Report on the Measures Adopted to Ensure Work and Deliveries of Technological Equipment for the Steam Power Plant in the People's Republic of China], *NA. GPO-CRO*, ref no 19294/85, file no 302/1/7.

14 Oldřich Mesároš and Martin Elsner, *Ekonomické problémy čínských teritorií a hospodářské spolupráce ČSFR na prahu 90. let* [Economic Problems of the Chinese Territories and Economic Cooperation of the ČSFR on the Threshold of the 1990s] (Prague: Economics Institute of the Czechoslovak Academy of Sciences, 1991), 34–35.

and VŽSKG¹⁵ being among the main suppliers. The Shentou II power plant was repeatedly declared the best power plant in the PRC—based on the number of temporary shutdowns, fuel consumption and the usage of spare parts. The Shentou project was in the long run also unquestionably the most important undertaking of »Škodaexport« in the PRC—also considering the fact that »Škodaexport« failed to win another commission in the PRC whose scope and importance would approximate the Shentou project. In 1987, »Škodaexport« was the first among Czechoslovak foreign trade companies to open an agency in Beijing.¹⁶

The fall of the communist regime in Czechoslovakia and the subsequent transformations of Czechoslovak (or Czech and Slovak) economy markedly affected also trade and other economic relations between Czechoslovakia (the Czech Republic) and the PRC. New circumstances were reflected even in somewhat more difficult and prolonged negotiations concerning further cooperation in expanding the Shentou capacity. Both parties repeatedly emphasized their interest to continue—under certain circumstances—this cooperation, nevertheless particular steps leading to its realization were taken slowly. In the Czech Republic, the question of new commissions acquired a gradually increasing political dimension.

On December 16, 1999, during Prime Minister Miloš Zeman's visit to the PRC, a contract concerning further deliveries for the Shentou II thermal power plant (expansion by units 3 and 4, each with a capacity of 500 MW, so-called stage 2) was signed by the representatives of the China Electric Technology Export/Import Corporation (CETIC) and »Škodaexport« in the Great Hall of the People. The consortium of suppliers, led by the »Škodaexport« company, consisted also of Škoda Praha, Škoda Energo¹⁷ and SES Tlmače. The Chinese side undertook to pay USD 268,233,000 (for more information on the contract, see Table 3) for the entire delivery of equipment, including documentation and agreed technological aid. The Czech government presented signing of the contract as a major success, which would positively influence acquiring more

15 Vítkovice—Železářny a strojířny Klementa Gottwalda [Vítkovice—Klement Gottwald Iron-works and Machine Works].

16 Internal information of »Škodaexport« (Beijing office), undated.

17 Readers might find it difficult to understand the distinction between the companies with »Škoda« in their names. In December 2004, Škoda Power s.r.o. became the successor of Škoda Energo s.r.o. Since 2010, Škoda Power s.r.o. has been part of Doosan Power Systems. ČEZ (České Energetické Závody) a. s. is the sole owner of Škoda Praha a. s. (situation on Aug 24, 2011).

contracts for Czech companies, thus generally facilitating the entry of Czech companies into the Chinese market. On the other hand, some statements by members of the government showed that not all ministers were decidedly convinced that it was a truly major success. Pavel Mertlík, minister of finance, described the contract as “*a contract whose profitability is relatively low, although it is not true that it is completely unprofitable.*” He also pointed out the fact, often emphasized by the government, that this contract would primarily give work to companies.¹⁸ Giving an important contract to Czech companies—which were moreover ones facing an uncertain future – was probably one of the main reasons for signing the contract along with an effort to at least partially change the unfavourable results of the Czech export to the PRC, or the balance of the Czech-Chinese trade.

Table 3
Basic Information by »Škodaexport«
on the Order for the Shentou II Power Plant (Second Stage)

Name: SHENTOU Power Plant 2 x 500MW, China	
Trade Leader of the Consortium: »Škodaexport«	
Customer: China Electric Power Technology Import & Export Corporation	
Specifications of the Business Case	
Delivery Time	Completion of the delivery for both units Nov 2004.
Guarantee Period	12 months from issuing the PAC, that is after a test of 168 hours of continuous operation of the unit at full performance
Terms of Payment	15% advance payment, 80% in exchange of documentation (Czech Export Bank loan), 5% loan
Terms of Payment for Services	100% in exchange of documentation
Terms of Delivery	85% deliveries FOB European port, 15% FCA production facilities in China
Bank Guarantees	Issued by CEB to the foreign customer
Financing	Czech Export Bank
Main Suppliers	
»Škodaexport«	Deliveries of coal mills, rotating air preheater, primary fans.
Škoda Energo	Delivery of the engine room equipment (turbine, generator, appertenances).

18 Otakar Černý, »Jaké Vánoce chystá ministr financí?« [What Kind of Christmas is the Minister of Finance Preparing?], *Slovo* 91,299 (Dec 23rd, 1999), 1.

Škoda Praha	Projects and technical co-ordination, delivery of final fixings (station feed, electric part, fans).
SES Tlmače	Delivery of the boiler room equipment (boilers and accessories).

Source »Škodaexport« a.s., References <www.skodaexport.cz/shentou.asp> (Aug 10, 2007). The websites of the former »Škodaexport« are unfortunately not currently active (quoted Aug 24, 2011).

Irrespective the prevalently optimistic declarations of the government, the contract for the expansion of the Shentou II power plant had been since the beginning, even before it had been signed, a rather controversial project accompanied by vagueness and problems. The question of financing and guarantees by the Czech government was one of the sensitive issues. The Chinese side was provided a loan by the state through the Czech Export Bank (further CEB) to cover 80% of the total amount for the deliveries specified in the contract. In fact, it was a subsidized loan. The CEB was forced to get a loan to procure the 'Chinese loan' under worse conditions than those it provided to the Chinese party. The CEB did not publish all data concerning the loan, nevertheless, there were speculations that the difference between the interests could cost the Treasury up to 1.5 billion crowns.¹⁹ The loan was secured by the Export and Guarantee Insurance Company (hereafter EGIC), which however did not diminish the risk of additional costs for the state as it was a state-owned insurance company.²⁰ The risks associated with the loan were not diminished by the insurance but rather by the fact that it was provided to the Bank of China, a respected banking house, and that the whole project was approved by the Chinese government as well as parliament. The Chinese loan or its securing had become at the time by far the largest case of both CEB²¹ and EGIC.²²

19 For more information, see Jaroslav Spurný, »Grégrova miliardová blamáž« [Grégr's Billion Crowns Scandal], *Respekt* 13,50 (Dec 9, 2002), 6.

20 The risk pertinent to the share of the Slovak suppliers was carried by Slovak Eximbanka.

21 In the structure of CEB creditors according to the country of export, the PRC held a 20% share on Dec 31, 2006. The PRC thus came third after the Russian Federation (23.3%) and Turkey (22.6%). Cf. *Česká exportní banka—výroční zpráva za rok 2006* [Czech Export Bank—Annual Report for 2006], 16 <ceb.cz/images/stories/soubory_PDF/vyrocnizpravy/vz_06_cz_www.pdf> (Aug 21st, 2011).

The signing of the contract for new deliveries for the Shentou II power plant elicited sharp comments from the Czech media. Most of them criticized the contract, repeatedly pointing out several controversial issues in the contract. For instance, they often brought up the fact that in the course of many years of negotiations, which preceded the contract, the original value of the delivery, that is the price to be paid by the Chinese, gradually decreased by about one third.²³ They also regularly questioned the profitability of the contract for the involved Czech companies. The journalists considered Minister of Industry and Trade Miroslav Grégr as the person to be blamed for the allegedly pointless concessions to the Czech party in the final draft of the contract.²⁴

The project was subsequently accompanied by further difficulties. In February 2001, the Czech government officially approved the delivery for the Shentou power plant. Nevertheless, weeks following the approval were marked by problems arising from the fact that necessary agreements and contracts between the Czech or Slovak companies involved in the project had not been signed. There was a real threat that considering the delay, the Chinese party would press for new price terms.²⁵ The rescue of »Škodaexport« was another very controversial measure closely related to the Shentou project. In June 2002, Miloš Zeman's government decided to aid this company, in fact saving it from bankruptcy²⁶ with the Shentou project being the main reason for this step. At

22 Increased insurance capacities of EGIC and approval of insurance and financing of the project for deliveries of equipment for the Shentou power plant. A resolution of the government of the Czech Republic dated July 18, 2001 no. 736, concerning the Information on the Current Status of the Realization of the Project of Deliveries of Equipment for the Shentou Power Plant, http://racek.vlada.cz/usneseni/usneseni_webtest.nsf/WebGovRes/9AB8C403E15502F1C12571B6006FAEF1?OpenDocument (quoted July 18, 2011). For more information, see Bautzová, Libuše – Hrstková, Julie: *Stát na vývozce nedoplácí* [The State Does Not Suffer for the Exporters], in: *Ekonom*, volume 46, no. 45 (Nov. 7, 2002), pp. 34–35.

23 Of the original approximately USD 400 million.—For more information, see e.g. Martin Hála, »Mytologie česko-čínských vztahů« [Mythology of Czech-Chinese Relations], *Lidové noviny* 15,130 (Jun 5, 2002), 23.

24 Spurný, »Grégrova miliardová blamáž«, 6.

25 The last date for signing these contracts was June 30, 2001. For more information, see Libuše Bautzová, »Nic není definitivní« [Nothing Is Final], *Ekonom* 45,16 (Apr 19, 2001), 66.

26 A resolution of the government of the Czech Republic dated June 12, 2002, no 616, concerning further steps in finalizing the financial stabilization of Škodaexport, a. s., <racek.vlada.cz/usneseni/usneseni_webtest.nsf/WebGovRes/57EC507EB4E6CFD9C12571B6006BABEF?OpenDocument> (July 30, 2011).

the turn of 2002 and 2003, »Škodaexport« thus became in effect a state-owned company. The state increased the company's basic capital by 4.5 billion and purchased its debt with the Czechoslovak Trade bank (ČSOB) for approximately another billion. The Czech government presented the measures as a necessary step to prevent much higher costs from the state budget since the Chinese party could demand the insurance payment from the EGIC should »Škodaexport« go bankrupt.²⁷ Here we have to stress that the Shentou project was not the only cause of the company's difficulties. Most of the debts »Škodaexport«'s had at the time of being taken over by the state originated many years before the contract for new deliveries for Shentou was signed in December 1999. Most of them were related to financing contracts in Yugoslavia in the early 1990s.²⁸

Czech deliveries for Shentou have ended, at least for now. The first unit was launched in December 2004, the second in June 2005. The guarantee operation finished in December 2006, when the customer produced the Final Acceptance Certificate.²⁹ The construction was thus completed several months earlier than had been planned. The Chinese party has been considering enlargement of this power plant by another two units of large performance, nevertheless it seems that this project is not currently pressing.³⁰ As has been mentioned, signing of the contract in December 1999 was presented by the Czech government as a major success, which could play a positive role in acquiring other contracts for Czech companies in the expanding Chinese market. At present, it is impossible to tell whether this vision will be fulfilled. Considering the severe competition in the Chinese market, we can however expect that this contract will have little influence on the considerations of potential customers in the PRC. On the other hand, it is quite clear that the controversial contract for Shentou did not change the basic statistical image of the Czech-Chinese trade, in fact, it did not influence the basic unfavourable trend of the growing negative balance in trade

27 The Czech government realized this purchase with rather unclear prospects concerning how much the transaction will cost the Treasury. For more information, see Pavla Nováková, »Škodaexport se díky státu vyhne krachu« [Thanks to the State, Škodaexport Will Avoid Bankruptcy], *Mladá fronta Dnes* (»Ekonomika« section) 13,277 (Nov 28, 2002), A11.

28 »Vláda pomůže Škodaexportu od obrovských dluhů kvůli Šen-tchou« [The Government Will Rid »Škodaexport« from Huge Debt due to Shentou], *Mladá fronta Dnes* (»Ekonomika« section) 13,137 (June 13, 2002), B2.

29 »Škodaexport« internal information (Beijing office), undated.

30 The mentioned expansion of the Shentou power plant was not included in the five-year plan, which commenced in 2006. It likely will not be realized even under the current five-year plan (2011–2015). For more information, see *Čínská lidová republika, souborná teritoriální informace*, 71.

with the PRC (for more information, see Table 4). The unanswered question of the extent of the state support for the project, or in other words, how much the Shentou project ended up costing Czech taxpayers after the final calculations, has remained, and considering the lack of available information probably will remain the most sensitive issue of the contract.

Table 4
Foreign Trade of the Czech Republic with the PRC in 1999–2010
(Values in Millions of USD, Difference in Comparison to the Previous Year, in Percentage)

Year	Export from the ČR to the PRC		Import from the PRC to the ČR		Balance	
	Value	Difference	Value	Difference	Value	Difference
1999	58.511	30.0	564.345	13.2	-505.834	11.5
2000	66.028	12.9	694.806	23.1	-628.778	24.3
2001	80.532	22.0	1067.246	53.6	-986.714	56.9
2002	147.597	83.3	1874.276	75.6	-1726.679	-75.0
2003	236.043	59.9	2611.418	39.3	-2375.375	-37.6
2004	270.717	14.7	3493.099	33.8	-3222.382	-35.7
2005	298.498	10.3	3921.020	12.3	-3622.522	-12.4
2006	388.360	27.3	5540.227	38.4	-5151.867	-39.3
2007	691.653	78.1	9144.046	65.0	-8452.393	-64.1
2008	773.013	11.8	12470.949	36.4	-11667.936	38.0
2009	843.886	9.2	10591.460	-15.1	-9747.604	-16.5
2010	1214.837	44.0	15326.698	44.7	-14111.861	-44.8

Data from the Czechoslovak Statistical Office <businessinfo.cz/cz/sti/cina-obchodni-a-ekonomicka-spoluprace-s-cr/7/1000539/> (Aug 25, 2011).

It appears that the Shentou project has been more advantageous for the Chinese side than for the Czechs. On the other hand, there are several reasons why the Shentou contract should not be harshly criticized as a totally pointless project. Some facts, whose assessment is controversial, will continue to arouse arguments about this or other similar projects. When considering whether the contract for deliveries for Shentou II was a step in the right direction or not, we have to bear in mind that merely projects like Shentou will not be able to reverse the unfavourable balance of the Czech-Chinese trade. As the Czech Sinologist Martin Hála correctly pointed out »we would have to deliver several units like those for Shentou every year to considerably lower the deficit in the mutual

trade.«³¹ Moreover, considering objective circumstances, a contract similar to Shentou cannot be signed every year, and such contracts require lengthy negotiations. Naturally, the very orientation to deliveries of such large power units is controversial. Some have it that the Czech government should focus on negotiations that would generally facilitate access of Czech producers to the Chinese market, rather than on long and demanding negotiations of similar projects.

Considering the unpublished details, we cannot say with certainty which profits or losses were suffered by the involved companies from this contract, and whether potential loss was not caused by their own errors, such as insufficient exchange rate hedging. If it were not for the Shentou project, some Czech companies would probably face existential difficulties, possibly even going bankrupt.³² In addition, individual companies cannot be criticized for primarily taking care of their own profit rather than the taxpayers' costs or the political background of the enterprise. The state support to this project has been repeatedly criticized as a controversial step, to say the least, with some economists disapproving of it on principle. On the other hand, there are views that primarily stress the potential effect of not signing the contract focusing on a situation in which the Czech Republic would lose a several-billion worth contract.

As has been suggested, the Shentou contract was repeatedly criticized with the primary blame resting on the social-democratic government at the time. On the other hand, critics of this contract—e.g. from other political parties—advocate the Shentou project believing that it was, despite the controversial circumstances which surrounded it, something quite unique in Czech conditions. Virtually every important Czech politician who travelled to the PRC over the past several years did not fail to mention Shentou as an important project of the Czech-Chinese co-operation without, of course, expanding on the controversial issues of this contract.³³

University of Economics, Department of Economic History, Prague

31 Martin Hála, »Mytologie česko-čínských vztahů«, 23.

32 Libuše Bautzová, »Kdo s kým, proti komu?« [Who with Whom Against Whom?], *Ekonom* 47,22 (May 29, 2003), 38–39.

33 For further details on the Shentou Project see Rudolf Fürst, *Česko-čínské vztahy po roce 1989* [Czech-Chinese Relations After 1989] (Prague: Karolinum, 2010), 51–52, 104–105. For more information on the Czechoslovak relations with the PRC see Aleš Skřivan, »K hospodářským vztahům mezi Československem a Čínskou lidovou republikou po nástupu Teng Siao-pchingova reformního vedení« [On Economic Relations Between Czechoslovakia and the People's Republic of China After Deng Xiaoping's Reformist Leadership Came to Power], *Historický časopis* 60,3 (Bratislava, 2012), 471–483.