



**TOWARDS A CLIMATE NEUTRAL EU:
EFFICIENT ALLOCATION OF EU FUNDS**

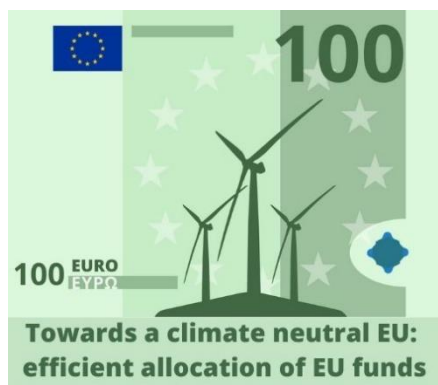
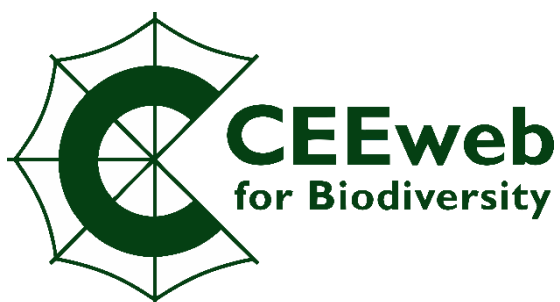
Evaluating EU funding mechanisms 2021-2027: Czech Republic

**An assessment of Operational Programmes
in the Czech Republic, as relating to new
EU Partnership Agreements for 2021-2027**

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Disclaimer

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Assessment of operational programmes in the Czech Republic

Introduction

The Czech Republic's allocations under the EU's Cohesion Policy for 2021 to 2027 are expected to amount to EUR 21.1 billion: EUR 13.12 billion from the European Regional Development Fund (ERDF) and the European Social Fund Plus (ESF+), EUR 6.36 billion from the EU's Cohesion Fund and EUR 1.6 million from the Just Transition Fund.

Overall, climate spending should account for 30 per cent of the EU's 2021 to 2027 budget. Furthermore, 30 per cent of the ERDF and 37 per cent of the Cohesion Fund is expected to be earmarked for climate objectives. However, using an alternative methodology to the government's, we found that the Czech Republic's climate spending does not reach the overall target of 30 per cent.

Investments in environmental protection are not only supported by the Operational Programme for Technologies and Applications for Competitiveness (OPTAK), Operational Programme Environment (OPŽP) and the Integrated Regional Operational Programme (IROP). Other important sources of support for the environment include the Modernisation Fund, the Just Transition Fund, the Czech government's recovery plan, the New Green Savings Programme (funded by the recovery plan) and the EU's LIFE Programme – a funding instrument for the environment and climate action. Therefore, in some cases, the operational programme financing is coupled with financing from other sources.

This assessment focuses on OPTAK and OPŽP, the two operational programmes most closely related to climate spending.

Background: operational programmes

OPTAK

OPTAK's priorities are research, development and innovation; support for small and medium-sized enterprises; energy and climate policy; and the digitalisation of the economy. OPTAK is financed by the ERDF. OPTAK's total allocation is EUR 3.2 billion distributed across five priority areas:

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1. Enhancing the performance of enterprises in research, development and innovation, and their digital transformation (EUR 1.22 billion)
2. Entrepreneur development and SME competitiveness (EUR 400 million)
3. Developing digital infrastructure (EUR 200 million)
4. Moving towards a low-carbon economy (EUR 1.14 billion)
 - a. Energy efficiency and lowering greenhouse gas emissions (EUR 510 million)
 - b. Support for renewable energy sources (EUR 260 million)
 - c. Development of smart energy grids and storage (EUR 300 million)
5. More efficient use of resources (EUR 150 million)

According to the Ministry of Industry and Trade, 38 per cent of this operational programme's funds will contribute to achieving climate goals. The biggest individual investment goes towards carbon emissions reduction: EUR 1.14 billion, or 35 per cent of the operational programme's budget. However, the real contribution to climate goals will depend heavily on the implementation phase, as there are also controversial smart grid investments included in this programme.

OPŽP

OPŽP's aim is to protect and ensure a quality environment for the population, transition to a circular economy, support the efficient use of resources, reduce the negative impacts of human activities on the environment and the climate, mitigate the impacts of climate change and contribute to solving environmental and climate problems at both European and global levels. OPŽP is financed by both the ERDF and the Cohesion Fund.

OPŽP's total allocation is EUR 2.3 billion distributed across six priority areas:

1. Promoting energy efficiency and reducing greenhouse gas emissions (EUR 470 million)
2. Promoting renewable energy in accordance with directive (EU) 2018/2001, including the sustainability criteria set out in that directive (EUR 270 million)
3. Promoting climate change adaptation, disaster risk prevention and resilience, taking into account ecosystem approaches (EUR 390 million)
4. Promoting access to water and sustainable water management (EUR 540 million)
5. Promoting the transition to a resource-efficient circular economy (EUR 270 million)
6. Strengthening the protection and conservation of nature, biodiversity and green infrastructure –

including in urban areas – and reducing all forms of pollution (EUR 410 million)

Public participation

In terms of civic participation, there have been both systemic negligence and obstructions to the meaningful involvement of partners during preparations for the new programming period. While setting up preparatory platforms for the operational programmes, the government did not invite non-governmental organisation umbrella associations, which include organisations with expertise in climate, the environment, transport and low-carbon technology. Instead, the government invited a non-governmental organisation network that does not have a working structure or a history of transparently delegating processes to the organisations' representatives.

In the case of OPŽP, we must highlight the readiness of the Ministry of Environment to cooperate with non-governmental organisations; after it was alerted to the failures of the nomination process, the ministry swiftly invited interested non-governmental organisation representatives to the platform. For OPTAK, by contrast, only one out of 30 members was from the environmental sector and one-third were governmental agencies.

The state has also failed to efficiently communicate the opportunities regarding how this EU money could be used. This could lead to a limited pool of final beneficiaries: mainly large companies with expertise and experience in the administration of EU funds.¹

The 'do no significant harm' principle

Although emissions-reduction targets are important, environmental issues are by their nature more complex. As such, it is wrong to limit our goals to simple metrics such as the amount of carbon dioxide released into the atmosphere. In this sense, the development of the 'do no significant harm' principle signals a more holistic approach towards budgetary issues. For OPTAK, there was no such assessment provided. In the case of OPŽP, the 'do no significant harm' principle was mentioned but in very broad terms. Therefore, it is difficult to assess to what extent individual interventions will respect the principle.

Do the operational programmes align with the objectives of the European Green Deal?

Consistency with EU climate goals

Neither OPTAK nor OPŽP are consistent with the EU's climate goals. Czech strategies in this field are outdated, and these operational programmes do not set more ambitious targets.

OPTAK mentions an EU emissions-reduction target of 50 per cent by 2030; 55 per cent appears, but only with the qualifier 'ideally'. OPŽP claims to strategically build on the Green Deal and responds to several of its goals.

¹ The state has distributed only a third of the planned money for energy savings in houses, according to auditors. IROZHLAS, '[Stát rozdělil na energetické úspory domů podle kontrolů jen třetinu plánovaných peněz](#)', IROZHLAS, 25 October 2021.

However, the text itself does not refer to the new and updated target of reducing net greenhouse gas emissions by at least 55 per cent by 2030.

Table: Common topics

| | OPTAK | OPŽP |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Renewable energy | Describes renewable energy sources as ‘another alternative’ to coal alongside nuclear and fossil gas | Does not set any binding targets to be achieved through European structural and investment funds |
| Gas | Allocates substantial funding to gas infrastructure, for example to the construction of power-to-gas equipment without a clear focus on no-regret applications | Promotes gas as an alternative to coal ² |
| Biomass | Supports the promotion of the efficient use of biomass in the production of heat and electricity | Highlights the potential for solid biomass combustion in district heating |
| Energy efficiency | States that building renovation will be supported according to ‘minimal’ requirements, as outlined in the directive | Supports compliance with the Czech Republic's end-use energy savings commitments to contribute to meeting the EU's 2030 targets. However, the plan fails to be substantially more specific. |
| Energy communities | Supports activities that help communities achieve optimal use of renewable energy generation and deal with power balance and management | Not mentioned |

Renewable energy

OPTAK includes alarming statements such as, ‘renewables are another alternative to coal alongside nuclear and natural gas’ and ‘the Czech Republic has already reached its target for gross energy consumption from renewable energy sources amounting to 13% for the year 2020 in 2013’.

OPTAK also paints renewable energy sources’ impact on architecture, landscape and the environment in a negative light. This is quite inappropriate given that the environmental impacts of renewables have been quantified and are substantially lower than those of fossil fuels. In terms of impacts on landscape and

² As of April 2022, gas boilers have been excluded from financing and the deadline for replacing coal boilers has been postponed by two years until 1 September 2024.

architecture, this point is also inappropriate given that solar panels don't need to be installed on historical or heritage-listed buildings. Furthermore, monocultural landscapes are already tarnishing the biodiversity and aesthetics of the countryside. A small percentage of agricultural land covered with solar panels or windmills does not substantially alter the dynamics of ecosystems that are already affected by current agricultural practices. What's more, agrivoltaics can provide benefits in terms of the combined use of land for energy purposes alongside higher agricultural yields, if biodiversity is respected.

Another conflicting statement in OPTAK is that 'the continued operation of emitting sources holds prices of energy commodities at a low level, making investments in renewables without subsidies unprofitable and therefore not implemented by investors to a greater extent. Investment support may therefore partly reduce risks, although it is not the only solution'. As we have seen in the past few months, fossil fuels do not keep energy prices low; it is only state support that gives them an advantage over renewables.

In OPŽP, there are no targets to be achieved through financing from European structural and investment funds, so it is impossible to evaluate this operational programme's contribution to the overall national targets.

Even the National Energy and Climate Plan (NECP) only aims for renewables to make up 22 per cent of energy production by the year 2030, which is considerably lower than the EU-wide target of 32 per cent. This plan is not ambitious enough to meet the goals of the European Commission or civil society.³

Biodiversity and pollution

In terms of biodiversity and nature, OPTAK focuses on industrial water management and the development of the circular economy in the commercial sector. Both measures are highly necessary. OPŽP puts quite a strong emphasis on biodiversity and pollution; there is a whole priority area dedicated to these issues. The problem is that both nature and air pollution are included under one heading without distinction or strictly separated allocations. In the previous programming period, there was enormous interest in providing funding to tackle air pollution. Conversely, the allocation for nature protection didn't receive many applicants, as many of the natural sites requiring protection are owned privately. Therefore, there is a significant risk that nature protection will be pushed to the sidelines and not receive sufficient funding.

Energy efficiency

The Czech Republic is slowly catching up with the EU in the field of energy efficiency. Although energy intensity (the measurement of energy required to produce certain economic outputs) has decreased by 23.6 per cent over the past ten years, the energy intensity of the Czech economy in 2019 was almost double the EU-27 average.

OPTAK identifies energy efficiency as one of the main priorities of the decarbonisation pillar. It mainly focuses on the private sector and therefore deals with the energy efficiency of enterprises. The operational programme supports numerous energy-efficiency measures, including the use of waste heat, improving ecological protection in production processes, renovating buildings, modernising rail tracks and installing renewable

³ Katerina Davidova, '[Czechia 'unambitious' climate laggard according to Commission assessment](#)', CEE Bankwatch Network, 3 December 2020.

energy infrastructure. This complements other instruments such as the Modernisation Fund, which supports energy efficiency in large enterprises, or household-focused initiatives like the New Green Savings programme.

Energy efficiency is highlighted as an important issue in OPŽP; there is a whole priority objective devoted to this topic. The operational programme aims to comply with the Czech Republic's end-use energy-savings commitments and thus contribute to meeting the EU's 2030 targets. The plan mentions the Czech Republic's indicative milestones for optimal heat consumption (426 megajoules (MJ) / m²/ year for 2030, 368 MJ/m²/year for 2040 and 325 MJ/m²/year for 2050). These are in line with the European Commission's analysis of the national long-term renovation strategies.⁴ However, the plan fails to be substantially more specific, as it does not establish measurable targets for energy-efficiency investments in terms of either finance or results. The distribution of funding in OPŽP must be coordinated with OPTAK and other financial instruments – namely the Recovery and Resilience Facility (RRF) and the Modernisation Fund – and must allow for a substantial increase of the renovation rate.

Biomass

Biomass has a role in the future only if strict sustainability criteria are applied to its use.

OPTAK will support biomass, but only as one of many sources for electricity and heat provision. Only the co-generation of power from biomass is supported. Biomass can be used primarily to generate peak electricity and meet heat supply requirements (i.e. water heating) outside the heating season. It certainly provides a better alternative than using fossil fuels as a primary source for generating electricity.

OPŽP will support measures to reduce the energy consumption of public buildings and public infrastructure. For public buildings, the operational programme will support the acquisition of photovoltaic and solar thermal systems, heat pumps and biomass boilers. Biomass boilers in public buildings must reduce greenhouse gas emissions by at least 80 per cent. For households, there is support for heat pumps and biomass, storage tanks, and pellet heaters. Supported heat sources must comply with eco-design requirements in accordance with the European Commission regulation on eco-design requirements for energy-related products.⁵

A total of EUR 268.3 million is set aside for this specific objective; out of that amount, EUR 135 million will be directed towards biomass, making it the biggest individual recipient of funding for this objective. In theory, gas fits the exemption criteria of article 7 of the ERDF/CF regulation,⁶ as it is used to replace coal-based heating systems. The total amount allocated for this intervention is the second-most after biomass – EUR 52.7 million – while the allocation is EUR 40.1 million for solar energy and EUR 34.6 million for other renewable energy sources (including geothermal energy). To meet the goals for 2050, these allocations should be much higher than the plan proposes.

⁴ European Commission, [Commission staff working document: Analysis of the national long-term renovation strategies](#), *European Commission*, 6 December 2021.

⁵ European Commission, [Commission Regulation \(EU\) 2016/2281](#), *EUR-Lex*, 30 November 2016.

⁶ European Parliament and the Council of the European Union, [Regulation \(EU\) 2021/1060 of the European Parliament and of the Council](#), *EUR-Lex*, 30 June 2021.

Therefore, OPŽP puts a large emphasis on solid biomass combustion in district heating to increase the share of renewable energy, neglecting the potential of other sources such as wind and solar energy. The use of biomass to generate energy may contribute to a further loss of organic matter in soil and its degradation. It may also increase demand for energy crops, including crops that cause soil erosion and those requiring large quantities of fertilisers and pesticides, as concluded in the strategic environmental assessment (SEA). The issue of soil degradation is not reflected as a priority in the operational programme, which is very problematic. There needs to be a legislative change favouring the use of agricultural land for agrivoltaics instead of energy crops.

Energy communities

OPTAK mentions energy communities in objective 4.3: Development of intelligent energy systems, networks and storage outside the TEN-E, which targets the installation of smart components, among other things. The plan says it will support activities that aim to help communities optimise their generation of renewable energy and balance and manage power flows.

Unlike OPTAK, OPŽP does not dedicate a specific section to energy communities, nor is there even any mention of energy communities as such. The Czech Republic is lagging behind in the development of energy communities, partly because national legislation in this area is still missing. The legislation on community electricity generation will be based mainly on the requirements of the European directive on the internal market in electricity, which regulates citizens' energy communities, and the directive on the promotion of the use of energy from renewable sources, which introduces the concept of renewable energy communities.

The Modernisation Fund also includes support for community energy projects; it devotes 1.5 per cent of its funds to 'energy communities'. On top of that, these communities can apply for subsidies for renewable energy sources under programmes 1 (HEAT) and 2 (RES+). At the time of writing, there were no open calls in this field.

Gas

Fossil gas will not be financed under OPTAK; this operational programme's focus is mainly on renewable/low-carbon gases. In this case, that means focusing mainly on hydrogen (from renewable energy sources) and other fuels such as synthetic methane or biogas.

OPTAK will finance mainly new technologies that allow for sector coupling, such as power-to-gas. Although we know that hydrogen will be crucial during the ongoing energy transition, its role is only secondary to direct electrification. Based on findings from an Agora Energiewende study,⁷ we know that its use should be limited only to 'no-regret' applications.

On top of that, infrastructure should be anchored around industrial and power clusters where there is a demand for it. Any new infrastructure projects for hydrogen should reflect these realities. Electrification can comfortably and more effectively serve the needs of the end-user. The over-development of hydrogen technologies can

⁷ Gniewomir Flis, [12 insights on hydrogen](#), *Agora Energiewende*, 18 November 2021.

hamper the intelligently planned distribution of these technologies around territories where they are most needed.

Both OPŽP and the Czech recovery plan address the issue of district heating, acknowledging that it has a significantly negative impact on climate change and the environment. Unfortunately, as an alternative to coal, they both promote switching to a non-solid form of fossil fuel: gas. The ČEZ energy conglomerate has released plans for the Mělník heating plant, which supplies Prague with heat. ČEZ predicts that the price of fossil gas will plummet in the next three years to pre-pandemic levels. Although we do not know where these numbers come from, their projection clearly signifies that there is an overreliance on this fuel, whose price will more likely continue to be volatile but increase on the whole. The district heating sector must acknowledge this reality and start looking for solutions based on renewable energy sources. The operational programme does express general support for the acquisition of heat pumps, but because it also endorses biomass and fossil gas, there is a risk that the overall impact of any heat pumps implemented will be annulled.

In the wake of the war in Ukraine and in the context of discussions about dependency on Russian fossil fuels, the Ministry of Environment decided to increase its support for heat pumps at the expense of support for gas boilers (excluded from financing by the end of April 2022). This occurred within a designated boiler subsidies programme targeting low-income households at risk of energy poverty. The ministry specified that it has allocated more than EUR 205 million for this programme from OPŽP.⁸

Our analysis was based on the official programming documents that were approved by the government in autumn 2021 and sent to the European Commission before the end of the year. The Russian invasion of Ukraine was a catalyst for change. The pre-war discourse in the Czech Republic was pro-gas, and this fossil fuel was very much part of the programming documents. There remains a risk that gas investments might still be included in the future, and we should be wary of that.

Recommendations

Our recommendations are based on the European Commission's methodology, as well as inputs we gathered throughout the development phase of the programming documents.

The European Commission's assessment of climate spending is based on the OECD's Rio markers for climate, where a coefficient of 100 per cent is awarded to activities that make a significant contribution to climate targets, 40 per cent for moderate contributions and 0 per cent for activities with zero or negligible positive impact. These coefficients are assigned to each intervention to reflect the overall climate contribution of each individual operational programme. We have found several issues with the operational programmes analysed in this report, so we are suggesting a few modifications.

Biomass is heavily promoted in the operational programmes, but this particular activity has a climate coefficient of 40 per cent according to code 049 in the EU regulation.⁹ We suggest changing the total allocation

⁸ Ministry of the Environment of the Czech Republic, '[O 50 tisíc vyšší podpora pro tepelná čerpadla a omezení plynových kotlů. Sázíme na obnovitelné zdroje. Díky změnám v kotlíkových dotacích budeme nezávislejší na ruském plynu](#)', Ministry of the Environment of the Czech Republic, 29 March 2022.

⁹ European Parliament and the Council of the European Union, [Regulation \(EU\) 2021/1060 of the European Parliament and of the Council](#).

to the field of intervention entitled ‘biomass with high greenhouse [gas emissions] savings’, which has a 100 per cent climate coefficient (code 050). That would amount to EUR 38.4 million in the case of OPTAK and EUR 153.8 million in the case of OPŽP. Stronger emphasis must be put on measures to protect biodiversity, which is endangered by increased reliance on biomass as an energy source.

Only EUR 12.8 million is allocated to supporting wind energy in OPTAK and there is no expected allocation whatsoever for wind energy in OPŽP, which is highly problematic. A study by the Institute of Atmospheric Physics of the Czech Academy of Sciences estimates that wind power plants could generate up to 18.8 terawatt-hours (TWh) of electricity in the Czech Republic by 2040, which would correspond to covering about 28 per cent of the country's consumption in 2019.¹⁰ There is clearly potential for the development of these plants, and the overall allocation should therefore reflect that.

Code 052 corresponds to the intervention field entitled ‘other renewable energy’ (including geothermal energy) and has a 100 per cent climate coefficient. In OPTAK, for the policy objective ‘4.3 Development of smart energy grids and storage’, almost EUR 59 million is allocated¹¹ to this intervention field. However, based on our communication with the Ministry of Industry and Trade, we discovered that the majority of this allocation will support the development of gas infrastructure, for example the construction of power-to-gas equipment or the connection of equipment for the production of hydrogen, biomethane and synthetic methane to the gas system. These should have strict provisions on applicability (e.g. renewables-based hydrogen used only in sectors where the use of electricity is severely obstructed and located around industrial clusters where heat must be generated to high temperatures). Hydrogen should not be considered a viable replacement of fossil gas across the economy.

No blending of hydrogen and other gases should be supported as a climate-friendly solution. Fossil fuels of every type must be fully excluded from European funds to avoid the risk of stranded assets and to fully realise the potential of renewable energy sources. Where renewables-based hydrogen is supported, the focus must be on no-regret applications such as the production of steel, ammonia and chemicals.

Renewable energy targets should be set in both the partnership agreement and respective operational programmes. For the heating and cooling sector, a reduction in projected values for biomass heat consumption in large heating plants and power plants is desirable. More heat should be produced from other renewable sources such as heat pumps, solar energy and geothermal energy. More pressure must be placed on the government to support these renewable energy sources.

The development of energy communities must be mainstreamed and its enactment into national legislation sped up. This has been promised for many years, but the requisite legislation still does not exist. The potential for using this instrument to tackle energy poverty is vast, and until this form of collective prosumerism is legally recognised, no financial redistribution such as the Social Climate Fund can fully solve the problem of rising

¹⁰ David Hanslian, *Aktualizace potenciálu větrné energie v České republice z perspektivy roku 2020*, Ústav fyziky atmosféry AV ČR, 2020.

¹¹ According to table 4 in chapter 2.1.4.3.3., EUR 58 748 586 is allocated to area SC4.3. code 052.

energy prices and challenges of energy transition.

Lastly, it is important to involve civil society and abide by the rules of the partnership principle. Monitoring committees must be based on an open and transparent selection of civil society organisation representatives. Environmental organisations' participation in monitoring committees reflects the importance of climate action and cannot be neglected.

Conclusion

The Czech Republic is a net beneficiary of the European budget and is heavily dependent on EU resources to achieve ambitious EU climate objectives. Based on our analysis the Czech Republic needs to step up its efforts to fulfil these obligations. It won't be an easy task; Czech programming documents are outdated and not ambitious enough. Support for renewable energy in the programming documents is low and the meaningful involvement of civil society is missing.



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