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Carbon Market Watch welcomes the initiative of the European Commission to issue guidance on implementing the 'Do No Significant Harm' (DNSH); principle under the Social Climate Fund and calls for the outright exclusion of any fossil fuel investment under the fund to ensure a just and inclusive energy transition.

The establishment of the 'Do No Significant Harm' criteria marks the European Commission's continued commitment to protecting the environment and ensuring that EU investment aligns with a long term sustainable future. Similarly, the establishment of the Social Climate Fund is evidence of the increasing understanding of the interrelated nature of social justice and environmental protection. Maximising the benefit of the Social Climate Fund for lower income groups is of critical importance to ensuring that the extension of carbon pricing to building and road transportation, under the 'ETS2' from 2027 does not result in increased energy and transport poverty in its aim to decarbonise these sectors.

With at least [44 million people across Europe unable to adequately heat their homes in 2022](#) and fossil fuel prices set to increase with the establishment of ETS2, it is clear that current approaches to combating energy poverty must be reimaged. While the ETS2 will provide an important incentive for investment in emissions reductions, millions of people lack the necessary resources to lower their emissions through retrofitting of their homes, switching to an electric vehicle or changing their home heating and cooling.

Simply providing temporary income support in the form of fossil fuel subsidies - [as the prevalent response to the 2022 energy price crisis](#), will not overcome this issue. Direct investment is needed in zero carbon infrastructure to include lower income groups in the energy transition and provide the necessary investment signal for business and industry.

The Social Climate Fund must prioritise investment in energy saving measures, renewable heating, cooling and transportation to ensure affordable and clean energy for all; combatting energy poverty and climate change at once.

As the [ESABCC states, the EU's climate target; net zero greenhouse gas emissions by 2050 is under threat from an absence of available investment funding](#). Climate investments made today determine our ability to achieve an inclusive and just clean energy future. The Social Climate Fund, as a crucial EU funding mechanism for delivering affordable access to emissions reductions in buildings and road transport, provides a unique opportunity to set the standard for the true sustainability of EU funds.

As previously demonstrated¹ 'DNSH' screening of funding under the RRF and Cohesion Policy has not prevented the approval of funding for fossil fuel investments. Carbon Market Watch calls for the outright exclusion of all investments with harmful environmental objectives from Social Climate Fund eligibility in line with the ultimate purpose of the DNSH criteria; preventing environmental degradation. The Social Climate Fund guidance must explicitly prohibit funding for low(er) carbon technologies perpetuating the use of fossil fuels, such as more efficient fossil fuel based heating and cooling and more efficient gas boilers. Also low carbon transport which is not resulting in zero direct tailpipe CO2 emissions must be excluded.

As infrastructure such as fossil gas boilers have a lifespan of up to 15 years, any investment in low carbon rather than zero carbon alternatives locks lower income groups into continued fossil fuel use and wastes precious time and resources. With the climate crisis escalating dramatically it is an imperative to ensure that the limited EU funds available contribute to the just transition, not undermine it.

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¹ CAN Europe (2022). *Reaching For A Green Recovery*: https://caneurope.org/content/uploads/2022/02/2022_02_Reaching-for-a-green-recovery-CAN-Europe-Bankwatch.pdf

Green 10 (2021). *Statement of the Green 10 on the Do No Significant Harm Principle*: <https://green10.org/wp-content/uploads/2021/11/Statement-of-the-Green-10-on-the-do-no-significant-harm-principle.pdf>