

Position Paper

Social taxonomy should include social aspects in a multi-cycle value chain

This position paper provides feedback on the Draft Report on a Social Taxonomy by the Platform on Sustainable Finance in response to a [public consultation](#) by the European Commission published on 12 July 2021.

Brussels, 6 September 2021 – Ecopreneur.eu greatly welcomes the European Commission’s proposal for a social taxonomy but points out eight policy measures essential to make it work for SMEs.

The European Sustainable Business Federation - Ecopreneur.eu - and its member organisations repeatedly advocated the inclusion of social criteria in a comprehensive taxonomy for sustainable finance. We therefore welcome the European Commission’s draft for a social taxonomy as part of the European Green Deal.

From our perspective of green entrepreneurs or “*ecopreneurs*”, we strongly agree that it is crucial to define what constitutes a social investment, as has been done in the case of environmental investments. Social aspects form an integral part of sustainability. More and more financial investors take social factors into account in their investments. The same holds for circularity, which should be integrated as well.

Ecopreneur.eu shares the view of the Social Taxonomy Subgroup of the EU Platform for Sustainable Finance regarding the four main differences between a social and an environmental taxonomy:

1. Economic activities such as job creation are inherently socially beneficial. A social taxonomy must distinguish between these inherent benefits and added social benefits such as improving access to quality healthcare or ensuring decent jobs.
2. Environmental objectives and criteria can be based on science, but a social taxonomy could be founded on international authoritative standards of topical relevance such as the International Bill of Human Rights.
3. The environmental taxonomy links criteria to economic activities. However, some social aspects, such as collective bargaining or tax transparency, cannot be linked to economic activities. Rather, they must be linked to the economic entity.
4. For some social topics it might be more difficult to develop meaningful quantitative criteria. In those cases, qualitative criteria are needed.

Eight policy measures required to make the social taxonomy work for SMEs

However, in our opinion, the draft report **falls short of the following key aspects** which will be **crucial to making the Taxonomy work** for SMEs and other key stakeholders:

1. **Social aspects of sustainability should be more explicitly defined and include all social aspects along the multi-cycle value chain**, including the human rights of all children, women, men and workers regardless of gender, ethnicity, nationality, social class or any other discriminatory feature. The taxonomy should also reward the presence of Fairtrade labels, sustainability labels which include social aspects, diversity of the highest governance body and senior management (gender, skillset, experience, background), including employee participation, transparent and non-aggressive tax planning, anti-bribery and anti-corruption, responsible auditing, responsible lobbying and political engagement.

In addition, **the taxonomy should reward all social aspects mentioned in the Sustainability Principles** described in Annex 1: Selling a product or services with a positive social impact, control and minimising the negative social impacts of company, a structured procurement process to select business partners according to their social sustainability level, giving priority to short circuit buying with local players (vs multinational global players), and company activity in the social economy, including active involvement and professional integration of workers from vulnerable groups and/or with low skills, qualifications or revenues.

2. Any **company convictions** (e. g. for tax evasion, child labour, forced labour, fraud, bribery, environmental laws, unsupported claims) **exclude all the company's products and services for two full years** from qualifying for the social taxonomy. Companies involved in the sectors **arms export from the EU, tobacco and gambling are excluded altogether**.
3. **Sustainability linked remuneration** like bonuses linked to environmental and social factors in line with companies' own targets **would not be a suitable criterion** in a social classification tool such as the social taxonomy. Rather than tailoring executive remuneration, we prefer abolishing it as a tool based on personal gain rather than company performance and social benefits.

The minimum social requirements for should be **reviewed every five years** to be adapted to the progress of sustainable models by raising the bar, similar to *Best Available Technologies* (BAT) reviews.

4. To define minimum requirements, Ecopreneur.eu advocates a **mandatory gate-to-gate Life Cycle Analysis (LCA) for all companies including SMEs** to provide the data needed to assess the social and environmental impacts of products and services including the full value chain, covering impacts from cradle-to-grave to the use phase, after-use phase and along multiple life cycles. Unlike a full-chain LCA, a gate-to-gate LCA approach in our experience would be feasible, affordable and suitable for SMEs, maybe with special attention to the smallest ones. The **Product Environmental Footprint (PEF)** for each end product can then be obtained and evaluated by adding up all gate-to-gate LCAs in their specific multi-cycle value chain. That approach should become the norm. For the social footprint of products, the same approach could be used for EPR modulation, tax measures and other economic incentives once the latest methods can be applied and standardised. For instance, a Fairtrade label could be rewarded with low VAT.

This measure would increase transparency, help substantiate sustainability claims, and provide a basis for price incentives based on **True Cost accounting**. It would also help to define “best in class” performers for all product groups and services, that could serve as a benchmark for setting ambitious new standards. An upgraded and tightened Ecolabel, for example, could potentially become a warrant of sustainability and a reliable reference for consumers to make informed choices and reduce greenwashing.

5. We strongly advise the European Commission to **make the social taxonomy coherent with other regulatory initiatives and revisions**, such as the Corporate Sustainability Reporting Directive (CSRD), the Sustainable Products Initiative (SUP), the sustainable textiles and chemicals strategies, policies regarding construction products, ecodesign and energy efficiency labelling, and waste regulation. For instance, any social aspects in the forthcoming EU rules for **mandatory minimum sustainability requirements** as developed in the Sustainable Products Initiative (SPI) should also be included in social taxonomy - **and vice versa**. The Taxonomy should support the principle of free movement of goods within the Common Market. As green public procurement is one of the most important instruments for mainstreaming sustainable products and services in the market, Ecopreneur.eu calls on the Commission to set these social minimum requirements as a criterion in the use of public finances by default, giving priority to socially sustainable business models in financing schemes and in formulation of public tenders.
6. To help companies meet new social requirements and facilitate collaboration and exchange of best practice, the Social Taxonomy should explicitly **promote the establishment of “circularity hubs”** for SMEs in all EU regions¹. Circularity hubs would accelerate the development and adoption of sustainable products and circular business models, **including social aspects**, by operating in form of a public-private partnership and one-stop-shop. Offering SME support in an aligned way, these hubs would promote collaboration and advocacy, offer education, training, information and awareness, provide business tools and support and facilitate collaboration and the EU level.
7. Crucially, the **social value and reduced negative social impacts need to be reflected in the market price of end products**. Where the minimum requirements can set an acceptable bases level, this will help to create a race to the top by eco-innovation. For this reason, Ecopreneur.eu calls for effective price incentives through the **implementation of improved Extended Producer Responsibility (EPR) schemes, carbon pricing, a tax shift from labour to the use of resources and opening the VAT Directive** to allow member states to differentiate VAT rates based on circularity and sustainability. In this context, we also underline the importance of an effective **carbon border adjustment mechanism** for third-country imports to warrant a level playing field for sustainable services and goods produced within the EU.
8. As the draft report already states, **the social taxonomy should prevent any unnecessary administrative burden for companies**, and especially for SMEs. For instance, all authorities should be required to scan for information already published, e. g. via a sustainability label or certificates, before asking an SME to provide any further information. In addition, **companies should be asked to enter required information only once, in their own language**, with the authorities taking care of translation and secure exchange with other databases.

¹ As adopted by European Parliament in Amendment 29 for paragraph 35 in the MEP Jan Huitema report on the new Circular Economy Action Plan, see https://www.europarl.europa.eu/meetdocs/2014_2019/plmrep/COMMITTEES/ENVI/DV/2021/01-25/1222761EN.pdf

9. Finally, to help EU Member States enforce product policy and warrant sustainability standards, Ecopreneur.eu strongly advocates a **reinforcement of effective market surveillance mechanisms, harmonised third-party certification and inspection measures for imported goods**, including random checks and high fines in case of transgressions.

About Ecopreneur.eu

Ecopreneur.eu is the European Sustainable Business Federation of currently seven national associations representing over 3000 sustainable companies - mostly SMEs. We show best practice examples, bring concrete experience from our companies into the political debate and represent their needs. Ecopreneur.eu is the only cross-sectoral EU business organisation advocating ambitious measures, rules and regulations to create a new framework for a sustainable circular economy.

ANNEXE

Input for Sustainability principles

As input for establishing EU sustainability principles, Ecopreneur.eu suggests the following principles used by some of our member organisations as a requirement for their company members to commit to:

A. Your Offer:

1. You are selling a product or services that have a positive impact on environment and social dimension

B. Your Business process:

2. You control and minimise the negative impacts of your activities (like energy consumption, waste, pollution, CO2 footprint...)
3. You have a plan to decrease and suppress your negative emissions (e. g. no fossil fuel, zero waste, zero CO2 emission)
4. You have a structured procurement process to select your business partners according to their sustainability level
5. You give priority to short circuit buying with local players (vs multinational global players)

C. Your attitude towards environmental and social challenges:

6. You are challenging the "business as usual rules" considering our climate change and environmental challenges
7. You are active in the "new economy" with concepts like circular economy, Donut Economy, "functional economy", social economy, blue economy, cradle-to-cradle™
8. You are not involved in the sectors fossil fuel, nuclear, games, narcotics (drugs), tobacco, weapons
9. You are involving your staff in your company governance
10. You are actively involving low qualification / Professional integration of low skills, low revenue, precarious population