

# NFU Position on Social taxonomy

## Background

NFU welcomes the ambition to create a Social Taxonomy. This is in line with NFU's position on sustainability as something holistic that needs to address Social and Governance aspects as well as Environmental. It is also in line with the strong support for social sustainability within the Nordic Model.

In a reply to the Platform on Sustainable finance's first report on a Social taxonomy (September 2021), NFU stated that we strongly support the work towards a "properly designed social taxonomy". A social taxonomy is a key factor to making sure that a green transition is also fair and just. The benefits that were listed with the adoption of a potential social taxonomy was that it could:

- supporting investment in social sustainability and a just transition
- responding to investors' demand for socially orientated investments
- addressing social and human rights risks and opportunities for investors
- strengthening the definition and measurement of social investment

The major concerns put forward by NFU in the input was:

- Need for tools and training for employees to handle regulatory compliance
- Interference with national regulations and social partners' autonomy
- The need to give trade unions a larger role in the work on a social taxonomy

In March, The Platform on Sustainable Finance presented a new and revised report on a Social Taxonomy. Bearing the previously mentioned concerns in mind, this paper is an analysis of the latest suggestion by the Platform of a Social Taxonomy and its potential benefits and risks. In addition to the concerns raised, this analysis also addresses a Social Taxonomy's impact on the societal level and finance level. The analysis is the basis for a suggested NFU Position.

NFU's general position is that all regulation should be developed through processes where trade unions and employees can impact and take part. In light of a better law-making process and to safeguard national collective bargaining systems NFU believes that the ordinary legislative processes is the best way to accommodate the needs of the Nordic social partners in EU regulation.

## Analysis

### A 'properly designed' Social taxonomy

In the feedback reply that NFU provided to the first report from the Platform on Sustainable Finance, NFU said that we will support an initiative to put forward a "properly designed" social taxonomy. Has the new report and suggestion for a draft social taxonomy addressed this?

The design of a potential social taxonomy has been a key issue. Compared to an environmental taxonomy, that can be based on science when stating what is a sustainable activity or not, the indicators and implementation of a social taxonomy is not as straightforward. When looking from a social lens, an activity can be sustainable or not, but can also in itself or indirectly promote or harm social. Therefore, a key challenge for a social taxonomy is to create clear indicators and classification schemes.

Compared to the first draft of a social taxonomy from the 2021 report, the latest draft has addressed this issue and created a structure of categories and sub-categories to address social values. This will remain a challenge in the implementation of a potential social taxonomy and clarity of indicators, data and measurements must be addressed.

### The need to give trade unions a larger part in the work on a social taxonomy

NFU and other trade union organisations raised in their input to the Platform on its initial report in 2021 that a social taxonomy and also the work forward in creating the Platform's suggestion needed a stronger role for trade unions. Human rights, and especially labour rights are important aspects of a social taxonomy and trade unions should be natural partners to consult in this work.

NFU are happy to see that the Platform listened to this request and created a seat in the working group within the Platform for a trade union representative. The seat was given to ETUC and to create a good input from the trade union movement an ETUC working group was created where Morten Clausen took a seat for NFU/UNI Europa Finance.

See ETUC working groups Position on the Social taxonomy here: [ETUC Position for an EU Social Taxonomy of Sustainable Investments | ETUC](#)

When analysing the latest report from the Platform, the role of trade unions and emphasis on labour rights is strengthened.

### **Interference with national regulations and social partners' autonomy**

The social taxonomy in its foundation is expected to clearly respect the national regulations and traditions, and the autonomy of social partners. This is aligned with EU's competences and remit concerning this field. Furthermore, moving forward, the Platform itself confirms the importance of respecting the autonomy of social partners on several occasions in their report.

With this being said, there are always concerns in connection to social regulation at the EU level and the Nordic model. Therefore, NFU must ensure that any potential social taxonomy regulation is respecting the Nordic model and social partners' autonomy. We are glad to see that the Platform has made the last point very clear in the report.

### **Need for tools and training for employees to handle regulatory compliance**

A potential social taxonomy parallel to an already existing environmental taxonomy, and as part of the large regulatory package that is the Sustainable finance package, will of course have potential to bring further regulatory compliance to finance employees. In the end it will be the financial employees in banks, insurance companies and financial companies that will have to do the work.

On a positive note, we see that a clear and properly designed social taxonomy will have the potential to bring clarity for investors and financial advisors to meet the demand from customers to invest sustainably.

If a social taxonomy will be implemented and part of the sustainable finance regulatory package, it must come with requests for training, competence development and resources for financial employees to implement and carry out these activities. This demand is also something that NFU/UNI were able to implement in ETUC's position on a social taxonomy.

It is also of utmost importance that the potential regulation is clear with strong and good social indicators and how these are expected to be measured, and in policy coherence with the other sustainable finance regulation initiatives (such as the environmental taxonomy, disclosures, CSDD and CSRD). NFU welcome that the Platform have been putting a lot of emphasis on these two concerns.

### **Impact on societal level and finance**

In the reply to the Platforms first report on a social taxonomy in 2021, many of the major benefits of such a taxonomy is linked to the societal level and finance sector. The report from the Platform in 2022 is clearly showing the societal need and demand for investments that are socially sustainable, not only environmentally sustainable. To

be able to create a sustainable society we need to define and support economic activities that do not harm, but positively enhance human rights and labour rights.

The financial sector must be in the front seat of this development. A social taxonomy in line with the report from the platform does have the potential to:

- supporting investment in social sustainability and a just transition
- responding to investors' demand for socially oriented investments
- addressing social and human rights risks and opportunities for investors
- strengthening the definition and measurement of social investment.

## NFU Position on a Social taxonomy

### Why a Social Taxonomy?

NFU strongly believes that:

- Sustainability is more than climate, nature, and environment. Therefore, it is crucial that the EU taxonomy includes both a 'green' and a 'social taxonomy', if the EU is to succeed with a sustainable transformation.
- A social taxonomy is fundamentally about people and people's living and working conditions.
- Employees are clearly positive about a green transition of the EU economy but have concerns about costs in terms of price increases, decreased welfare, inequality, and job losses. A social taxonomy can help address these concerns.
- The finance sector must be in the front seat of the sustainable transition by:
  - Supporting investment in social sustainability and a just transition
  - Responding to investors' demand for socially oriented investments
  - Addressing social and human rights risks and opportunities for investors
  - Strengthening the definition and measurement of social investment
- Financial employees are eager to play a positive role in this transition by providing advice and sustainable investment choices and by acquiring new competences and skills in the field.
- For a social taxonomy to be effective and useful for financial employees it must be based on clear objectives and what they are.
- A social taxonomy is crucial to achieve a holistic approach (ESG) to sustainability. A social taxonomy is important to address sustainable finance also from a social and governance perspective.

- The social taxonomy should build on long-standing international consensus documents, in particular the ILO conventions on Fundamental Principles and Rights at Work, the OECD Guidelines for Multinational Enterprises, the International bill of Human Rights, and the UN Guiding Principles on Business and Human Rights to ensure that the social taxonomy is based on objective criteria.
- The social taxonomy should be understood in relation to and in interdependence with other regulation within the sustainable finance package. Policy coherence is key.
- A social taxonomy has the potential to bring clarity to what is a sustainable product and do that by bringing in more perspectives and indicators than environmental. In this way, a social taxonomy can help bring clarity to investors and financial advisors. A social taxonomy can be a good tool to help financial employees.
- Trade unions have an important role in advancing the social agenda and should continue to have an important role in the creation of a social taxonomy.

**NFU welcomes the suggested social taxonomy that have been put forward by the Platform on Sustainable Finance.**

**NFU advocates for a social taxonomy alongside the environmental taxonomy and as a part of the sustainable finance package.**

**In light of a better law-making process and to safeguard national collective bargaining systems NFU believes that a legislative process can accommodate the needs of the Nordic social partners better than a delegated act, for example via a review of the Taxonomy regulation.**

**NFU recommends that the development of a Social taxonomy follows the model of the Environmental taxonomy only if the European Court of Justice does not annul the delegated act entailing the Environmental taxonomy.<sup>1</sup>**

**NFU welcomes a social taxonomy as a fundamentally important step in the right direction.** However:

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<sup>1</sup> See annex 7 – NFU position on the Social taxonomy – Lessons from the environmental taxonomy

- Training, competence development and resources should be provided to financial employees to be able to carry out the work that a social taxonomy regulation would imply.
- A social taxonomy regulation should promote, recognise, safeguard, and respect the right to collective bargaining and, social partner's autonomy.
- A social taxonomy regulation must be clear when it comes to social indicators and measures, based on international consensus documents, and it must be in policy coherence with the environmental taxonomy and other regulatory initiatives within the sustainable finance package.