Meeting Minutes for the APPG on Environmental, Social, and Governance

Topic: does the UK need a Social Taxonomy in addition to the Green Taxonomy?
Date: Wednesday 9 February at 14:30 (Virtual)

Parliamentary attendees:

Alexander Stafford MP, Chair of the APPG on ESG

Corporate attendees:

Cornelia Woschek, Business Development & Sustainability Director at The Gym Group
David Melhuish, Chief Development and Sustainability Officer, The Gym Group
Diana Rose, ESG Research Director, Insig AI
Eilidh Dougan, Finance & Project Development Senior Analyst, Sizewell C (EDF Energy)
Inès Righi, Policy Advisor - Sustainable Finance at City of London Corporation
Lewis Bourne, Supply Chain Sustainability Manager, Severn Trent
Lina Hilwani, Senior Manager - ESG and Supply Chain, KPMG
Meghna Mehta, Vice President, ESG Research, MSCI Inc.
Nicky Conway, Senior Sustainability Manager, Severn Trent
Robbie Epsom, EMEA Head of ESG, CBRE Global Investors
Simon Aldrich Senior Environmental Scientist, Hatch, London, United Kingdom
William Stark, Parliamentary Engagement Officer, City of London Corporation

External and industry body attendees:

Arjun Ahluwalia, Senior Advisor, Trade Compliance – Regulation, Shell
Dan Neale, Social Lead, World Benchmarking Alliance
Rachel Dignam, Global Public Affairs Manager, Sage

The meeting starts at 14:30 am.

AS: Apologies about the last minute changes and having to do this meeting virtually I'm sure you understand. In previous roundtables, attendees have frequently stressed the need to give more consideration to the ‘S’ in ESG. Following the Government's creation of GTAG - the

Green Technical Advisory Group charged with building a Green Taxonomy - last year, we are naturally faced with the prospect of a social equivalent.
To kick off I'd like to first list the agenda items we have assembled. These are as follows:
What should be considered in a Social Taxonomy?
The material impact of a taxonomy and reduction of social 'greenwashing'.
Implementing a Social Taxonomy.
How a Social Taxonomy could work with a Green Taxonomy
EU-UK Social Taxonomies - How could one benefit the other?

I am very interested to see what the scope is for a Social Taxonomy. Previous roundtables have highlighted the fact that regulatory frameworks focusing too much on the 'E' are likely to create lopsided effects against the 'S'. A green taxonomy will inevitably include elements of a social taxonomy, such as forced labour, child workers and inhumane working conditions. What should be considered in a social taxonomy?

AS: It is worth talking about stuff that is already going on. In the EU, a social taxonomy draft has been published. In South Africa, a different approach has been adopted to integrate a social taxonomy into the green taxonomy, creating a sort of a grey taxonomy.

Discussion begins:

Contribution: One of the key things with the social taxonomy in Europe is cohesion between different elements, the sustainable corporate governance initiative, the corporative sustainability reporting directive and all those elements. What happens to the social taxonomy depends on what happens to the green taxonomy. In the UK, it appears the minimum safeguards in the green taxonomy are not going to have the same level of robustness than they will do in the EU green taxonomy. The scope of the social taxonomy will depend on the final framework for the green taxonomy. In the EU, they had to do that before they even knew what the minimum safeguards meant in the green taxonomy. They had to run to parallel overlapping and potentially competing processes.

AS: On the social side of things, what would you personally like to see?

DN: Minimum safeguards, the elements of responsible business conduct, the implementation of UN guiding principles, the OECD guidelines and respecting the rights of the ILO core labour standards. The frameworks in there for understanding the risks and impacts to people are exactly the same. You need to understand the risks when you are addressing systemic challenges of climate change and biodiversity loss. A just transition embedded within the idea of any kind of green deal needs those social frameworks such as risk management to make sure people are not left behind. Companies must do their human rights due diligence, which is very much in line with the UK 2013 National Action Plan on Business and Human Rights.

AS: Does anyone agree or disagree with DN? Is there more than a human rights aspect to it?

Contribution: We should ask for an extension of that, that approach is safeguarding a low bar and a social taxonomy should try to elevate that bar so it's not just about protection but about generating social value.

Contribution: The flip to that is that we don't have a problem with development but with sustainable development. If we don't put in those minimum safeguards, we just exchange unsustainable development for unethical transitions. We've done a baseline launch, working with different companies and countries over the world - the implementation of those safeguards is not in place. Only one fifth of the UK's largest companies are doing Human Rights due diligence and can actually articulate it, and the UK is an outlier in terms of doing well in comparison with the rest of the world so if you start looking at the supply chain outside of the UK, that percentage goes massively down. 780 out of 1000 leading companies scored 0 in all of the human rights due diligence indicators. The frameworks are not there.

Contribution: I can share some of the links with data.

AS: Is this because the companies are abandoning guidelines, not engaging?

DN: it's a mix, companies disclose what they have to disclose. Part of the benchmarking cycle is to improve the quality of disclosure. It's hard to compare performance without proper disclosure. Companies often say more than they do. When there is more pressure on companies, they disclose more information. 80% of companies have Human Rights policy but only 50% commit to respecting Human Rights.

Contribution: I agree with DN. Even the minimum baseline, when you hit the supply chain you find that it is not being held, certain industries are very susceptible to forced labour and child labour. In Asia, we did physical audits on big brand names and their suppliers, and found child labour. Whilst there may be a commitment from companies to respecting minimum safeguards, all boundaries are removed once you hit the supply chain. Having a minimum baseline of committing to the ILO and UN standards is really important. If the UK is looking at the social taxonomy, try and make it a little more universal than the EU taxonomy that is related to EU legislation. If companies want to raise the bar and set these standards for themselves it is harder to do that based on one country's regulations because it would be very difficult to adopt it across the globe.

AS: I think we all agree that human rights are a good starting point for any social taxonomy, but should we go further, should we talk about gender pay, diversity, what should be in it and what will companies accept?

Contribution: It is about human rights and positive protection and safeguards but also about positive social impact. From a dual perspective, there are minimum requirements for something to be classified as a social enterprise or a positive social impact. Thinking about the implementation, it is important to have minimum safeguards, for it to be attainable for small businesses as well, thinking about the accessibility to the diversity of companies that could and would want to be part of that. It is important not only that companies can demonstrate that they are doing no harm but also that they are doing good.

AS: Everyone is talking about doing good, but what would make a difference to companies? Should giving to charities be part of the social taxonomy? Going back to the social enterprise side of it, should companies go out and do more?

Contribution: We need to be careful defining a social taxonomy. It potentially leaves itself open to social washing, the activities that allow you to tick a box on action in the community without delivering real impact. The impact part has to be key. Look at DNI statistics, what delivery do you see against those targets? Are they meaningful achievements or do they result in tick box exercises? That's where companies might accept activities that are easy for them to fulfil but should we allow companies to accept and deliver activities with no meaningful, prolonged social benefit?

Contribution: Similar to the comments made by AA. Social good, CSR programmes, all great stuff, but for me they are very akin to offsetting without having any real carbon reduction strategy. You can be the most polluting business in the world and have an offsetting and declare yourself carbon neutral, you can have a pretty horrid supply chain and not any regard for human rights but have a fabulous CSR programme and a lot of greenwashing to make the business look good. No harm and doing good needs to go hand to hand the same as carbon reduction and offsetting.

AS: What would you put in a social taxonomy?

I think everybody would openly support safeguarding. There are a lot of problems in the supply chain in the global network, a piece that actually gets to the root of everything that comes into the supply chain. It is virtually impossible for some businesses to control their whole supply chain. Doing good, for me, is about the activity of a business in its core business and less about its CSR activity. Actual means of measuring social benefit would include employment, training, development, education, and the actual activity of the business itself.

Contribution: Simon said that the key issues on a social taxonomy would be educational support from the company concerned to enhance skills and development, apprenticeships, and contributions to the community.

AS: If we are focusing on companies of every size, I don't think we should limit ourselves to that.

Contribution: I agree with DM, CSR cannot be a barometer for social good, it is something that companies do for their own survival in certain regions. They also look at regulations that mandate local employment. There are certain regions that mandate that a percentage of your profit after tax must be spent on CSR. So that's not really a barometer of social good. One of the barometers of social good in the company's own operation can be usage of SDG's. Does the company provide: employment, education, upskilling, fair wages, anti-discrimination and equality policies? Those can be used as barometers for a social taxonomy. Where it becomes difficult to identify whether a company itself is socially positive or not is not as easy as in the green taxonomy where companies can say if their operations or product are aligned to a 1.5 ºC goal. If you have a product that is not a socially good product but is also a recreational product, it is difficult to say that is negative and should not be accepted under the social taxonomy. From a product perspective, unless you have a product that is very controversial, something like tobacco that is maybe universally accepted as negative, then the operations of the company could be looked at from the lens of the SDGs to help define a base for the taxonomy.

Contribution: I agree in terms of CSR and community spending, it's more about the definition of impact. You need to define how you advance society’s targets. SDGs are a great target framework that can provide lots of focus areas but what is impact? What is the social impact that will advance a social agenda? The company’s operations, 100%, but the inclusion of supply chains is essential. The way that a company spends, recruits, lobbies and that sort of activity are where the company's biggest social impact lies. It does get very complex in supply chains but for a social taxonomy to achieve anything it is probably the first step towards standardisation or maybe a little bit more maturity about how companies report and think about their impact.

AS: In terms of supply chains, companies are very different. Should there be a sliding scale for companies of different sizes? Should there be more variation at the levels of disclosure according to the size of a company and its operations? And if there is how should it be measured, should it be by turnover, by employees?

Contribution: Doubling down on the CSR thing, Enron won national and global CSR awards for three years running before they went down. CSR is not the core business for most companies. We need to ask, what is the business of that business and what they are doing. How do you direct finance towards activities that are pushing towards the social objectives that you are trying to get to? There is an element of stepping back from the specific activities and saying what it is we want to achieve with reallocation of finance. A couple of asset managers have been setting up funds and asking: what do we put in for social, in terms of driving impact in that space? Some of the things they want to put in there are, actually, what the government should be doing in terms of their duties in education, for healthcare, for housing... It will be interesting to know what the government wants to achieve with the redirection of finance for this. Is it for specific social outcomes within a certain space, is it to support sustainable development goals? Is it to achieve a just transition as we decarbonise? Depending on where the UK lands, I can see it being social within the green taxonomy rather than social on its own because it is a real minefield in terms of what is acceptable as a social impact project or not.

AS: The next discussion point is: how can we make a taxonomy have the biggest impact without leading to social greenwashing and blue washing? You have companies subscribing to various human rights committments related to modern slavery but if they are not tracking their supply chain, they can easily fudge it. How can we stop this?

Contribution: Make any framework meaningful for the company. If something is a box ticking exercise, blue washing happens. Frameworks need to be flexible enough to be adapted to different companies.

AS: What things would you be worried about for your business? What wouldn't just be a waste of time and money for your company?

Contribution: Topics that apply to our business. Whether we have something meaningful to say about certain topics. We have a modern slavery document and are in full support of all the legislation but as a UK business without a huge international supply chain, it is not a topic that is that material to us and we would just say what most other companies probably would say. There are other things like social value for instance and generating social value that are incredibly important to our business but not necessarily in a standard framework.

AS: Moving around the agenda, a lot of companies are going through the green taxonomy. Should we have a separate social taxonomy or integrate social elements into the green taxonomy?

Contribution: There is a social value act from 2013, to a certain extent there is legislation in this area, albeit restricted to the public sector. When you look at social value now there are things like highways construction, road building, major infrastructure projects, we'll see valuations of social value generated from what are typically public funds in those sectors. It is the companies' own view as to how they calculate that, what they include, what the boundaries are, how they evaluate it but with no real measure or understanding as to whether it is good or bad. So it lacks standardisation and guidance as to what good looks like and what people should be trying to achieve.

AS: Some of these projects, such as building roads, are creating social value, jobs, but also create pollution and environmental damage. The question is should they be separate? What are the cons of having the two taxonomies together?

Contribution: You will have virtually no eligible activities, if you do ones that do social good without creating environmental harm while meeting minimum safeguards you get rid of nearly everything. You might be left with a very limited number of things that people can funnel money towards.

AS: This is not an anti-business effort. We don't want to suffocate businesses with legislation. We don't want to recommend anything that is going to be too painful.

Contribution: The trouble with ESG is that you get trade-offs and can lose sight of the major impact when everything is aggregated up in E, S and G. Any framework that supports some transparency and acknowledgments of some of the trade-offs that lie within a road project, I think would help businesses to not try and cover up the negative impacts of a greater project that might have an overall bigger purpose and just to be more true to recognising that the complexities that lie within these issues in relation to each other.

Contribution: I agree with DR, there will always be trade-offs in ESG, one of the ways to do it. A direct answer to your question is to recognise that some social projects can have negative green impacts and vice-versa. If the whole world is running on renewable energy, you have a large number of cold mining employees being laid off without further skills, how do you tackle that? Starting off with two different taxonomies that can be integrated over time might be a good starting line.

AS: One of the concerns of two different taxonomies is that you have almost two different organisations fighting against each other. Which has primacy and who will be the arbiter and decide which one is supreme. In the EU it might be a bit simpler because the EU is a more process driven structure. In the UK it might be more difficult. How can the UK learn or benefit from what the EU is doing, how do we deal with the difficulties that will arise out of having two taxonomies?

Contribution: There is an inherent challenge in the development of a social taxonomy as the targets are going to be much more ambiguous than they are with the green taxonomy. Could we spend a couple minutes discussing what the key targets of each taxonomy would be?

Contribution: The levelling up agenda is important for UK based businesses because of the impact that it has on the social agenda more widely, diversity and inclusion as well. Definitely with performance metrics, and improving them, this is something worth looking at. Another thing is ensuring that the diversity of supply allows economic access for wider groups.

Contribution: Regarding the integration of the social and green taxonomy, climate adaptation should be common to both frameworks because it will impact a lot of communities.

AS: Is it appealing to try to transition oil and gas jobs to new green energy?

Contribution: If people have developed their skills and career sets in the development of very technical capabilities in fossil fuels, then transitioning away from fossil fuels is not as simple as saying that someone who is an engineer in an oil rig can simply go and work in the renewable energy sector. There is less crossover than you might imagine in oil and gas and those are two fossil fuels, one of which is considered a transitional fuel. If you are transitioning into a significantly greener environment, the social taxonomy must consider what impact it had on moving across from the old world into the new. The two taxonomies need to be separate but linked. One has to be not subordinate to the other but there will be trade-offs. To what extent can you have trade-offs? The only example where the equivalent works is that there are certain human rights that are absolute, if you think about the convention of human rights, certain rights are considered to be absolute, certain rights have limits because they trade off against one another. You can think of free speech as an example of that. In the social taxonomy some elements are more absolute than others, some have to be proportionate against others.

Contribution: In work poverty and a living wage is an issue that is underrepresented in the levelling up agenda. If we're talking about funnelling money, we are directing money through investments away from decent work. The gig economy for instance. Certain business models reinforce things like in work poverty because they are quite profitable in the short term. In terms of the trade-offs and what goes into it, it might be interesting to have a conversation with CDC and some of the people who actually look at project level work and whether they use either IFC performance standards, World Bank or EBRD performance standards to look at the environmental and social impacts and how they are managed in any large-scale infrastructure project. That really speaks to the trade-offs point and what risk management frameworks you need in there to deal with the risks when doing that project. There is still a big element of not understanding how much risk there is to the transition if the social taxonomy isn't there. We launched at COP an assessment of 100 large oil and gas, electric utility companies and auto companies on their just transition. We mapped them against their decarbonisation against a one point five degree scenario and all the social stuff on that, the social is just disconnected from the environmental even when companies have great social risk and impact management it is not linked to their decarbonisation programme and the stuff they need to be doing in terms of the transition. Less than 10% even have the understanding of what's going to happen to their workforce and a large percentage of the companies signalled they did not plan to transition. There is still a real element of misunderstanding how much risk there is to transition if the social elements are not there. The gilets jaunes were a tiny insight into what happens when you leave people behind in the transition to low carbon. We need to include the social at all points of the green change.

Contribution: What the just transition is attempting to do is a good thing. It is all about transition planning and thinking from the full lifecycle perspective, ensuring that if we are doing something from one side of the life cycle that can be an environmental improvement it doesn't have a negative social impact on the other end. We absolutely need something on social. It is probably more important than the green. E is quantitative in most cases. It is utility bills, kilowatt-hours, metres cubed - things that you can measure. Social is qualitative and subjective so it is harder to measure. It depends on your perspective. We need the ability to have it comparable across the market. In the E bit, we started back in 2008 on carbon and it has taken us over a decade to have a consistent definition of net-zero and we're still moving towards consistent targets. It is important that the subjective nature of a social taxonomy is set to specific in all sectors. There have been successes in things like gender pay gap, modern slavery, none of these things are perfect but they are moving forward. I do think they need to be linked because when you move a piece on E you can negatively affect a piece on S and vice-versa. Whilst they can be separate things they need to be connected. We have to look at the full picture.

AS: How would you link two different taxonomies? how would you work through the different issues and arbitrate between them? Is it a role for legislators, courts, businesses themselves, trade bodies? How do we make sure that everybody understands both taxonomies?

Contribution: Firstly, make sure that we are a part of that conversation with the EU taxonomy as they develop their social indicators. They have to be developed in their own right but they should be sector specific. They should be developed in a way that thinks about that connection to the environment. Climate is a great proxy for ESG, when you start squeezing fossil fuels it has consequences across the world, not just in having to re skill people in those jobs that have been phased out but also in things like pensions that are still very tied up in fossil fuels. There are all sorts of social impacts in trying to switch things up too quickly in the net-zero transition and in other things like switching diets. The working groups at the EU level have thought that through quite well.

AS: The dichotomy between good and bad, is this a good way of looking at companies or may this discourage them?

Contribution: It's aligned with what the green taxonomy is trying to do, whether it is about businesses or about business activities in support of specific environmental objectives. If it's about a certain infrastructure project because it has a certain contribution towards a net-zero target that is one thing versus a certain project that is having a certain social impact. As soon as you are talking about businesses as a whole it gets really sticky. I would not recommend a sustainability taxonomy that defines what is or is not a good company. It is not about offering a list of companies that people should or shouldn't invest in, it is not an ESG ranking of ethical companies. It is a way of directing money towards specific activities that deal with societal problems. This way you have more flexibility to address specific issues. A company may have a negative gender balance but do good things in other areas. It is not black and white and I would not encourage this distinction between good and bad company’s.

AA: I agree with that view. Companies are nebulous and complicated. You could look at big household name brands and label them a bad company because they do X, but similarly say that it also does Y. There are tobacco companies that are doing positive work, supporting a community where tobacco farms exist, helping transition to other commodities and products and even doing a lot for the environment but fundamentally the product itself has negative health consequences and negative impact on communities. So if you label it at such a high level it will water down meaning. Think about the types of risk assessment and the consequential labels that go with them in the financial economic crime space, The social taxonomy has to work at a transaction-by-transaction level. If you look at companies from a supplier value chain point of view you can label processes as fitting within a social taxonomy, but you also need to work at what their actual business activities are. It has to work at a really tangible, granular level.

Contribution: The chancery lane project is doing fantastic work. They are a collaboration of the top law firms and what they have done on net zero and climate, would be very effective on social. They are developing clauses for climate that can go into contracts and processes and it is aligning the definition of how we are starting to build this into our value chains. On social, whilst we develop a taxonomy, this sort of thing is powerful because it allows people to start to embed these into supplier contracts, into the ways they engage their customers. It is a collaboration between 2000 legal professionals, really powerful.

AS: What sort of consultation projects should governments use to get companies input on a UK social taxonomy?

Contribution: From my previous experience in the financial crime space, I recommend reaching out to industry bodies, as much as company engagement can be helpful, there is a lot of nervousness. UK finance, previously the BBA is an excellent industry body to help collate such an amount of expertise that exists and respond in a useful way to consultation. It has worked really well in that space

MCB: Something that ties into what AA said about the delineation between culture and impact. You have a company's culture - the values that they encourage within their workforce - in terms of things like gender pay gap, diversity of the workforce etc. Then you have the impact which is about what the business does externally. Do you implicitly mark down tobacco, candy, fizzy drink companies in this social taxonomy because of the negative impact of their products or do we take everyone on a flat basis and look only at culture and at what they are proactively trying to do?

Contribution: It is dangerous to focus on the fact that companies do X because then you will only see them as doing that. Companies might have started as doing X and become something else. If you look at the oil and gas majors, and the propositions of transition to net-zero and more sustainable renewable energies you will look at them and say: the company started its life out in oil and gas in fifty years' time it may be the household name in solar. Nintendo is one of the oldest companies in the world and it started its life out in card games. Companies can fundamentally change what they do and if you label them pejoratively you are not encouraging them to transition. It has got to be a level playing field.

Contribution: How would you define what is bad? You can say that tobacco or fizzy drinks are bad. Why is a certain type of pharmaceutical medicine, a type of makeup, alcohol, not bad? How would you define these, as actually the bottom of companies on the basis of their business model? It is very difficult to do.

Contribution: RE's suggestion around a sector approach could address that. Instead of marking certain companies across the whole population, you could look at the performance of companies within a specific sector. It would be dangerous and impractical if a 'good' index excluded certain companies because of some of their products. Take the example of baby formula, a lot of baby formula manufacturers were excluded in 2010 and before and actually when they opened the door for companies that are doing above and beyond in terms of information, companies raised the bar in terms of marketing practises and how organisations behave. You can also replicate that around human rights issues and breaches. For certain major players it is better for them to be changing the standards in a problematic society rather than exit. It does become problematic in terms of how you evidence and rate companies because you have to look at the actions that they are doing to mitigate the impact or to improve it. It is hard to exclude but the sectoral approach would likely address that.

Contribution: In response to the consultation question. Yes, public, and responsive in terms of dialogue that leads to action. It is important to define a time scope upfront, maybe of about six months. We should not be labelling entire companies. It is not the Fairtrade label. If it is going to be the equivalent of the green taxonomy which is about activities and things that companies may be doing but is about those specific things and not about companies. If we look at companies as a whole, we are going to get a lot more unwieldy than it currently is with ideas around specific activities that have positive social impacts.

AS: That is a good way to wrap it up. When we look at what the EU is doing, we must learn from their mistakes. The EU is forging a path. Obviously, in the UK we are no longer part of the EU but what they do matters incredibly to us. I fear that the UK is slightly lagging the EU, but we need to keep a close eye on what other countries are doing and learn from their mistakes. Thank you for joining us today, we collected some valuable insights. A couple of things to wrap up. We are creating a list of ESG and impact focus recommendations for the government based on discussions from our last two meetings, thank you to all that shared case-studies for this. We are on the final stage of the review, and we will be in a position to share it with you very soon. Once the stakeholders and the MPs from the APPG have seen the report it will be published externally and shared with the media. In addition to our meeting on modern slavery, Gareth Davies MP and Dame Sara Thornton are holding a meeting with e3g - a think tank - to oversee the net-zero transition plan taskforce in March and the landscape of green finance regulation will take place on the 16th of March at 10:30am. MCB and the team will share the details with you next week and hopefully we can have it in person. Thank you all very much and have a great rest of the day.