

EU climate-change taxonomy highlights the importance of engineering activities and related technical consultancy

The European Union's Technical Expert Group on Sustainable Finance is developing an EU classification system for environmentally sustainable economic activities (called the 'Taxonomy'). In its final form it will provide a list of economic activities assessed and classified based on their contribution to EU sustainability related policy objectives.

As a first step the group has developed a framework for determining economic activities, i.e., industry sectors, that make a substantial contribution to climate change mitigation and adaptation.

Like NACE, the EU's classification of economic activities on which it is based, the Taxonomy is already being used in EU regulation. For example, the Taxonomy's framework is referenced in the draft InvestEU regulation as a tool to monitor the InvestEU fund's contribution to climate targets.

The NACE 7112 activity (engineering activities and related technical consultancy) that constitutes the principal activity of the consulting engineering industry forms part of the professional, scientific and technical sector. The sector is classified as one of two "enabling sectors" for mitigation "where economic activities have the potential to enable substantial GHG emissions reductions in other sectors". A detailed assessment of the sector's mitigation potential is pending.

By contrast, NACE 7112 was the basis for an example of a detailed "adaptation activity template" that uses the Taxonomy framework's qualitative activity-specific technical screening criteria to identify adaptation activities that make substantial contributions to adaptation.

NACE 7112 was in fact one among only eight NACE activities that were assessed (others were for non-perennial crops, forestry, hydropower, power transmission lines, sewerage, weather monitoring, insurance, research and development).

For the technically minded, to be eligible for the Taxonomy, NACE 7112 had to meet the qualitative screening criteria given in the Appendix.

It is reasonable to expect that these criteria will be used in evaluating specific infrastructure projects, including possibly buildings.

More controversial is the possibility that activities classified under 7112 will be categorised at some stage according to whether or not they meet the Taxonomy's criteria.

Appendix: NACE 7112 Taxonomy Criteria

1. Contribution to adaptation of other activities and/or addressing systemic barriers to adaptation:

Does the activity reduce or facilitate adaptation to physical climate risks beyond the boundaries of the activity itself, including:

- 1.1. Promote a new technology, product, practice or governance process or innovative uses of existing practices (including those related to natural infrastructure)?
or
 - 1.2. Remove information, financial, technological and capacity barriers to adaptation by others?
2. In the case of infrastructure-based activities, the economic activity must also meet the following criteria:
 - 2.1. Reduce material physical climate risks - must reduce all material physical climate risks to the extent possible and on a best-effort basis.
 - The activity integrates physical and non-physical measures aimed at reducing - to the extent possible and on a best effort basis - all material risks that have been identified through a risk assessment.
 - The above-mentioned assessment has the following characteristics:
 - considers both current weather variability and future climate change, including uncertainty;
 - is based on robust analysis of available climate data and projections across a range of future scenarios;
 - is consistent with the expected lifetime of the activity.
 - 2.2. Support system adaptation - must not adversely affect adaptation efforts of others.
 - The activity does not lead to increased climate risks for others or hamper adaptation elsewhere, for example, upstream flood defence causing increased risk downstream in a river basin.
 - The activity is consistent with sectoral, regional, and/or national adaptation efforts.
 - 2.3. Monitor adaptation results - reduction of physical climate risks can be measured.
 - Adaptation results can be monitored and measured against defined indicators.
 - Recognising that risk evolves over time, updated assessments of physical climate risks should be undertaken at the appropriate frequency where possible.

Reference

Taxonomy Technical Report: Financing a sustainable European Economy, June 2019

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-taxonomy_en.pdf

For information: Peter Boswell, FDIC SDC (18 June 2019); peter@peterboswell.com