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# Opinion Piece

## **The future of our arable farmers will (also) depend on a carbon adjustment mechanism with realistic borders**

European agriculture is among the most efficient and advanced in the world in terms of its commitment to climate and the environment, and we know that this will only get further with the ambitions of the 'Green Deal'. As professionals in the field, we are and will be the first to be affected by climate change. We are also committed to making Europe climate neutral by 2050, by reducing our emissions, producing biofuels, and above all by increasing the 'carbon sink' that can be provided through agriculture. It is too often forgotten that the agricultural sector alone, while producing our food, can naturally fulfil this mission of storing carbon for society as a whole. This is perhaps underreported in the media, but such projects are being set up all over Europe even in the face of declining revenues from agricultural production.

Of course, volunteering to be on the frontlines of any revolution carries the very real risk of dying a hero. As agriculture has become increasingly globalised over the years, European arable crop producers have been forced to sell their grain at global prices as the European market is wide open. One of the main risks that our agriculture sector will have to face as a result of the European Green Deal is climate dumping from countries that will voluntarily or involuntarily move more slowly with the adoption of greener agriculture. In cereals and oilseeds, our main competitors are Russia, Ukraine, Brazil and Argentina. Acting against global warming in Europe is one thing, convincing our trading partners to commit to it as quickly and as strongly is another entirely.

I am convinced that any significant differences in means or ambitions to achieve climate goals between Europe and its competitors will be devastating for European agriculture. This is the principle of carbon leakage. Our agriculture would become this dead hero: it would produce only small volumes of luxury food, while its staple food productions would simply be replaced by food produced elsewhere that does not have the same costly constraints, with nothing gained in terms of achieving climate goals. Conversely, if encouraged to do so, all the world's farmers could contribute to this new climate mission. This is where the carbon market and trade policy come in.

### **In this context, we support the idea of setting up a carbon border adjustment mechanism for agricultural products, provided that some conditions are met.**

The principle is simple: imposing a fee for the carbon contained in imported goods would prevent production relocating to countries with less stringent requirements. The measure seems obvious on paper, but the reality is much more complex as it involves European climate policy and international trade rules.

To be concrete without going into too much detail, the main mechanism of European climate policy is the European Emissions Trading Scheme (ETS), which has been in place since 2005 and requires our major industries to pay a price for every tonne of carbon dioxide they emit. This system, which does not concern agriculture, is criticised because, in order to avoid carbon

leakage, i.e. the relocation of our refineries or steel mills, they receive free emission rights, which lowers the price of allowances on the European carbon market and thus the effectiveness of climate policy. To get out of this vicious circle, Europe is considering abolishing free emission allowances and replacing them with the Carbon Border Adjustment Mechanism (CBAM): foreign companies exporting goods to the EU would also pay the same price for emission allowances as they would on the European market, depending on the carbon emitted during their production process. This would have the dual advantage of contributing to the financing of climate policy and avoiding unfair competition and carbon leakage from Europe.

The Carbon Border Adjustment Mechanism is seen as a complement to the ETS system, to which it is closely linked. According to European plans, it would therefore apply to all or some of the industries subject to the ETS and cover the power sector and energy intensive industrial sectors, such as electricity, cement, steel, aluminium, oil refineries, paper, glass, chemicals and fertilisers. Thus, it would exclude agriculture.

And if the carbon border adjustment mechanism were to include fertiliser producers while excluding farmers, then the situation would quickly become intolerable.

**If the Carbon Border Adjustment Mechanism does not apply to agricultural products, it should not apply to fertilisers either.**

Nitrogen fertilisers are the most important input in crop production and the main variable cost item for our cereal and oilseed farms. However, the price of fertilisers is already higher in Europe than elsewhere because our fertiliser market is protected by customs duties and anti-dumping measures that cost European farmers €600 million a year. If a border adjustment mechanism were to be added to this, the price of fertilisers would skyrocket, further increasing the cost of agricultural production in Europe, while making the use of imported food more competitive and attractive. In the end, implementing the Carbon Border Adjustment Mechanism only on the main raw materials for crop production would be unfair and would lead to the opposite of the intended effect, namely massive carbon leakage from European agriculture. In short, it is a perfect example of a double punishment for farmers, which is difficult to justify to our citizens. I would like to draw attention to this essential point; either agriculture and its downstream sectors must be included in the future carbon border adjustment mechanism, or agricultural supply activities and particularly nitrogen fertilisers must also be excluded, otherwise our agriculture will lose any competitiveness. The more complex a system is and the more fragile its balance is, the more the farming community must also be heard in this debate, which promises to be essential for the survival of many agricultural sectors, particularly arable crops.

From the farming perspective, the Carbon Border Adjustment Mechanism could work as a measure to prevent carbon leakage in all agricultural sectors, provided that it is in line with the European tariff system and agricultural expectations. Our final position on this proposal will greatly depend on its overall design, coverage, administration and legal implications. This is why we call EU policy makers to conduct a careful impact assessments in order to have all the elements to design a policy tool that could truly fit the interests of millions of EU farmers.

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