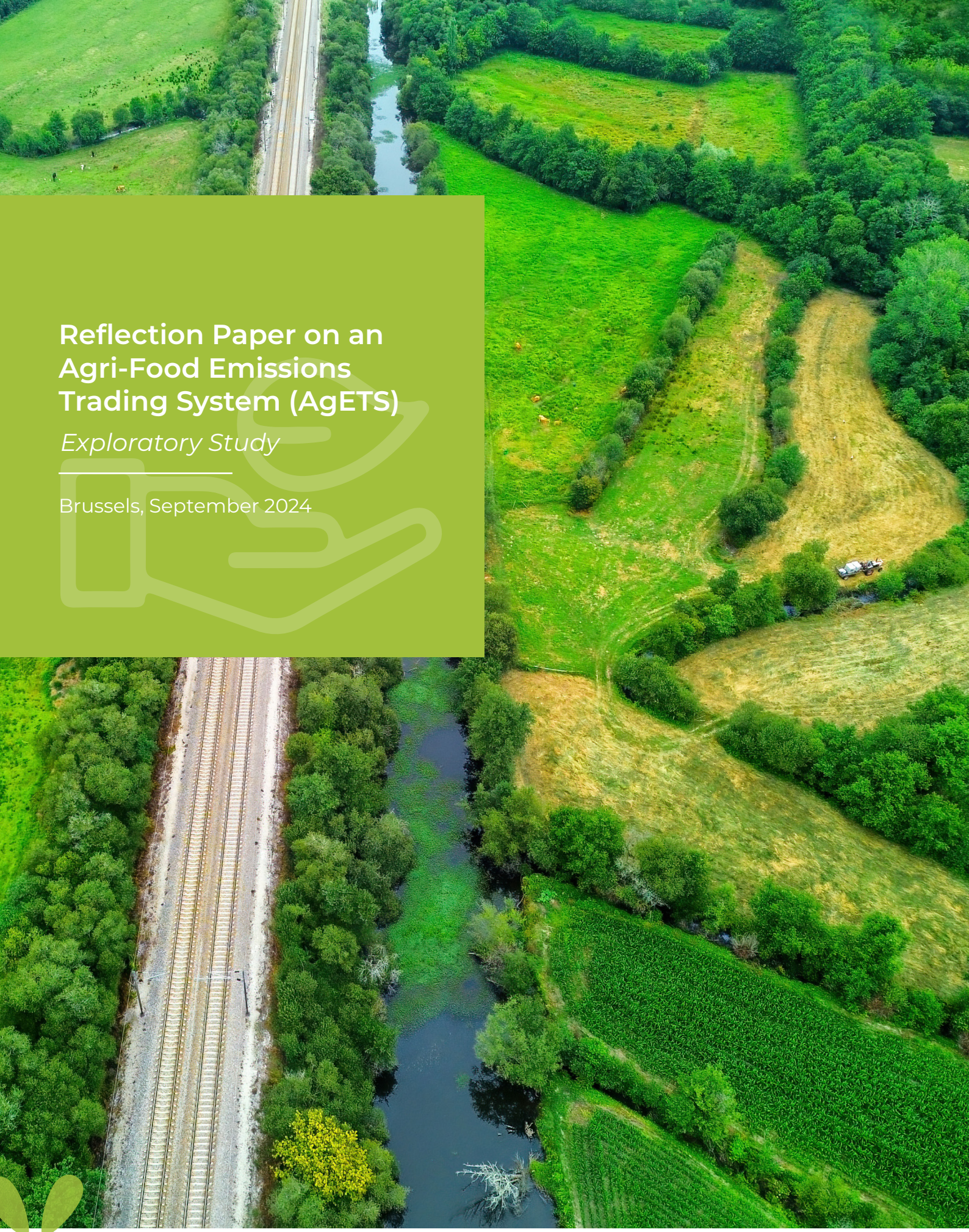


Reflection Paper on an Agri-Food Emissions Trading System (AgETS)

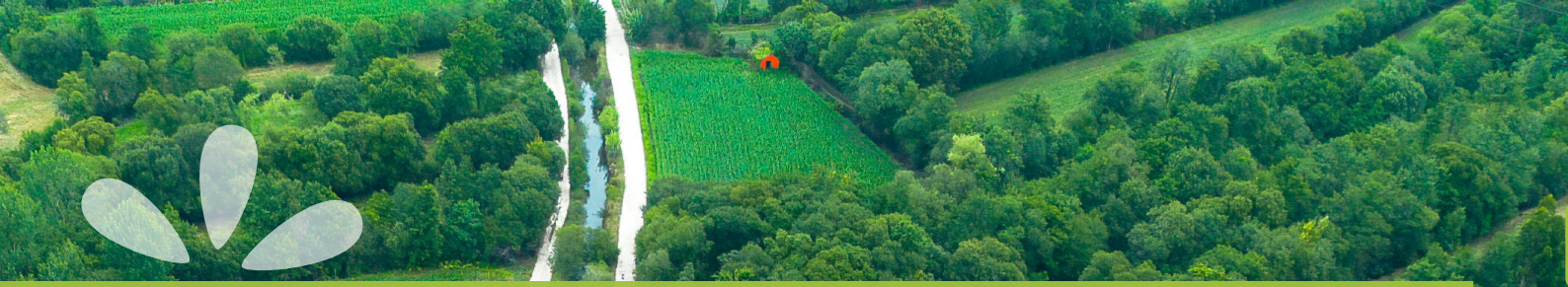
Exploratory Study

Brussels, September 2024

Environment and Climate

copa cogeca

european farmers european agri-cooperatives



In a nutshell

The agricultural sector is a critical player in the EU's transition to climate neutrality by 2050, yet it faces unique challenges that make emissions reductions difficult. Agriculture inherently produces GHGs through natural and cyclical processes such as methane from livestock and nitrous oxide from soils. Control over these emissions is limited because they arise from biological and environmental factors that vary widely across regions. Moreover, the agricultural sector's role in ensuring food security, renewable energy sources, alternative to fossil-based products, and supporting rural livelihoods means that changes must balance environmental sustainability with the need to maintain stable and affordable food production.

Efforts to implement a cap-and-trade system (AgETS) for agricultural emissions, as explored by the Study, would cause negative impacts on food security, farmer income, and global competitiveness. In addition, separating climate goals from biodiversity and broader environmental concerns may not yield the most effective outcomes.
We seek to ensure that the value of our multifunctional farming practices is fully recognized and safeguarded in any policy discussions and legislative proposals.

Agriculture cannot be treated like other industrial sectors due to its complexity and diffuse biogenic emissions, and technological and financial barriers remain significant. The risk of carbon leakage and decreased EU agricultural exports could undermine meeting climate goals while safeguarding food supply. A new approach is needed—one that incentivizes GHG reductions, promotes carbon farming, and supports farmers' livelihoods. To this end, **Copa and Cogeca urge the Commission to recognize the unique characteristics of the agricultural sector, dismiss the 5 options presented in the study, and launch a Strategic Climate Policy for Agriculture** that balances climate goals with food security, economic resilience, and rural development. The Commission **shall explore feasible non-AgETS options,** such as the two options presented in the background document of the first workshop on "incentives to climate change mitigation across the agri-food value chain" (10 September 2024).

It is important to clarify that the polluter pays principle (PPP) does not serve as a positive incentive for sustainable practices but rather introduces additional costs with a high risk of being shifted to farmers. Collaborative efforts and proportional integration of value-chains are essential to ensure a sustainable and equitable transition to low-carbon agricultural practices.

Introduction

The European Union has committed to transition to a climate-neutral economy by 2050, with an interim goal of reducing greenhouse gas (GHG) emissions by at least 55% by 2030. Agricultural GHG emissions fall under the purview of the EU Effort Sharing Regulation (ESR) and the regulation on land use (LULUCF), which already establishes yearly targets for each Member State from 2021 to 2030 for that sector.

Projections suggest a 4% decrease in EU agricultural emissions by 2030 compared to 2005 levels. In addition, the Green Deal brought a revision of the Industrial Emissions Directive (IED), which also aims to address climate change in agriculture. In practice, the IED has resulted in huge administrative and economic burdens at farm level and trade-offs with other crucial aspects, such as animal welfare. Furthermore, the recently approved Carbon Removals and Carbon Farming Certification Framework aims at incentivising GHG reductions and carbon removals.

Last year, the Commission published an external study to explore the possibility of applying the PPP through a cap-and-trade system entitled "Pricing agricultural emissions and rewarding climate action in the agri-food value chain". This study explores establishing an emission trading system (separate from the existing EU ETS) to fuel climate mitigation in the agri-food sector (AgETS).

The study claims that allocating a price to a unit of emissions will incentivise further change GHG emissions reductions. The five policy options present different points of obligation, GHG emissions coverage and thresholds. These options are coupled with suggestion about how to promote carbon farming credits to provide financial incentives to farmers and landowners. Yet, the latter is not anew. The CRCF was presented as a tool to promote greater rewarding carbon markets in the EU through an increase in the quality of carbon credits pronged by stricter parameters and rules on *inter alia* baselines, additionality, and reporting. While these rules and methodologies will be harmonised across the EU, adherence to carbon farming remains of voluntary nature.

Our concerns on an AgETS

The EU agricultural sector supports the social and political goals to reduce GHG emissions in the interest of contributing to climate neutrality. Yet, and in the words of Commission's President von der Leyen, agriculture is a critical sector for food production and rural livelihoods(1). As such, drastic changes to farming practices, livestock management, or reducing certain agricultural activities could threaten food security, affordability, and the incomes of farmers. In this regard, any changes must balance environmental sustainability with the need to ensure an adequate, affordable, and stable food supply for Europa but also take its responsibility for a growing global population.

Our assessment of the study raises several concerns vis-à-vis the establishment of an AgETS, ranging from negative effects to food security and affordability, to the complexity of emissions measurement, loss of competitiveness and decrease in income for farmers. Below we present our main concerns.

(1) Speech - Strategic Dialogue 04/09/2024

No production without emissions:

- Agriculture inherently involves biological processes that generate (circular) GHG emissions, particularly methane (CH4) from livestock (due to enteric fermentation in ruminants) and nitrous oxide (N2O) from soils, fertilizers, and manure management. Reducing these emissions has limitations because they arise from natural processes like digestion in animals and microbial activity in soils, which are difficult to control. Biogenic emissions in agriculture are an inherent part of the production cycle, making it impossible to produce without emitting biogenic greenhouse gases.

- Agricultural activities are seasonal and heavily influenced by environmental factors such as weather patterns and soil conditions, making emissions reduction strategies more variable and less predictable than in more controlled sectors like manufacturing.

Technological and Economic Barriers:

- Agricultural practices vary widely across Member States and their territories, depending on climate, soil conditions, technology access, and local culture. What works as a solution in one region is likely to not be effective or feasible in another (no one-size-fits-all solutions).

- Many low-emission technologies for agriculture are either in the early stages of development, expensive, or not yet commercially scalable. For example, alternative feeds to reduce livestock methane emissions, precision agriculture technologies, or more sustainable fertilizer alternatives are still emerging.

- Agriculture often works with very slim profit margins, sometimes even running at a loss. It also deals with uncertainties such as weather conditions, market fluctuations, and policy shifts. Implementing an ETS would raise production costs, which in turn would lead to higher prices for consumers, with a particularly heavy impact on low-income households.

Monitoring, Reporting and Verification Systems:

Measuring biogenic agricultural emissions is challenging due to variations in farming practices, soil types, and livestock management. Monitoring, reporting, and verification (MRV) systems need to be more precise to accurately reflect field conditions. These systems should be continuously refined to capture current progress and adapt to future changes effectively

Operators of an ETS doesn't equal to affected parties (Increased costs for farmers):

- Even if the point of obligation was in upstream or downstream producer, there is a risk that the ETS price signal may be distorted as it passes through the supply chain down to farmers or that upstream entities may pass increased costs onto farmers.

- The option to place the point of obligation at farm level would put additional costs directly on the farm level, which causes in general more economic pressure. Even if *de minimis* thresholds were put in place, an AgETS at farm-level would still be devastating for the sector given the prevalence of small and medium farms and cooperatives in the agricultural sector.

- An AgETS would imply additional administrative workload for farmers, going in the opposite direction to the simplification path announced by the Commission. Due to the (in-)direct obligation, a mechanism like that presented in the five options will affect a large share of European farms.

Agriculture cannot be treated as other industries:

- Due to the unique characteristics of and sensitivity towards agriculture, it shall not be treated similarly to industrial or power sectors, particularly under a mechanism like the polluter pays principle.

- The sector's fragmentation poses several challenges as there are many actors with varying sizes and capabilities.

- Multifunctional farmland, including traditional livestock farming, might face higher costs and risks abandonment because of higher emissions per unit, which will shield negative impacts on biodiversity and non-provisioning ecosystem services: *When farms, focus on climate efficiency only or cannot improve their climate efficiency due to topographic or structural reasons, an AgETS risks abandonment of multifunctional farmed land, coming with negative impact on biodiversity and non-provisioning ecosystem services.*

- Agricultural GHG reductions should be treated separately for carbon dioxide (CO2), methane (CH4) and nitrous oxide (N2O), unlike in the existing Emission Trading Schemes (ETSs) as they are in a natural circle. Furthermore, there is ongoing scientific debate about the most appropriate accounting metric for biogenic methane (GWP* v GWP100).

- An AgETS system operating based on throughput amounts and basic standard emission factors alone would not create incentives for changes. For instance, automated online data collection systems do not always take into account factors such as weather conditions, changes in feed or manure management. At the same time, harmonization and consistent rollout of Monitoring, Reporting and Verification Systems are lacking in the EU.

- Agricultural emissions are diffuse and spread over large areas, as opposed to concentrated emissions from energy or industrial plants. This makes monitoring and mitigation more difficult and expensive.

Risk of carbon leakage and reduced competitiveness for the EU:

- Might lead to an increase in lower standard/high emission imports that are not subject to the ETS. It would be incredibly difficult to weave a wider range of agri-food products into a CBAM because of the complexities resulting from limited supply chain traceability.

- A decrease in the competitiveness of EU exports may therefore mean that a significant portion of the demand in international food markets is likely to be met by cheaper agri-food products from other regions, associated with higher GHG intensities and meeting lower sustainability standards.

- A decrease in production of EU agricultural products (due to a lost in market share, both in the EU and in global markets) will compromise food security/availability, undermining the principles of food security and strategic autonomy.

Trade-off with biodiversity objectives:

Decarbonization can occasionally be at odds with other targets (such as biodiversity and animal welfare). Thus, a blunt tool (such as an AgETS) may lead to unintentional consequences on other relevant aspects and goals.

Strategy for a Climate Policy for Agriculture

The agricultural sector is integral to address climate change but faces unique challenges due to its inherent complexities and ability of functioning as carbon sink. Effective climate action in agriculture must consider these challenges and provide adequate support and incentives for farmers.

Moreover, we advocate that any legislation introduced, should be fully aligned with the Corporate Sustainability Reporting Directive (CSRD). The CSRD mandates that larger companies report not only on their direct impacts but also on those within their supply chain, including scope 3 emissions, water usage, and biodiversity impacts. To minimize the already growing administrative burden on producers, it is essential that both legislations are harmonized in terms of reporting requirements. This alignment should ensure consistency in the topics covered, the methods of reporting, and the goals pursued, utilizing the same guidelines, calculations, and frameworks where applicable.

Given the number of concerns towards an AgETS, the Commission should look for viable and valuable non AgETS alternatives to develop a Strategic Climate Policy for Agriculture that places farmers at its heart. This Strategic Policy should focus on policy interventions that could enhance technological and innovative solutions to reduce GHG and interventions to promote the voluntary carbon market, stimulating demand for certified carbon removals and emission reductions, and offer greater financial certainty to farmers and other land managers.

The Commission should ensure that any measures taken for climate action in the agriculture sector fulfil the following requirements:

- Support agricultural productivity and competitiveness within the EU and globally

- Ensure exporting countries fulfil European front running standards.

- Develop long-term policy pathways that consider farmers' livelihoods and ensure food security and affordability across the EU, while also securing the provision of feed, fibre, and fuel from EU production to meet the growing demand for nutrition and renewable resources.

- Provision of rewards for GHG-reduced production which provides multiple ecosystem services (provisional and non-provisional services), rather than set-aside of productive farmland

- Protect the viability for all farms, without restriction in size, structure and location to maintain vibrant rural areas

- Promote rural development and generational renewal

- Strengthen the farmer's ability to obtain a fair return of the added value

- Ensure affordable and feasible input costs

- Ensure an efficient short-, medium- and long-term administration

- Provide ongoing and additional financing outside the CAP to fuel farmers' transition to a more resilient agri-food system

- Provision of effective tools through research, supporting farming in reducing GHG emissions while maintaining production

- Gather valuable data in farmers hands

- Obtain more data on the costs of the green transition in the agricultural sector and provide financing alternatives

- Bigger efforts for the research on emissions reductions in agriculture without a decline in production

- Use the potential of cooperation between farmers to introduce smart climate practices, minimizing burden and costs. Cooperatives can help upscaling benefits of mitigation at farm level and beyond. Cooperatives are instruments created to resolve certain common issues among farmers of different nature; productive, market, logistics, operational and climatic.

Conclusions

The agriculture sector is integral to addressing climate change but faces unique challenges due to its inherent complexities and ability of functioning as carbon sink. Effective climate action in agriculture must consider these challenges and provide adequate support and incentives for farmers.

Copa and Cogeca urge the Commission to recognize the unique characteristics of the agricultural sector, dismiss the 5 options presented in the study, and launch a Strategic Climate Policy for Agriculture that balances climate goals with food security, economic resilience, and rural development. The Commission shall explore feasible non-AgETS options, such as the two options presented in the background document of the first workshop on "incentives to climate change mitigation across the agri-food value chain" (10 September 2024). Collaborative efforts and proportional integration of value-chains are essential to ensure a sustainable and equitable transition to low-carbon agricultural practices.

Copa and Cogeca are two European organisations, established respectively in 1958 and 1959, managed by a joint secretariat since 1962, representing national associations of farmers and agricultural cooperatives.

Together, we serve as the leading voice of the farming community at EU level. European agriculture, forestry, and aquaculture are remarkably diverse, forming a strategic asset capable of meeting the needs of half a billion Europeans while addressing many of the EU's current and future challenges.
To ensure this diversity is properly represented, Copa and Cogeca advocate for all agricultural models, types of production, and farms and cooperatives of all sizes. Our structures are grounded in democratic principles, supported by elected representatives and the work of over forty dedicated working parties.
Our mission is to secure a viable, innovative, sustainable and competitive EU agriculture that fulfills Europe's strategic needs—as enshrined in EU treaties starting with food security.
We farm for Europe, and we trust Europe to sustain our future!

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