Incentivising climate action for a sustainable and competitive agri-food value chain

Workshop 2: effectiveness

Tuesday 12th of November 2024

Study for the European Commission - DG CLIMA

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Agenda

9:15-9:20	Welcome by the European Commission
9:20-10:00	Presentation by the Consortium (incl. Q&A)
10:00-11:00	Plenary discussion on the role of the agri-food sector in light of EU climate objectives
11:00-12:30	Break-out sessions
12:30-14:00	Lunch break
14:00-15:30	Presentations of discussions from breakout sessions and plenary discussion
15:30-15:45	Closing remarks (EC and Consortium)

Housekeeping rules

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Recording of the workshop:

- Morning presentation by the Consortium recorded (until 11:00)
- Breakout sessions and afternoon plenary NOT recorded

GDPR rules:

- We will maintain a list of the participating organisations and use it for reporting purposes and information on the website.

Participation and rules of engagement:

- One-person limit
- Breakout room assignment
- Raise your hand if you wish to speak and only unmute yourself once you have been given the floor by the moderator
- Please state your name and affiliation when you intervene

Use of the chat function:

- For comments or questions
- Please, prioritise asking content-related questions orally as these will be answered immediately and make the discussion more lively

Welcome and introduction to the project (EC)

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Presentation by the Consortium

Purpose of the study

Double challenge

Accelerate GHG emission reductions in the agriculture sector

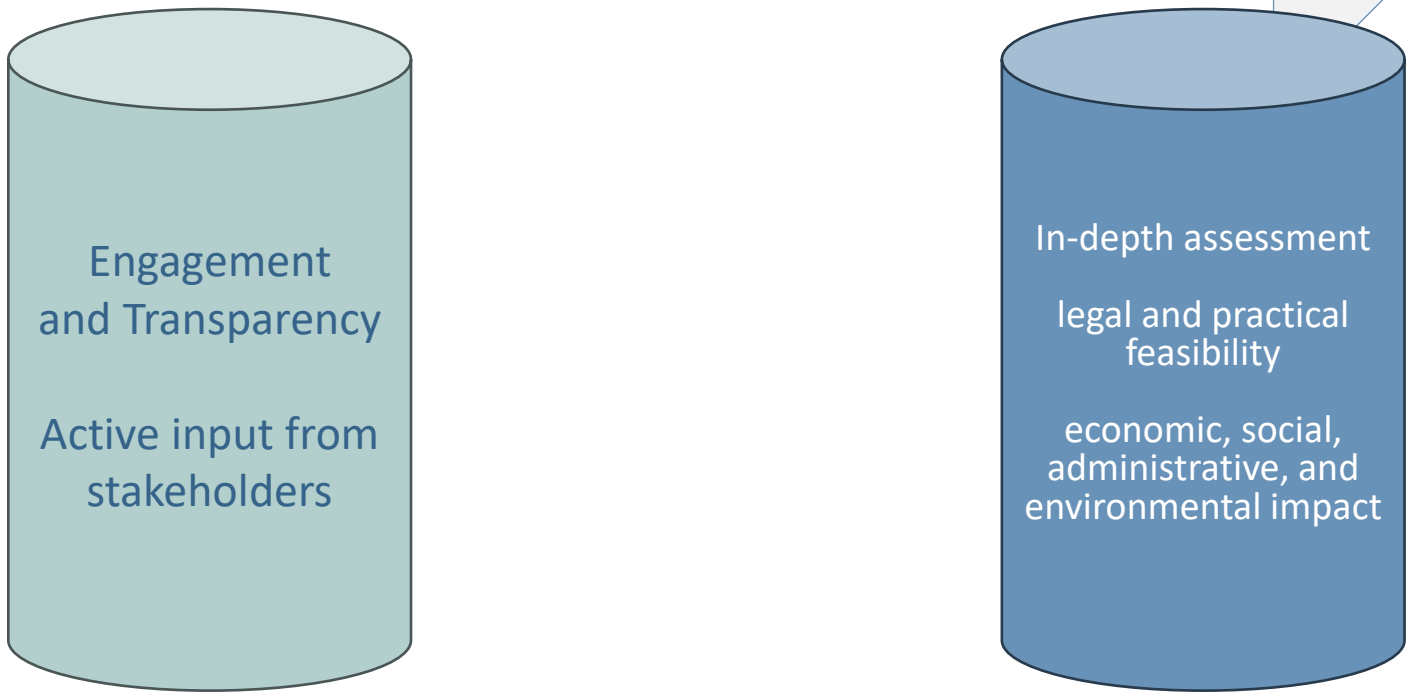
Create an enabling environment for the sector to fulfil this role, considering new business and income opportunities

Aim of the study

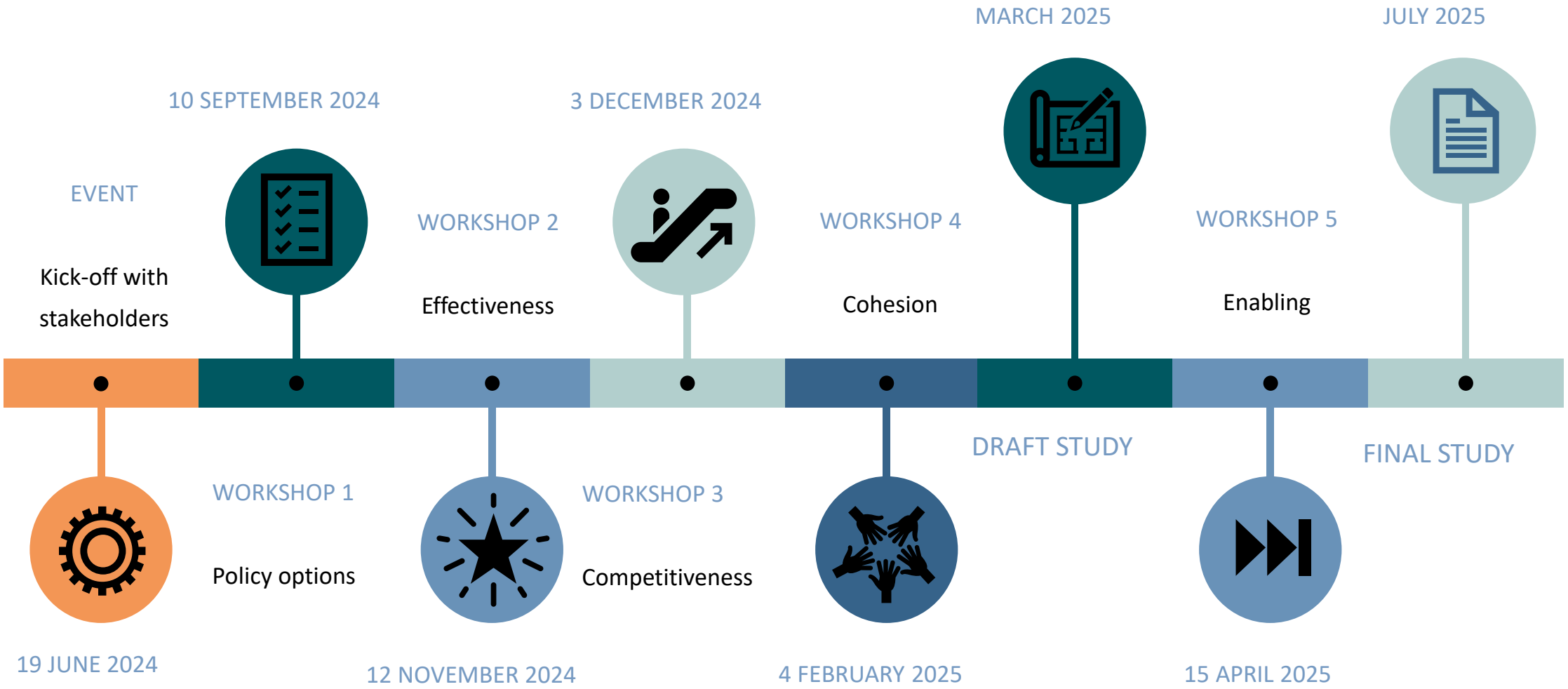
Contribute to a better understanding of policy options for sustainable climate action across the agri-food value chain and the impacts on competitiveness, farmer income and consumer prices.

Purpose of the study

The project team is supporting DG CLIMA in assessing viable policy options more concretely



Study Timeline



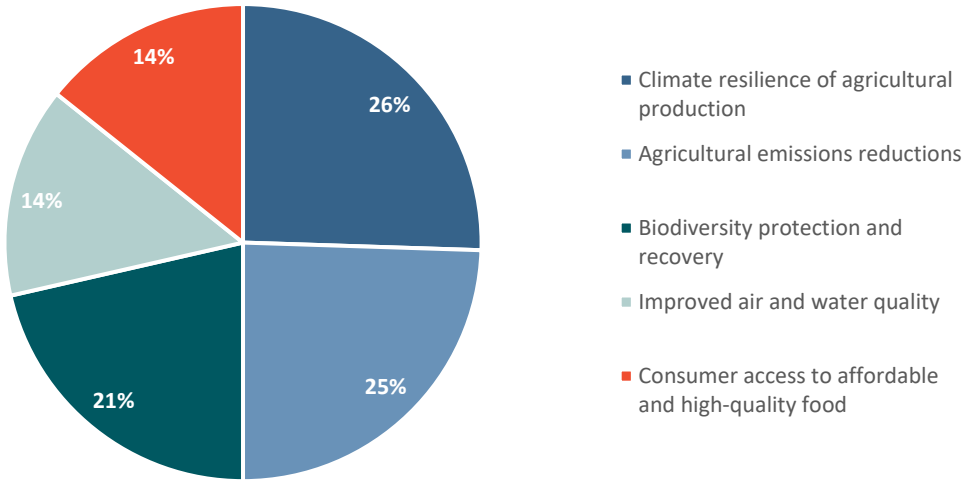
Workshop 1 - recap

Workshop 1 – policy options (online, 10 September 2024)

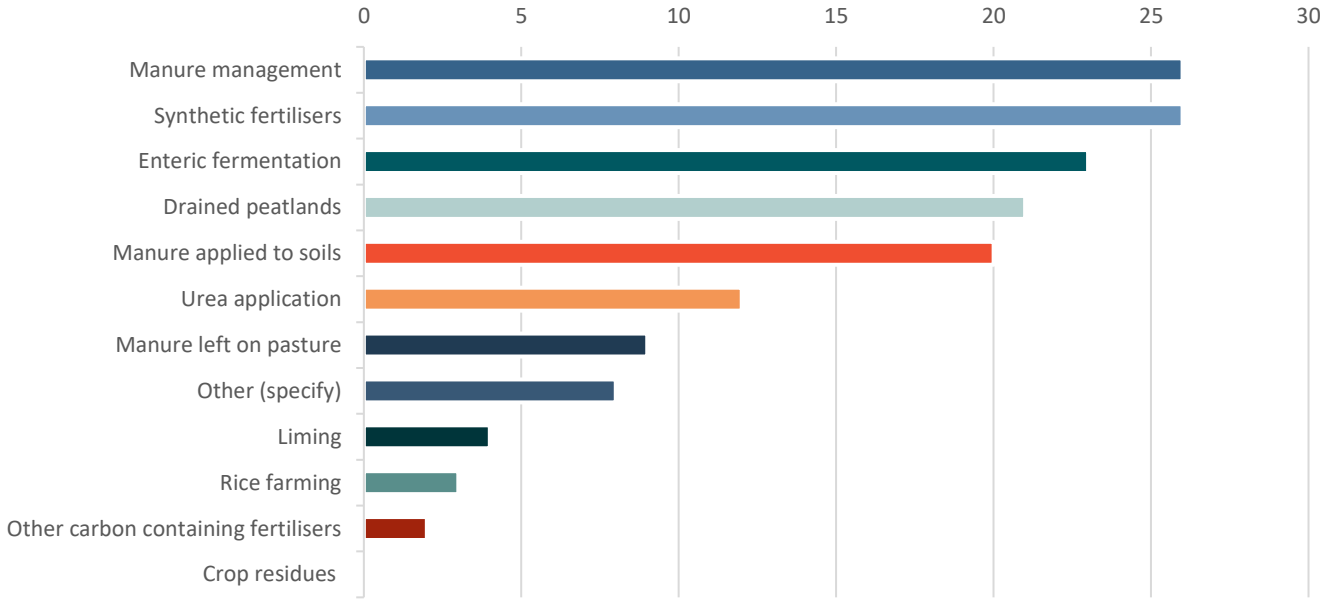
- 44 participants
- 29 worksheets
- Website with project information: Carbon Removals and Carbon Farming - European Commission

Feedback: key priorities and emission sources

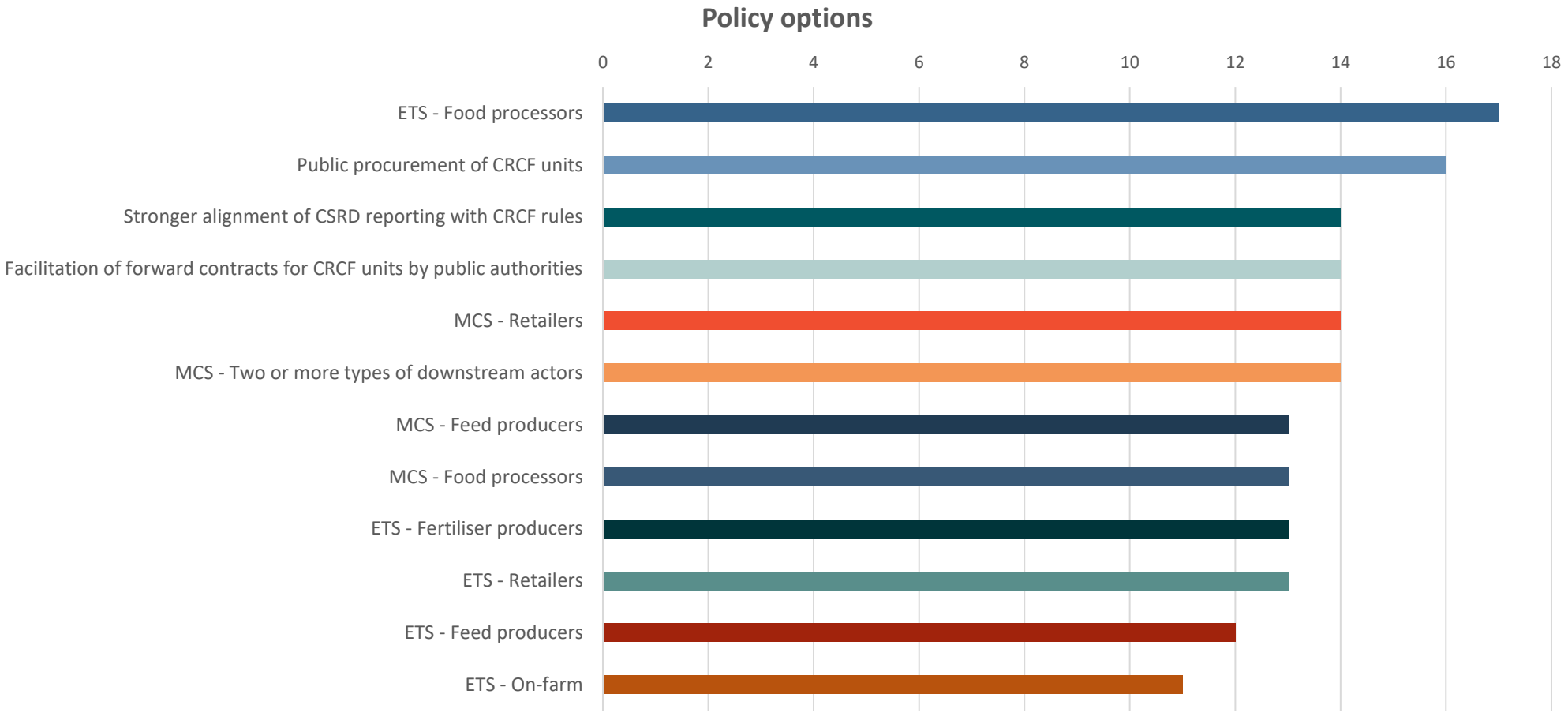
Key priority objectives



Emission sources



Feedback: policy options



Feedback: nature-based removals

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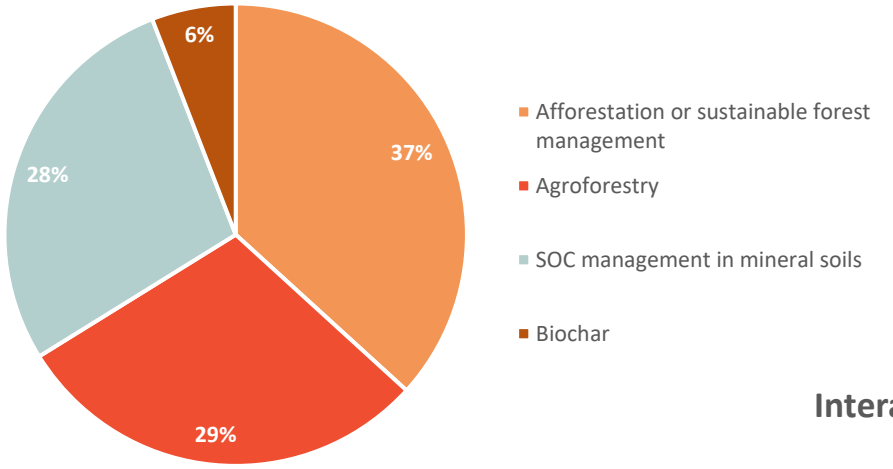
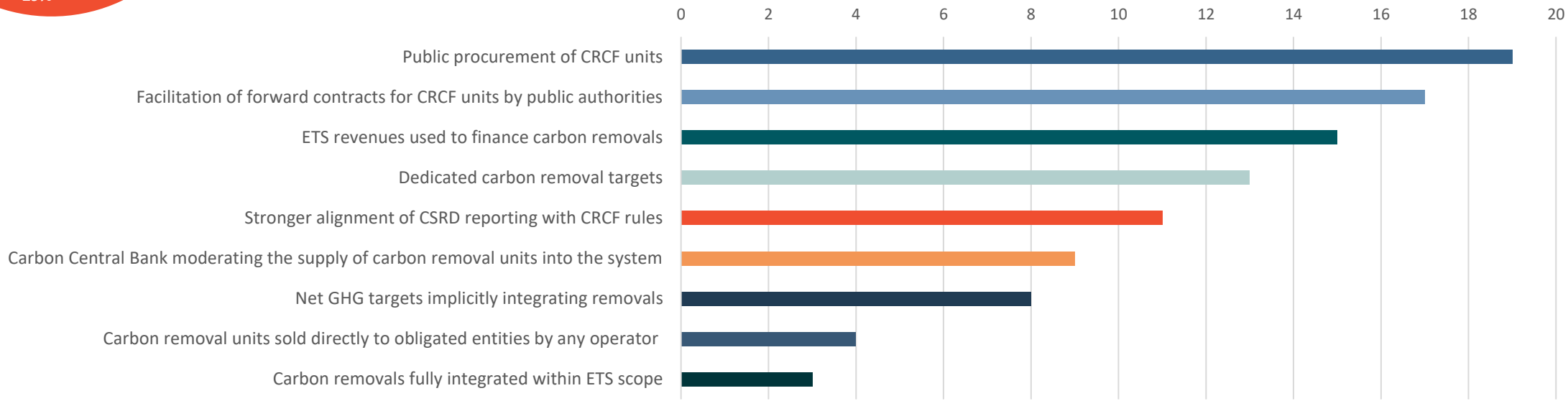
Nature-based carbon sequestration options



Interaction – emission reductions regulation and removals



5 policy options for assessment

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Carbon Farming Procurement

- Foster an EU market on CRCF units (generation and purchase of CRCF units)

Mandatory Climate Standards

- Feed producers and/or food processors
- Retailers and/or other actors downstream (e.g. caterers)

Agri-food ETS

- Feed producers and/or food processors
- On-farm

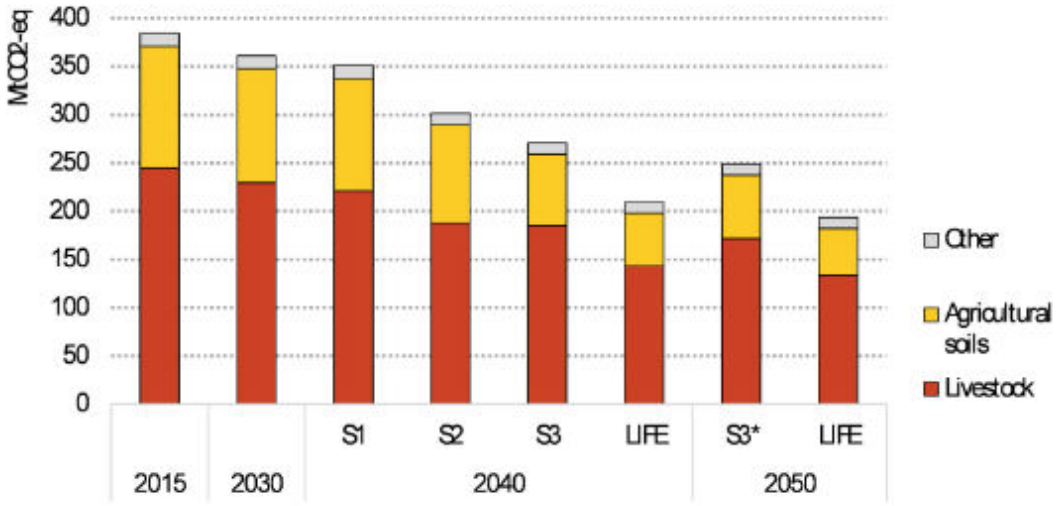
Workshop 2 - Effectiveness

Design options for agri-food climate solutions to be effective in achieving sustainable GHG reductions and increasing carbon removals

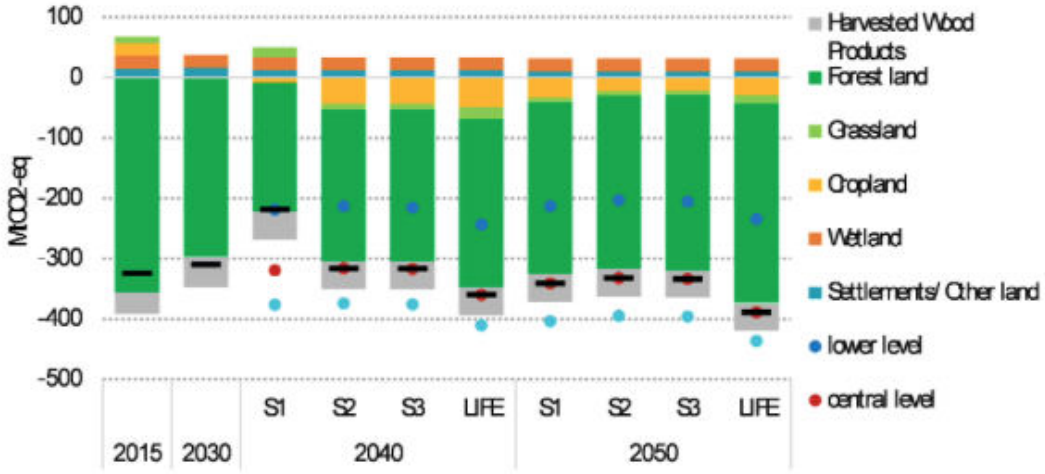
Background Paper Presentation

Contribution of agriculture to the 2040 target

Agricultural emissions



LULUCF emissions and removals



Source: 2040 Target Impact Assessment (European Commission, 2024)

Mitigation Strategies Across the Value Chain

Policy Options & Effectiveness

Carbon Farming Procurement

- Effective minimum price for on-farm mitigation actions
- Uncertainty in supply of CRCF units
- Consider: supply of specific categories of CRCF units

Mandatory Climate Standard

- Provides predictability in setting climate objectives
- Lack of revenue generation to reinvest in mitigation technologies
- Consider: implications of MRV choices on effectiveness

ETS

- Highly effective as a standalone climate measure
- Limits in incentivising large-scale transitions over long-term
- Consider: how to overcome bias towards “low-hanging fruit”

Plenary discussion:
The role of the agri-food sector in light of EU climate objectives

Discussion questions

- Considering the potential of different mitigation options and the synergies / trade-off with environmental objectives, which GHG emissions should the policy cover?
- What balance of incentives should the policy pursue between changing on-farm practices, changing the mitigation strategies of agri-food industries, or changing consumer behaviour?

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Breakout sessions

Session 1 - “Carbon Farming Procurement”

- Under what conditions would this policy be effective in delivering the emission reductions and carbon removals needed for the agricultural sector to contribute to the EU-wide climate ambition?
- Should public bodies (e.g. at EU or national level) procure certificates?
- What considerations should be kept in mind in designing the procurement programme (e.g., dedicated purchase of units from specific categories of carbon farming activities)?

Session 2 - Mandatory Climate Standard

- Over-arching Question: Under what conditions would this policy be effective in delivering the emission reductions and carbon removals needed for the agricultural sector to contribute to the EU-wide climate ambition?
  - First sequence: design of an MCS and effectiveness
    - What do you perceive as important design considerations that will have implications for the effectiveness of these options?
    - What would be the most efficient way to reconcile reporting and accounting methodologies to minimise the administrative burden of compliance and generate the right incentives for farmers?
  - Second sequence: integrating credits into the MCS
    - Could this option be combined with public procurement?
  - Third sequence: benefits and drawbacks of an MCS
    - How effectively could an MCS deliver emission reductions and carbon removals compared with the other policy options?

Session 3 - Emission Trading Systems

- Under what conditions would this policy be effective in delivering the emission reductions and carbon removals needed for the agricultural sector to contribute to the EU-wide climate ambition?
- What (dis)advantages are there for an ETS when compared to the Mandatory Climate Standard?
- Could this option be combined with public procurement?
- How can a potential bias towards “low-hanging fruit” be avoided?

Lunchbreak – reconvening at 14:00

Synthesis of breakout session #1

Purpose: promote a carbon farming procurement market at EU level

Demand generation

- Companies for addressing scope 3 emissions/engaging with their supply chain
- Option also a candidate to combine with other options, notably MCS

Fostering supply, through

- Competitive unit price
  - Price to be set at a level at least matching mitigation measure cost or higher
  - Price setting mechanism designed in a way that it does not put farmers under pressure to perform at lowest price
- Combination with a legally binding option

Principles

Science-based, high integrity, no double-counting, no greenwashing

Climate effects without harm to other aspects (environmental; yields / CL)

Simple system with low administrative burden

Synthesis of breakout session #1

Design elements and vital considerations

- Regional difference and local conditions enabling different measures
- Centralised unit exchange system could help generate a level playing field EU-wide
- Focus on low-risk measures (e.g. agroforestry as contrasted to SOC management) when public funding is involved
- Issue of permanence and liability, potential role of a form of insurance (e.g. buffer funds) or of public intervention (compensation payments)
- Enhance climate resilience (farmers highly susceptible to adaptation impacts)
- Knowledge transfer to farmers and awareness raising
- Public sector could take a role in cushioning effects and creating equal circumstances (e.g. centralised platform, advisory and extension services, support for long-term permanence, buyer of last resort)

Synthesis of breakout session #2

- Questions of approaches to data collection
- Time frame for data collection and speed of implementation
- Consider differentiation between sub-sectors
- Reconciling reporting and accounting:
- Consideration of other sustainability criteria?

Synthesis of breakout session #2

- **Enablers**
  - Investments in data quality by public sector
  - Mandatory investments by downstream actors; need to finance investments in their own supply chain (how to do this?)
  - Start with what is available: standards on quality of data could increase over time
  - Long-term contracts; stable relationships between downstream actors and the farm
  - Harmonisation of data collection tools
  - Simplicity

Synthesis of breakout session #3

1.Under what conditions would this policy be effective in delivering the emission reductions and carbon removals needed for the agricultural sector to contribute to the EU-wide climate ambition?

- Central to a good policy, not only an ETS, is more detailed and accurate MRV
  - Consideration to have a fund to pay for improved on-farm data
- De-minimis thresholds are important
  - Small vs large farms, especially at the beginning
  - Could excluding organic farms
- Effective price incentives
- Measures to prevent carbon leakage as that negatively affects the effectiveness of an ETS
  - Free allowances are an option may not always end up benefitting farmers
  - Use of ETS revenues to support the transition of farmers
  - Disadvantages for exporters have to be considered to make ETS politically viable
- Availability of mitigation measures, as ETS is a means to an end
- Changing dietary habits, with alternatives being available and made more desirable
- Volatility of ETS prices to consider, with a market stability reserve as potential solution
- Synergies with other measures (e.g., CAP, technology subsidies)

Synthesis of breakout session #3

2.What (dis)advantages are there for an ETS when compared to the Mandatory Climate Standard?

3.Could this option be combined with public procurement?

4.How can a potential bias towards "low-hanging fruit" be avoided?

- ETS main advantages
  - Having an EU wide cap on emissions, allowing for the most cost-efficient outcomes
  - Generating revenues, with ETS revenues to be used for both farmers and consumers
- ETS main disadvantages: carbon leakage, although under an MCS this can also occur
- MCS main disadvantages:
  - Link with CRCF, so does not include methane from livestock (if limited to CRCF)
  - Could be complicated if no harmonisation on MRV
- Consideration for both downstream ETS and MCS – how much will be transferred from downstream entities to the farming sector
- Public procurement option could play a key role in incentivising removals; learnings from the Social Climate Fund
- General agreement on going for the most cost-effective mitigation option available, so a bias towards low-hanging fruits is not negative
  - However, important to incentivise reducing hard-to-abate emissions

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Discussion inspired by the breakout sessions

Worksheets reminder

Please complete and send your worksheets to **agri-food-climate@trinomics.eu** by November 20th.

All responses will remain anonymous and will only be shared within the consortium.

Closing remarks (EC and Consortium)

Thank you for your attention!

agri-food-climate@trinomics.eu

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