Incentives to climate change mitigation across the agri-food value chain

Technical Workshop 3 on Competitiveness: Summary report

Summary of main takeaways from the workshop

Input from the workshop participants was sought on the expected impacts on the competitiveness of the EU agri-food value chain with regards to various policy design choices for the five shortlisted policy options. The main takeaways per policy option are synthesised below:

- Cross-cutting considerations:
    - The benefits and risks of various options regarding who should be allowed to buy and sell Carbon Removal and Carbon Farming (CRCF) units were discussed. A direct supply chain approach was seen by most participants seen as potentially better for farmers, whereas others argued that an open approach would help drive up the demand for units. Risks mentioned for the 'all sectors' approach included land volatility and the ability of other sectors to claim large amounts of emission reductions and removals actually driven by the agriculture sector. Solutions mentioned to that problem included limits of unit purchase and specific greenhouse gas (GHG) accounting rules.
    - Many participants favoured the set up of a centralised pool for the trading of CRCF units.
    - Price guarantees and price premiums were seen as potential solutions to help ensure farmers get a sufficiently high compensation for their CRCF activities.
    - The trade-off between the need to adopt a comprehensive monitoring, reporting and verification (MRV) system and the costs associated with it was brought up. There was a general agreement that farmers should be compensated for the set-up of on-farm MRV systems.
    - Re-distributional policies of revenues from the policy option were seen as an important mechanism to protect low-income households against food cost increases. However, the risks of high administrative costs and reduced revenues with options using free allocation were seen as possible barriers for having sufficient revenues for mitigating food cost increases, and a gradual phase-in was mentioned as an alternative option.
    - Compliance with World Trade Organization (WTO) requirements was raised as a key consideration to take into account in the analysis of all policy options. There is the need to consult experts on compatibility with WTO rules.
    - Carbon leakage mitigation strategies were discussed, with a gradual policy phase-in—and in the case of an emissions trading system (ETS), free allocations—while there was overall agreement on the importance of a gradual phase-in, there were opposing views on the applicability of the instrument of free allocations. Including importers as obligated entities was discussed but concerns were raised particularly regarding food cost increases and increase of cost for farmers, strongly dependent of input import. The potential negative competitiveness impacts on exports of agri-food products was also emphasised as key area of concern. A careful evaluation of the domestic economic impacts of the policy options and of the actual level of leakage risk was preconised.
    - Allowing flexibility in policy execution and having flanking policies was mentioned as desirable to foster innovation and adaptation.

- Carbon Farming Procurement:
    - One participant argued that this option would create a broader CRCF market and ensure stability in demand and in prices, which could encourage a high uptake. However, investments would mostly be limited to public funding, as opposed to under the MSC and ETS which would see private funding for on-farm mitigation increase.

- The public procurement option would not affect consumers directly because money derives from the taxpayer.
- Mandatory Climate Standard (MCS) with a point of obligation for (i) feed producers and/or food processors, or (ii) retailers and/or other actors further downstream (i.e. caterers):
    - A concern raised for this policy option was that corporations could pressure farmers to reduce emissions without rewarding them for their actions. A solution could be to set up a mechanism obligating obligated entities to prove the causality for the units they report and to financially reward farmers.
    - While an MSC will likely generate some cost pass-through to a certain extent, an MSC has a possibility to channel additional private funding on top of public funding in the agricultural sector, which was put forward by some participants as an advantage for farmers.
- Agri-Food ETS with a point of obligation for (i) feed producers and/or food processors, or on-farm:
    - Similar to the MSC, this option has the potential to channel private investment in the agricultural sector according to some participants. However, other participants feared this option would be detrimental to farmers as the costs would be passed on to the farmers.
    - One participant indicated that a downstream ETS with disclosure of on-farm GHG data could potentially rely on data already available under the Common Agricultural Policy (CAP) and national GHG inventories, which would make this option attractive from a practical perspective.
    - It has been recalled that more than 90% of food retailers are SME, and that a clear definition of retailer is necessary.