

REDUCING EMISSIONS FROM AGRICULTURE

Reflection on the potential
design and scope of an EU
Emissions Trading System
for agriculture



The European Environmental Bureau (EEB) is the largest network of environmental citizens' organisations in Europe. It unites 180 civil society organisations from 38 countries, working for a better future where people and nature thrive together.

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PUTTING A PRICE ON AGRICULTURAL EMISSIONS

A BINDING AND AMBITIOUS EMISSION REDUCTION TARGET FOR THE AGRICULTURAL SECTOR, THAT ALIGNS WITH THE OBJECTIVE OF THE PARIS AGREEMENT, IS ESSENTIAL. TO ACHIEVE THIS IN A HOLISTIC MANNER, A TRANSITION TO AGROECOLOGY IS REQUIRED - ENABLED BY A FUNDAMENTAL REFORM OF THE COMMON AGRICULTURAL POLICY (CAP) AND SUPPORTED BY ADDITIONAL TOOLS WHICH CAN INCLUDE EMISSION PRICING.





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**The practice of paying
for emissions should
never turn into a
“licence to pollute”.**

INTRODUCTION

The agriculture sector is both a victim of, and major contributor to, the climate crisis. Farmers, food systems, and the ecosystems they depend on are extremely vulnerable to the impacts of climate change. This is not distant scenario, but a current reality with – both globally and in Europe – livelihoods and food security coming under increasing pressure from extreme weather, land degradation, water availability, biodiversity collapse, and increased food prices.



EU agriculture emissions accounted for approximately 380 million tonnes (Mt) of CO₂e in 2022, or 12% of the region's total greenhouse gas (GHG) emissions. On top of this, drained organic peatland soils in the EU emit 220 Mt of CO₂e each year, of which three quarters (166 Mt) is emitted by peatlands drained for agricultural production. Accounting for 5% of the EU's GHG emissions, these emissions are typically classified as land use, land-use change and

forestry (LULUCF) emissions. However, since the majority of peatlands have been drained for agricultural purposes, it is appropriate to take them into consideration when addressing the sector's climate impact.

At EU-level, agricultural emissions have remained stagnate for the past two decades, although trends vary significantly at Member State level. The European Environment Agency (EEA) estimates⁵ that with current and planned measures, emissions are set to decrease only slightly over the next three decades, with a 4 to 8% reduction that comes nowhere near what is needed to meet the EU's climate objectives. With emission reductions taking place in other sectors, the agricultural sector is set to be the largest emitter by 2040. However, the sector has the potential⁶ to drastically cut emissions while improving the quality of goods and services it provides.

To ensure that the agriculture sector contributes sufficiently to the society-wide effort of mitigating the climate crisis, a binding and ambitious sectoral emission reduction target compatible with the objective of the Paris Agreement, is necessary. The current revision of the Climate Law, in the context of setting a climate target for 2040, is the perfect opportunity to create an ambitious climate roadmap for agriculture. Adequate policies and instruments will be needed to achieve this target, starting with a

fundamental reform of the Common Agricultural Policy (CAP), but including also additional tools.

PEATLANDS DRAINED
FOR AGRICULTURE
ACCOUNT FOR
5% of EU
GREENHOUSE
GAS EMISSIONS



In designing these targets and instruments, the EU must pursue the highest climate integrity possible – which means keeping a strict separation between emissions reductions and carbon sequestration. It must also ensure that all measures put in place are coherent with, and contribute to, the holistic approach of the EU Green Deal, including the commitment to halt and reverse biodiversity loss, to improve animal welfare, and to move towards zero pollution. This can only be achieved through a transition to agroecology, which is what existing and new climate measures should aim to achieve.



PRICING EMISSIONS

Following a series of recommendations (See Box 1) to explore the implementation of the Polluter Pays Principle (PPP) to the agricultural sector, the European Commission conducted in-depth research into the development of an Emissions Trading System for agriculture (Agri ETS). Such a system would put a price on emissions from the agri-food sector and introduce an emissions ceiling that would decrease every year.

The EEB supports the implementation of the PPP, potentially through an Agri ETS, as it would be the first step taken to include some of the negative externalities of production into the cost, which could act as a price signal to shift towards more sustainable production and consumption. However, there are several caveats to consider regarding its design and implementation.

First, the practice of paying for emissions should never turn into a “licence to pollute”.

Second, issues experienced with ETS1 design and implementation have taught us that ETSs are complicated to get right. The long calibration time needed to get to a meaningful and predictable price signal, long phase-ins, non-stringent caps on total emissions, and the allocation of free allowances all have contributed to the many, ongoing, years of delay in reducing emissions. This is time we do not have.

Furthermore, although it should never be used as a reason for delaying or limiting action, the agri-

food sector does have unique characteristics. The main GHGs that need to be tackled in agriculture are methane CH₄ (enteric fermentation, manure management), nitrous oxide N₂O (manure and fertiliser application), and carbon dioxide CO₂ (drained organic soils, on-farm fossil energy use). To address these, the system needs to deal with diffuse emission sources, emissions from natural processes, and its high number of entities (around 9 million farms on 157 million hectares of land in 2020⁷), as well as the relative difficulty of quantifying emissions stemming from natural processes that can vary considerably due to subtle differences in management practices, soil types, climate, and other factors. Therefore, it is certainly not a given that an instrument deemed appropriate for tackling emissions for large industrial emitters, should automatically be presumed the best option for dealing with agri-food emissions.

Finally and crucially, any policy or instrument aiming to address emissions should seek to support fundamental change in EU agriculture towards agroecology and away from intensive animal rearing. Further intensification, which would result from a GHG tunnel vision, must be avoided, as it generally leads to negative impacts on other environmental dimensions (e.g. biodiversity, water pollution) and animal welfare. This must therefore be prevented by designing measures with integrated safeguards and wider environmental and animal welfare objectives at their core.

In the ongoing follow-up research project the Commission, recognising that there may be more than one way to tackle emissions from agriculture, added two more policy options to the discussion table: voluntary carbon financing and mandatory climate standards. It is abundantly clear that voluntary action will not suddenly trigger changes at the scale and speed needed

after two decades of stagnating emissions and therefore should not be considered as a valid path towards climate action in the agricultural sector. Regulatory mandatory climate standards on the other hand, should be considered along ETS designs as they could ensure the sector's fair contribution to societal climate efforts.

BOX 1 The road to pricing emissions in agriculture

Special Report 12/2021⁸ by the European Court of Auditors scrutinises the application of the Polluter Pays Principle (PPP), one of the foundational principles in EU environmental policy, and concludes that its implementation is currently inconsistent across sectors that have significant environmental impacts. As a result, society bears the cost of pollution inflicted on the environment, for which polluters should have been held accountable. The agricultural sector is named as an insufficiently regulated sector when it comes to its negative externalities. For example, the cost of water and soil pollution caused by certain agricultural practices is often left for society to address with public funds. The report recommends that the Commission investigates options to better apply the PPP to lower emission limits and reduce residual pollution, and to deal with pollution from diffuse sources such as agriculture.

Special Report 16/2021⁹ by the European Court of Auditors analyses climate action under the EU's Common Agricultural Policy (CAP) and finds that despite significant funds (100 billion euros, or over 25% of the total CAP budget, in the period 2014-2020 went to climate change mitigation and adaptation), farm emissions are not decreasing. The report looked at the three main sources of EU agricultural emissions: livestock, fertilisers, and land use, and concludes that the CAP, with incentives the production and consumption of farmed animals, ineffective synthetic fertiliser reduction, and support for farming on drained peatlands, is not designed to address emissions from the sector. The report further points at the wider lack of policies for tackling emissions in the agricultural sector: neither the CAP nor the Effort Sharing Regulation (ESR) specifically limit the sector's emission level, nor are agricultural emissions subject to the PPP, through for example a carbon tax or a cap-and-trade system. The report therefore recommends that the Commission invites Member States to set agricultural emissions reduction targets, reform the CAP to effectively reduce emissions, and investigate the potential to apply the PPP to the sector and to reward farmers for long-term carbon removals.

Following these assessments, the Commission launched a study to investigate the potential implementation of the PPP in agriculture. Soon after the start of the project, the Commission narrowed the scope and limited the consortium's research to design options for an Agriculture Emissions Trading System (Agri ETS). The resulting study is Trinomics (Nov 2023)¹⁰: Pricing Agricultural Emissions and Rewarding Climate Action in the Agri-food Value Chain.

In its report¹¹ analysing the EU's path to climate neutrality, the EU Scientific Advisory Board on Climate Change highlights the potential role of pricing policies as effective tools to achieve demand side reduction of emission intensive products. Member State level taxation policy, such as differentiated value added tax (VAT) levels, to stimulate sustainable food consumption could be effective, but is currently almost non-existent. The report also mentions that the EU, limited in its ability to impose taxes, could consider emission pricing in the agri-food system. Other aspects also influence consumer behaviour, such as product availability, accessibility, marketing, and psychological and sociocultural factors. All of these can be addressed, for example through enhanced information via labels, better education on sustainable diets and lifestyles, or improved food environments via public procurement, which all featured in the Farm to Fork Strategy. However, regulations and financial incentives are still absent, or underdeveloped, but are likely to be necessary to achieve the transformation required to move towards sustainable consumption and production in the agri-food sector.

The Commission's Communication on the EU's 2040 climate target¹² clearly indicates the importance of the development of a market-based mechanism that can leverage the food industry's role in decision-making across the agri-food value chain and lead to food prices that better reflect the sustainability of different products.

In June 2024, the Commission launched a follow-up study¹³ to the Trinomics report. Through a series of five technical workshops running until April 2025, stakeholders will discuss the policy options and design features of conceivable instruments to "incentivise climate action for a sustainable and competitive agri-food value chain".

The final report¹⁴ published under the Strategic Dialogue on the Future of EU Agriculture published in September 2024 also discusses the potential role of emissions pricing, and specifically an Agri ETS. The report recognises the need for a strong policy to reduce emissions from agriculture and calls on further research by the Commission and stakeholders on the feasibility and relevance of an Agri ETS.

EEB PROPOSAL

FOR ADDRESSING EMISSIONS FROM AGRICULTURE

The initial Trinomics report presents five design options featuring different regulated entities or ‘points of obligation’ for an Agri ETS: upstream (feed and fertiliser producers), on-farm (three different selections of farms depending on desired GHG scope), or downstream (dairies and slaughterhouses). Various other design suggestions have been made, for example: EEB member organisation Green Transition Denmark’s report¹⁵ suggests a combination of several points of obligation, and a brief¹⁶ by the TAPP Coalition, another EEB member, recommends investigating an Agri ETS for large retail companies and food services. Both suggestions have been taken up for further examination by the Commission and are included in the ongoing stakeholder consultations.

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Setting up a single ETS system that covers all agricultural emissions, however, risks being ineffective and unnecessarily complicated.

The emissions from fertilisers, livestock, and peatlands are all significant, and there is a large reduction potential for each of them. Setting up a single ETS system that covers all agricultural emissions, however, risks being ineffective and unnecessarily complicated. We therefore propose the approach outlined in the following sections.

Fertiliser emissions

Producer responsibility under ETS1

Rather than setting up a new system, since fertiliser producers are already included in the ETS1, the scope of their accountability should be increased to cover, besides production emissions, emissions from the application of their products. Making synthetic fertiliser producers accountable for the scope 3 emissions which result during product application on agricultural lands will effectively increase the production cost of synthetic fertilisers. Doing this at producer level, with a limited number of entities, and based on emission factors, is more practical than tracking purchases or measuring emissions at farm level. The increased price should provide a strong incentive for farmers to use such inputs more efficiently, or to substitute them altogether. Despite some improvements in recent decades, the EU continues to have a high nitrogen surplus on agricultural land, with around 40%¹⁷ of nitrogen being lost to the environment rather than absorbed by crops. This excess contributes to eutrophication and highlights significant opportunities for both economic and environmental savings. It is important to implement this measure with coherent surrounding policy. A fundamental change of the agricultural sector is needed to stimulate a reduction in synthetic input reliance, which must be accompanied by the right knowledge support systems for farmers to adapt.

Livestock emissions

Mandatory targets or ETS for livestock emissions

A recent paper¹⁸ investigating what it would take to make the global livestock sector Paris Agreement compliant found that most experts see the need for livestock emissions to peak in high- and middle-income countries, as well as globally, by 2025. For a large majority of experts (78%), this means that absolute global livestock numbers will need to peak by 2025. From that point in time, emissions will need to fall rapidly (61% by 2036), which will mainly be achieved by the most effective measure: reducing the production and consumption of animal products thus bringing down the overall number of farmed animals.

The most direct way to achieve this would likely be to impose mandatory climate standards on the sector, ideally linked to the number of livestock units (LSU) in any given area, to tackle both the current scale of animal farming as well as density issues. However, Member States and companies may not be prompted to act immediately on distant environmental and climate targets. In which case, an ETS may have the advantage of enforcing steady efforts by reducing allowances in the system each year.

From an ETS design viewpoint, the most direct and effective lever to reduce the number of farmed animals, as well as the most efficient place to get the data on livestock numbers and management practices, is the farm. Therefore, the optimal point of obligation to change production practices would be the participating livestock farms, which is where the bulk of the emissions in the value chain take place.

The Monitoring, Reporting, and Verification (MRV) of an on-farm livestock ETS could be based on emission factors. To ensure climate integrity, the numbers should be an upper-limit estimate, to ensure emissions are not underestimated. To

ensure accuracy and incentivise best practice, the emission factors should be as detailed as possible at practice level, and there should be additional efforts to lay out a clear pathway to support Member States in moving to tier 3 reporting. Additionally, to drive continuous improvement of the data behind the emission factors, farms should be able to conduct or request direct measurements in case they have reasons to assume their emissions are lower than the standard emission factor.

To target the biggest polluters while not adding a disproportionate reporting burden on very small farms, a certain threshold will have to be applied to determine which farms are required to participate in the ETS.



Data on the distribution of pigs and cattle on EU farms shows that if, for example, farms with 20+ LSUs were included, the vast majority of animals would be covered by the scheme (92%¹⁹ of cows, and 97%²⁰ of pigs), while many of the smaller farms would not be obligated to participate (62% of cattle farms and 88% of pig farms would be exempt). Poultry farms have not been a prominent part of the ETS discussions given the fact that, despite their problematic nature in terms of animal welfare and environmental pressures, they contribute to GHG emissions to a much lesser extent. Not including them in an ETS system, however, risks further incentivising the substitution of other types of animal farming with increased production of poultry, which should not be

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Besides a strong reduction in overall livestock numbers, a switch from intensive to extensive production methods should be the aim of the intervention.



encouraged. As is the case for cows and pigs, the vast majority of poultry are reared by a minority of farms: setting the threshold at 50 LSU would include 94%²¹ of chickens and exclude 97% of farms.

Farms with higher livestock numbers are likely to be more intensive and industrial. Therefore, setting an absolute Livestock Unit (LSU) threshold could be a viable approach, although it would require additional criteria to ensure that it captures the intensive livestock industry and does not disproportionately affect extensive animal rearing. Besides a strong reduction in overall livestock numbers, a switch from intensive to extensive production methods should be the aim of the intervention.

The thresholds suggested above would be a major improvement compared to current, extremely high, thresholds in existing legislation such as the Industrial Emissions Directive (IED), which also lacks emission targets and excludes cattle entirely as a consequence of industry lobbying²². A risk of setting an inclusion threshold based on LSUs is the possibility that farms will reorganise administratively to escape the threshold. Safeguards need to be in place to prevent this from happening. An ambitious threshold would already make this practically unfeasible for large operations. Another way to remove this perverse incentive would be to also apply a certain level of obligation to farms below the threshold, making it less attractive for large farms to enter that category.

In the current context, it may be politically difficult to implement a new instrument that may further increase the administrative burden on farmers. An alternative to the on-farm model, could be a downstream model focusing on food processors or retailers. However, here there will also be significant needs that require farmer involvement as downstream actors will turn to farmers to receive their data and reduce their emissions. Some retailers

already gather their scope 3 emissions under CSRD reporting, which may limit the amount of additional reporting needed. Additionally, downstream actors may be more effective at driving consumer change, while at the same time demanding change from their suppliers. However, this model also presents a few risks that would need to be addressed. As farmers and downstream processors have a concurrent interest in reporting low emissions, significant public control mechanisms might be required. Another risk is that putting the agency on the food processors or retailers, may further skew the power balance in the value chain and disadvantage some farmers even more.

Both an on-farm and a downstream ETS model for livestock could have their appeal, as well as their risks. To decide on the optimal point of obligation, more information is needed on the cost passing properties and the way in which pressure travels through the value chain. If the point of obligation is on the farm level, to which extent will farmers be able to pass down costs, and will there be a significant incentive for consumers to change habits? If on the other hand, the point of obligation is downstream, at the level of the processors or retailers, will they turn towards farmers or consumers to incentivise change?

The ETS, regardless of its point of obligation, should be designed to ensure that it does not drive further intensification of livestock production. The risk of focussing only on emissions is that actors will resort to technical solutions that address emissions to some extent but otherwise maintain business as usual with other negative externalities when it comes to pollution, animal welfare, etc.

It is crucial that along with production, consumption is actively addressed, be it spurred by an ETS or otherwise. This is the case for fertilisers, but especially for livestock products.

The possibility that policy-driven production and price changes may precede a widespread consumption shift highlights the need to establish any price interventions at EU level, since increasing prices at Member State level will in high likelihood lead to imports from other Member States. Nevertheless, to avoid the scenario where price increases cause production reductions and create a gap that can be filled by cheaper extra-EU imports, a Carbon Border Adjustment Mechanism (CBAM) should be considered to level the playing field. In addition, this may also encourage climate action in those sectors in the EU's main trading partners.

Finally, distributional impacts across Member States need to be anticipated, monitored, and addressed. The benefit of an ETS is that it can be applied to all Member States in the same way, and as such ensures a level playing field. Livestock numbers, however, differ vastly between countries. As a result, the implementation of an ETS will impact some much more than others. To address this, the question of how to use the revenues generated by an ETS is crucial.

Peatland emissions

CAP and national level measures

Despite covering only 2% of EU agricultural land²³, drained peatlands are very large emission sources. Tackling emissions from peatlands is therefore an urgent, yet relatively undisruptive, way to bring down agricultural emissions. The Trinomics study points out that an ETS may not be the most adequate tool to tackle emissions from drained peatlands, and that command-and-control measures or taxes may be more effective, but likely politically difficult to achieve. In addition, since not all farms are on peatlands, in the case of a price increase in production costs (such would be the case under emissions pricing through an ETS), the affected farmers would not be able to pass on their cost down the value chain due to a lack of competitiveness.

Therefore, rather than setting up a new, complex, and possibly inefficient system, at EU-level it is key to reform the CAP²⁴ to put an end to subsidies for farming on drained peatlands and instead incentivise the uptake of rewetting, restoration, and paludiculture, stimuli that are currently lacking²⁵. This shift in funding allocation would enable effective climate mitigation through the CAP. And seeing as the CAP accounts for a large sum of public funds (approx. 33% of the entire EU budget) the funds should most certainly be used for public good.

Tackling emissions from peatlands is therefore an urgent, yet relatively undisruptive, way to bring down agricultural emissions.

The rewetting of all EU peatlands should be the goal, and necessary safeguards need to be in place to ensure conventional agriculture is not replaced by other practices with equally negative impacts, such as afforestation on drained peatlands. Besides financial incentives, sufficient advisory services need to be made available to promote wet use options such as paludiculture and to support farmers' wet use of peatlands at every stage of the value chain. Additional fiscal measures such as the taxation of landowners of drained cultivated peatlands could be implemented at Member State level, especially in countries with high peat soil cover²⁶ such as Ireland, the Netherlands, Germany, Poland, Hungary, the Baltics, and the Nordics.

Fossil fuel emissions

Revoke exemption under ETS2

ETS2 covers emissions from fossil fuel use in road transport. However, for political reasons, agriculture and fisheries obtained an exemption and thus are not included in the system. Consequently, fuel suppliers currently need to monitor which fuels go to agriculture to ensure the ETS2 pricing is not applied, a complexity that could be solved by removing this separate status as will already be the case in the Netherlands and Austria. More importantly, applying the regular price for fossil fuels will provide an incentive for the sector to further develop fuel-efficient and electric machinery and shift to practices with lower energy intensity. Agricultural practices such as conservation agriculture, reduced tillage, or no-till, have shown²⁷ to deliver significant reductions in energy use and labour, while at the same time increasing soil organic carbon content. As is the case for other changes in on-farm practices, the necessary agronomic and financial support systems need to be in place to facilitate the transition.

Use of ETS revenues

Reinvest in the sector's transition

An ETS should generate revenue through the auctioning of the allowances within the system. This is, assuming a well-designed system with an emission cap at a meaningful level, an ambitious yearly reduction in the availability of allowances, and no free allocation. There are multiple valuable options for the use of the revenue. It is important, however, to be realistic about the potential generated revenue. Each euro can only be used once, and it is likely that not all areas in need of funding can be supported by the revenue from this ETS. A CBAM to avoid emission leakage through increased imports of certain products could also generate revenue.

ETS and CBAM revenues can be used to fund mitigation practices on-farm. Changing farm

production and management practices may require funds to support for instance the purchase of suited machinery and infrastructure. Similarly to the Innovation Fund under ETS1, the revenues from an ETS system could be channelled back into the sector to support emission reduction technology development and implementation.

In the case of an ETS that includes livestock, operation costs for certain livestock farms will rise, making them less profitable. The first option for revenue use, reinvesting it in mitigation options in the sector, partially addresses that challenge, but in certain cases the price may lead to farmers wanting to change their business model considerably (for example, reducing animal numbers and integrating them in other production systems). Revenues could be used in such cases to support a just transition towards more sustainable production models. These two options of innovation and transition finance are the most direct ways of reinvesting the revenues in the sector to support the transition, and should therefore be prioritised in the case of an ETS design that predominantly leads to price effects and practice changes at producer level.

Another revenue use that can mitigate some of the ETS price effects, while incentivising desirable changes, would be to support low-income groups in accessing healthy and sustainable food. Although research²⁸ indicates that consumer price increases would be very limited, this can be a positive pricing instrument to encourage a dietary shift away from animal products, in line with environmental sustainability and dietary health guidelines. However, this price increase will not affect all households equally but instead will have a disproportionate, though still small, impact on low-income groups (to the tune of 0.6%²⁹ of their food expenditure). Therefore, similarly to the Social Climate Fund under ETS2, revenues from an ETS system could be used to support

these groups in purchasing healthy and sustainable food.

Finally, revenue from the ETS can be used to finance nature restoration and other carbon sequestration projects on agricultural land.

Exclusion of land carbon sequestration from Agri ETS

Firewall between emissions and sequestration

Land carbon sequestration is an important part of mitigating the impacts of the climate crisis, that must be pursued in addition to steep and sustained emission reductions. If done holistically and sustainably, by restoring nature and agro-ecosystems and improving the land carbon sink there would be a variety of benefits for biodiversity, soil health, water quality and retention, and ecosystem resilience. EU ecosystems, forests, soils, and the carbon pools they store are degrading³⁰. There is no question about the need to restore nature. However, how we fund and regulate removals, or how much we rely on them to compensate for emissions, are important issues to consider.

In parallel to the Commission's exploration of whether permanent removals could be included in ETS1, in the discussions around the design of an Agri ETS, there is the question of whether land-based sequestration could be included within the system. The Trinomics report laid out different degrees of integration of removals in an Agri ETS ranging from completely disconnected, to fully integrated.

From a climate integrity point of view, it is crucial that any instrument – including an Agri ETS and regardless of its emissions scope – keeps emission reductions and removals or land carbon sequestration separate. These activities are not equivalent and therefore not interchangeable. Land carbon sequestration is

difficult to quantify and vulnerable to reversal – especially as the climate crisis worsens, making reliance on it to counterbalance emissions is a risky strategy.

Farmers should be (financially) supported to restore their soils, but carbon farming or land-based sequestration activities should not be introduced for offsetting purposes. Introducing flexibilities with, or integrating voluntary carbon sequestration in, a regulatory scheme intended for decreasing emissions, risks damaging the efficacy and integrity of the system. When presented with the possibility of purchasing carbon farming land sequestration credits to balance out emissions, offsetting opportunities that are cheaper than the cost of reducing emissions would certainly prompt a polluter to opt for offsetting rather than tackling their emissions. This creates mitigation deterrence by taking the pressure off emission reductions, going against the entire purpose of setting up an Agri ETS.

The only link that could be considered between an Agri ETS and carbon sequestration would be an indirect link whereby revenue from the ETS could finance nature restoration, other carbon sequestration projects on agricultural land, and research and development for land-based sequestration activities.

CONCLUSION

Addressing emissions from agriculture is crucial to meet the EU's climate objective. We support a fair and just application of the Polluter Pays Principle and therefore think it is important to actively engage in the discussion around its implementation.

An Agri ETS could be a way to lay out a long-term vision providing certainty about the direction of travel and for investments in the sector, and to create the price signal to shift towards more sustainable production and consumption. Its impact will depend on the design, on which many questions remain to be answered. Key properties will have to be an ambitious emissions cap and linear reduction factor, a mechanism to address oversupply, and the absence of free allowance allocation. The instrument should be judged based on its effectiveness in reducing emissions from the agri-food sector, its wider environmental impacts, and its distributional effects.

Due to its complexity – technical and political – it is expected that an Agri ETS would not be operational and deliver emission reductions before 2030. The urgent need for emission reductions highlights the need for policy action on multiple fronts, ensuring emission reductions in the short term. Mandatory climate targets can be put in place faster while offering the same long-term direction of travel and should thus also be explored. However, there is a risk

that Member States and companies would lag behind in taking action. On this issue, an ETS has the advantage of enforcing yearly reductions towards the set target.

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An emissions pricing instrument, even if designed timely and well, will not be a silver bullet.

Rather than creating a new system for all agricultural emissions, we suggest tackling each emission where it is the most practical and effective. Fertiliser emissions can be addressed through: extending producers' responsibility to scope 3 emissions under ETS1; peatland emissions through a reform of the CAP incentives and additional national regulation where relevant; fossil fuel emissions through inclusion under ETS2; livestock emissions through the setting of mandatory climate targets (for example by expanding the scope, increasing the ambition of, and adding emission targets to the IED); and the establishment of a pricing system through an on-farm or downstream ETS with accompanying measures that ensure change on both producer and consumer level. Given the effect of price signals

on producers and consumers, these interventions should be accompanied by better capacity building at farm level to transition to sustainable agriculture with fewer animals and synthetic inputs, and policy action to make healthy and sustainable diets accessible and affordable for consumers. The ETS revenues can be used to facilitate this transition.

Safeguards need to be in place to prevent a GHG focus that leads to techno-fixes and further intensification, moving the EU further away from the required holistic approach to sustainable agriculture and food systems. At the same time, emission reduction efforts must be guaranteed by ensuring separation between the targets and mechanisms for driving emission reductions and those seeking to incentivise enhanced carbon sequestration. Carbon sequestration and offsetting schemes should be kept out of an ETS for agriculture.

An emissions pricing instrument, even if designed timely and well, will not be a silver bullet. It can be an important piece of the puzzle on how to address the environmental impacts of intensive agriculture, but the EU should not put all its eggs in this single basket. A broader and coherent mix of policies is needed, combining sticks and carrots, and an overarching framework provided by a Sustainable Food Systems Law. An Agri ETS cannot replace a fundamental reform of the CAP – which is required to ensure that public funds are used for public good – it can only be complementary. It is absurd to develop a pricing system that aims to tackle negative externalities that are at the same time being funded by harmful public subsidies. In its current form, the CAP is not fit for purpose and will not drive and protect the necessary agroecological transition over the next years. Action on several fronts is necessary to create an ambitious and enabling policy framework to further a socially, economically, and ecologically sustainable EU agricultural system.

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