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

Workshop 3: competitiveness

Tuesday, 3rd of December 2024

Study for the European Commission - DG CLIMA

www.trinomics.eu

Agenda

9:45-10:00	Welcome by the European Commission
10:00-10:30	Presentation by the Consortium (incl. Q&A)
10:30-11:00	Coffee break
11:00-12:00	Session 1 – Micro-economic impacts: Farm income, market power, and administrative costs
12:00-12:45	Session 2 – Micro-economic impacts: Consumer prices and household incomes
12:45-14:00	Lunch break (coffee from 13:30 onwards)
14:00-15:30	Session 3 – Trade impacts: Competitiveness, imports and exports
15:30-15:45	Closing remarks (EC and Consortium)

Housekeeping rules

Recording of the workshop:

- Morning presentation by the Consortium 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
- Raise your hand if you wish to speak and when you are given the floor for the first time please state your name and affiliation when you intervene
- Equity intervention rule

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

Engagement and Transparency

Active input from stakeholders

In-depth assessment

legal and practical feasibility

economic, social, administrative, and environmental impact

Study Timeline

Workshops 1 & 2 - recap

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

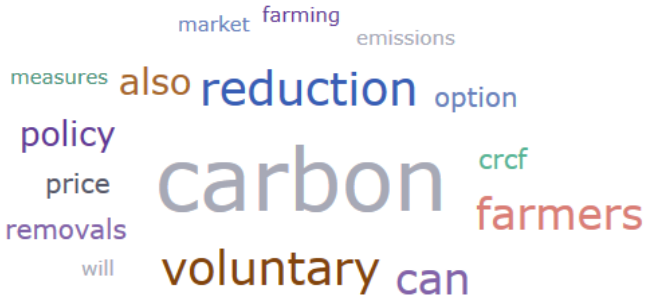
- 44 participants
- 29 worksheets

Workshop 2 – effectiveness (online, 12 November 2024)

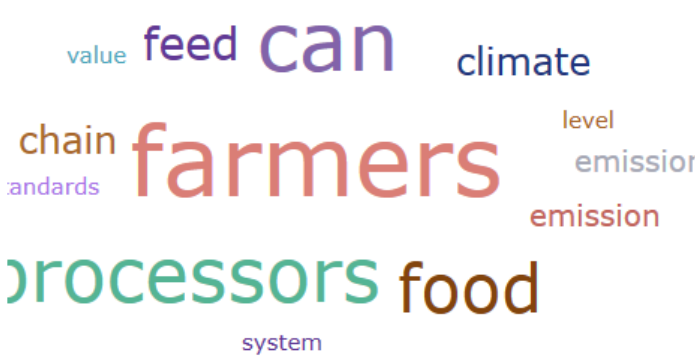
- 43 participants
- 26 worksheets

- Website with project information: Carbon Removals and Carbon Farming - European Commission

Pros - policy options (threshold 10)



CF procurement



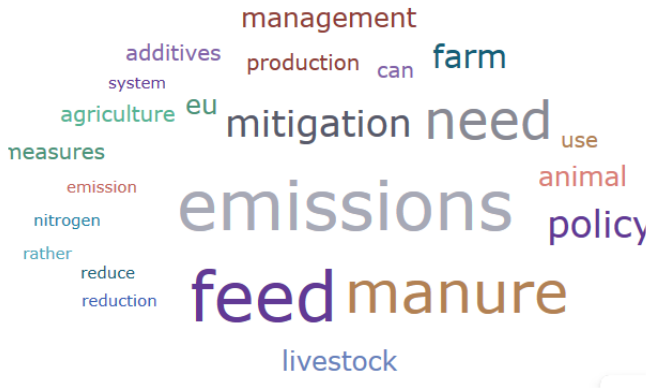
MCS processors

MCS retailers

ETS processors

ETS on farm

Mitigation actions – cattle (threshold 5)



CF procurement

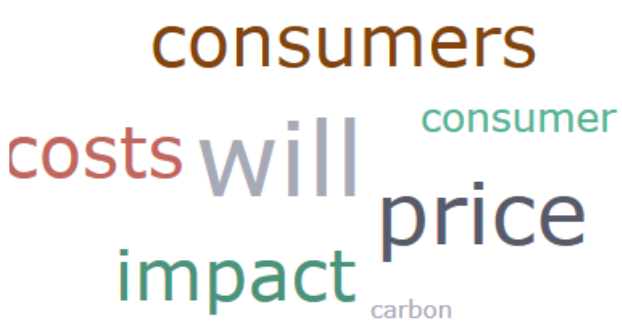
MCS processors

MCS retailers

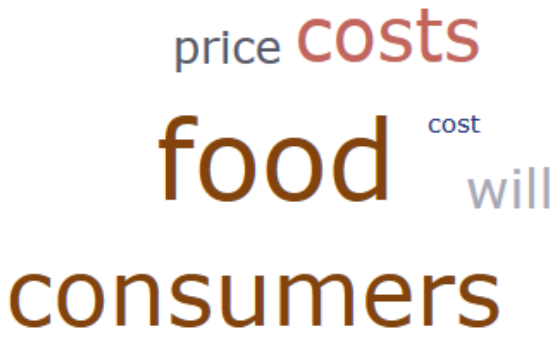
ETS processors

ETS on farm

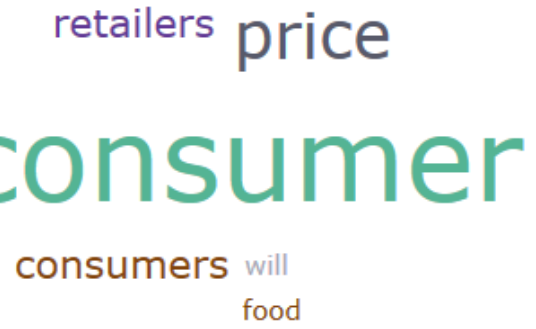
Cost passthrough (threshold 10)



CF procurement



MCS processors



MCS retailers

ETS processors

ETS on farm

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

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Workshop 2 - Competitiveness

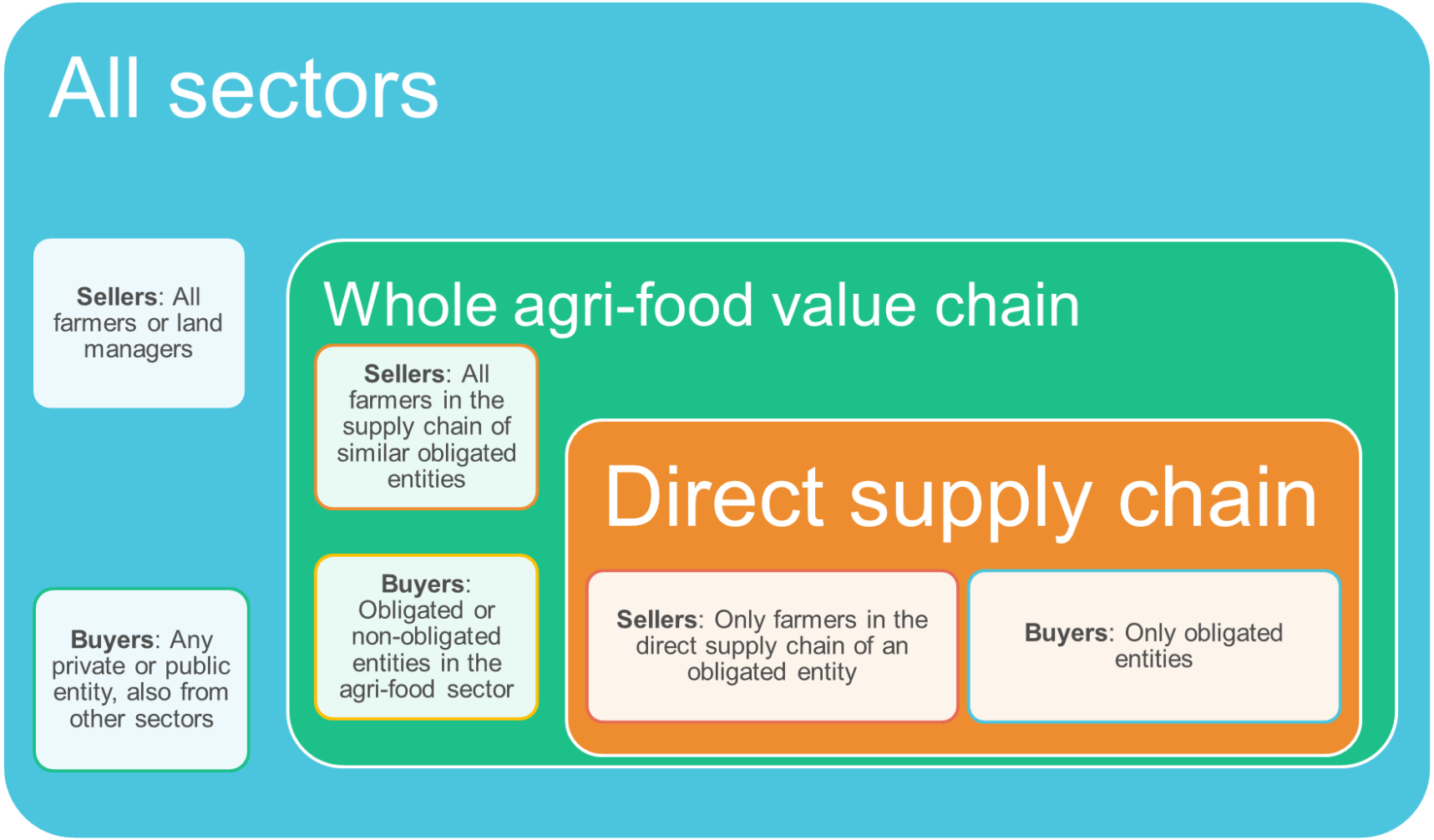
Background Paper Presentation

Note: The Background Paper is intended to feed the discussions at the workshop and to elicit views and feedback from stakeholders from varying perspectives to inform the exploratory study. The Paper does not represent the views of the European Commission.

Microeconomic impacts: farm income & market power

- Farm income
  - For most of the options, farmers participate voluntarily
  - Must have sufficient access to finance and price of CRCF units must be higher than costs incurred
  - A broader market could increase demand, and hence prices for units
  - Centralised pool more likely to support farm income
- Market bargaining power
  - A broader market could enhance farmer bargaining position
    - Separate contracts for food and carbon delivery
  - Requirements for tripartite contracts?
  - ETS options: linking the price of allowances to a prevailing premium price?

Microeconomic impacts: farm income & market power
Design choices for trading CRCF units



centralised pool

All sectors

separate contracts for food and carbon delivery

Whole agri-food value chain

contracts for both food and carbon delivery

Direct supply chain

Microeconomic impacts: farm income & market power

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  - Centralised pool more likely to support farm income
- Market bargaining power
  - A broader market could enhance farmer bargaining position
    - Separate contracts for food and carbon delivery
  - Requirements for tripartite contracts?
  - ETS options: mandating a premium linked to the price of allowances?

Microeconomic impacts: administrative costs

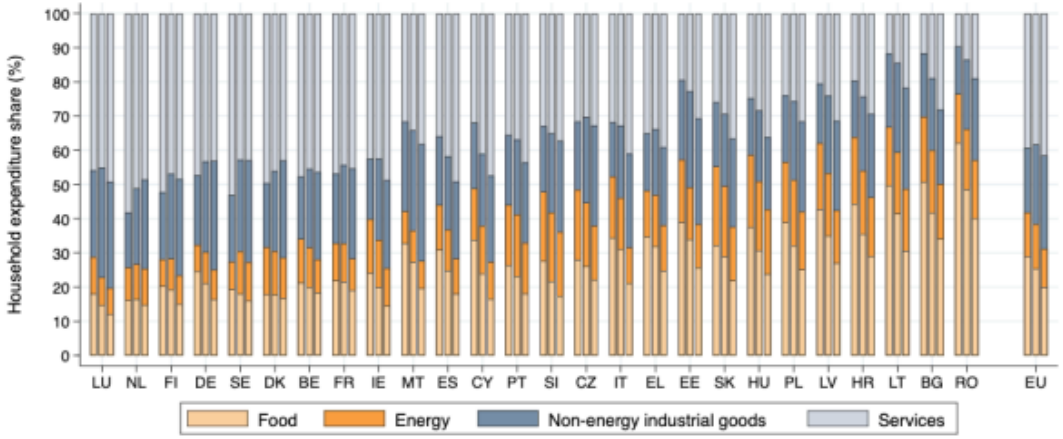
Transaction costs

MRV costs

Compliance costs

Micro-economic impacts: consumer impacts

Structure of household expenditures and income quartile



Source: JRC 2022

- Potential impacts and design solutions
  - Impacts dependent on price elasticities
  - Moderate burden expected to be passed on, although prices will vary across goods
  - ETS: revenue recycling; free allocation of allowances
  - MCS: exemptions for fruits and vegetables

Trade and carbon leakage: imports

Policy options under discussion	Embedded emissions in extra-EU imports
Mandatory Climate Standard for feed producers and/or food processors	Includes importers of these products as obligated entities
Mandatory Climate Standard for retailers	includes products consumed in the EU irrespective of their country of origin
Agri-Food ETS for feed producers and food processors	Could include importers as obligated entities in the ETS (CBAM)
Agri-Food ETS on-farm	Could cover imports (e.g. through a CBAM)

Trade and carbon leakage: exports

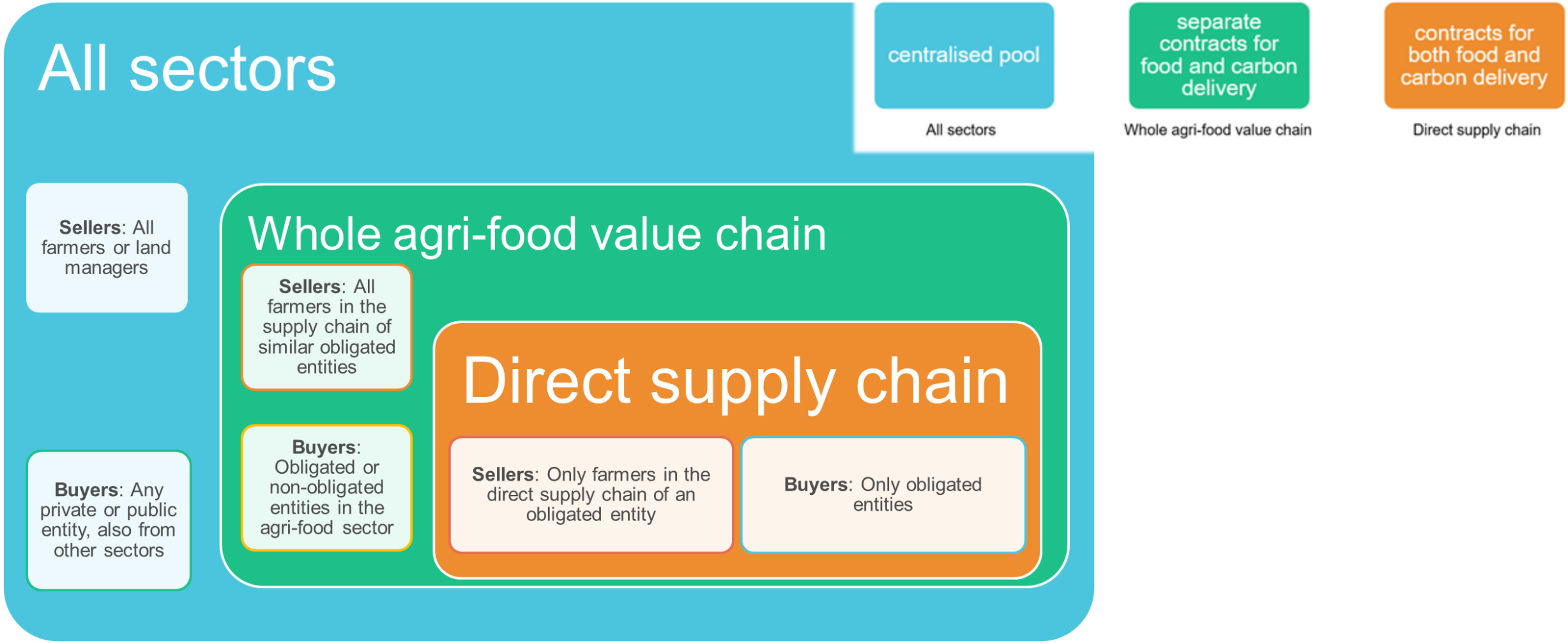
Policy options under discussion	Embedded emissions of extra-EU exports
Mandatory Climate Standard for feed producers and/or food processors	Covers only food consumption in the EU
Mandatory Climate Standard for retailers	Covers only food consumption in the EU
Agri-Food ETS for feed producers and food processors	Covers all food production in the EU
Agri-Food ETS on-farm	Covers all food production in the EU

Micro-economic impacts: Farm income, market power, and administrative costs

Discussion questions

- What are the potential advantages and disadvantages of the different design choices for the design of a market-based policy (e.g. choices on who can sell/buy CRCF units for compliance, and how these units are traded)? How can risks be mitigated?
- What are the impacts of these design choices on farm incomes and on the bargaining power of farms?
- What is your preferred approach in relation to MRV requirements for scope-3 emissions?

Farm income and market bargaining power: Design choices for buying, selling, trading CRCF units



Micro-economic impacts:
Consumer prices and household incomes

Discussion questions

- Of the potential design options to reduce negative impacts on consumers, which do you think will be the most effective?
- How can potential revenues be utilised in a manner to limit impacts on low-income households?
- How could free allocation of allowances be designed in a manner to alleviate negative impacts on low-income households?

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Lunchbreak – reconvening at 14:00

Trade impacts:
Competitiveness, imports and exports

Discussion questions

- For the MSC with the point of obligation on feed producers and food processors, would the risk of carbon leakage from imports be mitigated with the inclusion of importers?
- For ETS with the point of obligation on feed producers and food processors, can the risk of carbon leakage from imports be mitigated by including importers? If not, what approach towards minimising carbon leakage will be the most effective and is most feasible? Could a combination of approaches be utilised?
- What approach towards minimising negative impacts on EU agri-food exports will be the most effective? Which of these approaches is most feasible?

Worksheets reminder

Please complete and send your worksheets to **agri-food-climate@trinomics.eu** by December 15th.

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

Closing remarks (EC and Consortium)

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Thank you for your attention!

agri-food-climate@trinomics.eu

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