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NOTE

From:	General Secretariat of the Council
To:	Special Committee on Agriculture
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Subject:	Communication from the Commission on sustainable carbon cycles: Carbon farming as a new economic model *- Courtesy translation*

Delegations will find in the Annex a courtesy translation into English of the Presidency paper on carbon farming distributed as document 5588/22.

ANNEX

Communication from the Commission on sustainable carbon cycles:

Carbon farming as a new economic model

To achieve climate neutrality, the European Union has set itself ambitious targets to reduce its greenhouse gas (GHG) emissions, which can only be achieved by reducing our economy's carbon dependence, increasing recycling to avoid the use of fossil carbon, and increasing carbon removals through nature-based solutions and technological solutions.

Agriculture and forestry can make a particular contribution to tackling climate change in land-based activities through carbon storage capacity in biomass as well as in agricultural and forest soils. The Commission communication thus includes a component aimed at promoting carbon farming, by developing an economic model that makes it possible to remunerate agricultural and forestry practices favourable to carbon sequestration and storage. While public funding, in particular from the CAP, LIFE and Horizon Europe, makes it possible to support the change in practices, the challenge is to develop complementary income through the sale of carbon credits on the voluntary market. In order to ensure the functioning of this economic model, the Commission intends in particular to develop a certification scheme under transparent and harmonised rules for accounting for the volumes of carbon absorbed. This will be the subject of a legislative proposal to be presented by the end of 2022.

The Commission envisages carbon farming as a dedicated tool for increasing carbon storage capacity in biomass, agricultural and forest soils, alongside other EU policies that would contribute to reducing GHG emissions in these sectors. The communication states that financially supported practices should contribute to the fight against climate change but also to other environmental challenges, including the preservation of biodiversity. Some of these practices may be part of the CAP Strategic Plans, and several Member States have already referred to them. These plans are under consideration with a view to approval by the Commission.

In addition, the communication includes a second strand on industrial solutions for the removal or storage of carbon, which is not the subject of this paper.

On this basis, the Presidency intends to hold an exchange of views on the following topics with a view to providing a Council contribution to the debate on carbon farming.

(1) The objective of creating an economic model for remunerating carbon farming

The development of an economic model to reward farmers' efforts to combat climate change is a major challenge. As stated by the Commission in its communication, this remuneration is primarily based on the use of both public funds and CAP funds, but it can be complemented by additional revenues through the sale of carbon credits on the voluntary market.

However, European agriculture is still very a minor player on voluntary carbon compensation markets, unlike the forestry sector, which has benefited in particular from feedback from project mechanisms developed under the Kyoto Protocol. The deployment of agricultural projects in these voluntary markets faces several obstacles, some of which have been highlighted by the European Commission:

- The cost of implementing the levers for reductions or storage of carbon and the necessary investments are often high for farmers. There is therefore a real challenge to the attractiveness of the remuneration offered to farmers in order to develop new practices in a sustainable way;

- It is necessary to take into account the diversity of production systems and farm structures. Moreover, the agricultural sector is mostly characterised by small holdings;

- There are many initiatives to sell carbon credits from the land sector, based on different methods, which may cause confusion for potential buyers in different European markets and limit their confidence in the credits offered;

- The high price of European projects may seem prohibitive for buyers: on average, it is ten times higher than in third countries. Their disparity also reflects the diversity of agricultural systems in the Member States;

- The risk of non-permanence of storage must be avoided and the additionality of projects (i.e. the fact that the project goes beyond normal regulations and practices) must be subject to control;

- the risk of carbon leakage between different sectors or between different types of territories leads to the need for a comprehensive and long-term approach;

- The farm advisory structures still seem to be insufficiently adapted to meet these new needs, even taking into account the progress that can be made through the advisory services financed by the CAP.

(2) The practices that may be subject to certification

The Commission intends to set up an Expert Group on Carbon Farming in which Member States' authorities and stakeholders can share their experience with a view to exchanging and establishing best practice in carbon farming, including through improving the quality of carbon agricultural credits and monitoring, reporting and verification (MRV) methodologies, in order to foster peer-to-peer knowledge exchange.

With regard to the practices that can be subject to certification allowing for the possibility of remuneration, it should be considered whether they should be limited to practices that increase the amount of carbon stored or be open to other GHGs.

Limiting stored carbon to forestry is understandable but deserves to be called into question with regard to agriculture since:

- Unlike the forestry sector, which is mainly affected by removals and reductions in emissions from carbon dioxide (CO_2) alone, the agricultural sector emits mainly methane (CH_4) and nitrous oxide (N_2O): This sector, which accounts for 10.3 % of the EU's GHG emissions[1], principally emits CH_4 , which accounts for 45 % of the sector's GHG emissions, from the digestion of feed by cattle and sheep and from the storage of bovine and porcine manure, with N_2O accounting for 38 % of the sector's GHG, through emissions from the application of manure or chemical fertilisers and cattle manure on fields. The remaining emissions (excluding CO_2 energy), which account for 17 %, come from CO_2 emissions from drained soil cultivation and the change of land use in permanent grassland;
- Carbon storage practices can have potentially synergistic or antagonistic effects on other GHG emissions: this is the case, for example, when organic soil improvers (compost, manure, etc.) are added, which may, under certain conditions, lead to an increase in emissions of N_2O, while storing more carbon[2]. This example raises the key issue of taking into account the articulation of carbon and nitrogen cycles;
- In the "Fit for 55" legislative package, the Commission proposes the creation of a wider 'AFOLU' sector (*Agriculture*, *Forestry*, *and Other Land Use*), integrating emissions from all GHG from agriculture (excluding CO_2 energy), forestry and other land uses, in order to build a comprehensive vision of mitigation and adaptation efforts in this sector: It could therefore seem consistent to have the same overall approach for carbon farming and for the certification framework as foreseen for AFOLU;
- Capitalising on all efforts made by farmers to promote climate change and beyond carbon storage alone would speed up the achievement of the expected results in the fight against climate change;
- Taking into account multiple co-benefits (e.g.: Biodiversity, animal welfare, etc.) would also increase the value of carbon credits and thus potentially interest more farmers and forest [managers], as well as funders.

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1 Data for 2019, based on EU greenhouse gas inventories-27, European Environment Agency (EEA).

2 Guenet, B. Gabrielle, B., chenu, C., Arrouays, D., Balesdent, J., Bernoux, M., etc. & Zhou, F. (2021). CAN N_2O emissions offset the benefits from soil organic carbon storage?. *Global Change Biology*, *27*(2), 237-256.

3) Questions for debate

In view of the European Union's objective of achieving climate neutrality by 2050, and the particular role of agriculture and forestry in this context, delegations are invited to share their views on the following questions:

1. What public funding, in particular under your CAP Strategic Plan, do you intend to use to encourage agricultural and forestry practices favourable to carbon storage? Do you agree with the general approach developed in the Commission communication to develop complementary private incentive schemes to remunerate agricultural and forestry practices that encourage carbon absorption?
2. What criteria do you consider relevant to the definition of a common and standardised certification framework? How do you see the future certification framework for carbon removals relating to existing initiatives/schemes at Member State level?
3. In order to capitalise on all the efforts made by farmers, are you in favour of extending the scope of certified practices beyond those promoting carbon storage, i.e. those that reduce GHG emissions? If so, do you think these practices should be extended to those that reduce GHG emissions and not only CO_2?
4. Should co-benefits, such as the preservation of biodiversity, be integrated into the certification framework, in order to have a wider environmental impact, but also to provide greater sources of income for farmers and foresters?