



Why an Emission Trading System for Retail should be studied

Last year, the European Directorate-General for Climate Action gave Trinomics and others the instruction to research the several possibilities for the implementation of an Emission Trading Scheme in the EU's Agri-Food sector (Ag-ETS)¹. Although the results of this research were promising, and a stakeholder survey showed massive support for the downstream ETS option for slaughterhouses and dairy factories, TAPP Coalition was surprised to learn that a possible Ag-ETS centred for the retail sector and food services was not examined. This year it is different, now that DG Clima is open to investigate new policy options on GHG emission pricing, including an Ag-ETS for retail. This was heard during an event in Brussels 19th June 2024. It is vital to spread awareness about the advantage of such an ETS compared to the previously preferred downstream model for food processors. New studies have to be developed.

The Advantages:

1. **Less Resistance:** There is much less resistance expected from farmers, and thus much less political resistance! Many slaughterhouses and dairy factories are owned by or closely linked to livestock farmers. Farmers would feel more resistance to an Ag-ETS for slaughterhouses and dairy factories compared to an ETS for supermarkets and foodservices, who will pass the additional costs of an ag-ETS on to consumers.
2. **Greater Climate Impact:** With an ETS for retail/food services, the additional costs will more often or fully be passed on to the consumer, with the advantage of stronger behavioural change (due to the expected stronger price increase in meat and dairy compared to the downstream option, consumers will buy less: greater climate gains).
3. **More GHG included:** With an ETS for (large) retail/food services for scope 3 food emissions, many more greenhouse gas emissions will fall under an ETS compared to the downstream model, where only 245,4 Mton of all agricultural greenhouse gas emissions are included (namely only those from livestock emissions farming on-farm, see footnote 1). GHG emissions from all EU retail companies included 1600 Mton emissions, of which 749,7 Mton for food and beverage, health and beauty and approximately 600 Mton GHG emissions for purchased food and beverage alone (scope 3, excluding scope 1 and 2 emissions from retail companies). Of only largest supermarket chains and food services (e.g. fastfood companies) would be included, conform CSRD, an estimated 400-500 Mton GHG emissions could be included.
4. **More effective:** Supermarkets and food services have more power in the food chain compared to food processors and can reduce greenhouse gas emissions more effectively than slaughterhouses/dairy factories through strategies like advertising, pricing, cross-subsidies, shelf placement, packaging, climate-neutral food, fair farmer payments, customer communication, banning certain products, plant-based options, mixing plant-based proteins in mixed product like minced meat, prepared meals etc. Slaughterhouses and dairy factories have some of these options too, but retail

¹ https://climate.ec.europa.eu/news-your-voice/news/looking-how-mitigate-emissions-agriculture-2023-11-13_en

companies and food services have more options and they can therefore reduce greenhouse gas emissions faster and better compared to food processors.

5. **Easier Monitoring:** An ETS for (large) retail/food services has a lower administrative burden as these companies already track and annually report greenhouse gas emissions from food sales under the CSRD. It initially covers larger businesses meeting certain criteria, excluding small ones. GHGs included under CSRD are scope 1, 2, and 3, but an ETS for retail and food companies could only deal with scope 3 emissions reported in the CSRD. The CSRD now only applies to larger supermarkets and food services that meet 2 of the following 3 criteria: a) > 40 million euros in revenue, b) > 250 employees, or c) > 20 million euros in balance sheet. Therefore, the many thousands of small bakeries, butchers, greengrocers, and restaurants are not included (other simple CO₂ rules could apply to them, such as only selling climate-neutral labelled food by 2040), but large supermarket chains like Ahold, ALDI, Carrefour, and McDonald's report under the CSRD. After 5 years, this criterion for large retail companies can be tightened to include more middle sized companies and greenhouse gases in an Ag ETS.
6. **Easier Policy Steering:** An ETS for retail/food services allows the EU to better steer supermarket food policies towards EU policy goals (farm income, Farm to Fork Strategy, SFSF, Health, Organic Food and Animal Welfare goals etc), through exemptions and incentives for meeting desirable conditions, such as fair farmer payments, organic food market share, and promoting healthy and sustainable food. To give some examples of exemptions: supermarkets/food services could be exempted from accounting for part of food-related greenhouse gases (e.g. 20 percent) if they meet certain socially desirable conditions (e.g., they demonstrably pay farmers the fair price including external environmental costs and living wage, their market share of organic food is in line with the EU goal of 25% organic farming area by 2030 (25% organic market share in sales by 2030). Or they sell a minimum % of revenue in relatively healthy and sustainable food (e.g., vegetables, fruits, meat/dairy substitutes). Part of food-related greenhouse gases could also be 'written off', for example, those from organic dairy, meat, and eggs. This exemption could be an incentive for supermarkets to sell them more often. Without this exemption, there is a risk that supermarkets will be incentivized to sell organic chicken, pork, and eggs less often because they have a higher climate footprint per kg than conventionally produced products. This has everything to do with the high level of animal welfare in organic farming; the animals have more time to grow and therefore eat more feed, resulting in a higher climate footprint per kg of meat or eggs.
7. **No CBAM Necessary:** An ETS for retail/food services removes the need for CBAM import tariffs as imported and EU-produced foods are treated equally. If European farmers prove lower greenhouse gas emissions, supermarkets will favour European meat and dairy, benefiting farmers and aligning with climate goals. FAO data² shows for instance European food has lower GHG emissions than South American food, justifying higher taxes on high-footprint imports, raising import tariffs on meat, dairy, eggs, and soy, supporting and rewarding climate measures in EU livestock farming.

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² For CO₂ eq emissions per kg chicken, pig meat, and beef/cattle per country in 2017, eg: <http://www.fao.org/faostat/en/#data/EI/> As can be observed, CO₂ eq. emissions for European beef are lower compared to beef from South America.