

TAPP Coalition’s comments on MEP Peter Liese’s draft report¹ on the revision of the Emissions Trading Scheme Directive

3 February 2022

On 14 July 2021, the European Commission adopted the Fit for 55 legislative package to increase the EU’s climate ambition in line with the European Green Deal and its commitment to make Europe the first climate-neutral continent by 2050, while also ensuring the achievement of a zero pollution, toxic-free and circular economy. While the Package sets higher policy objectives for the current 2030 framework and introduces new policy instruments, it misses an historic opportunity to fully apply the “polluter pays principle”, also in the agriculture and food sector and reduce subsidies to high carbon sectors like livestock.

How could it look like if livestock farms in the EU or dairy factories, slaughterhouses and meat/dairy importers to the EU would have to pay for GHG emissions from the meat/dairy they sell, related to GHG emissions from meat/dairy at farm level? New Zealand will tax agriculture GHG emissions in their ETS system by 2025, see attachment 1. In Alberta, California, China, and Australia agricultural emissions already are under their ETS systems, either indirectly, through allowing on farm offsets, or directly, through requiring farmers to surrender allowances. What about the EU? Is the EU a leader?

In the Carbon Cycles Communication the European Commission committed to look into how the polluter pays principle could be applied to agricultural GHG emissions by end of 2023. An ETS like system might be one option they consider. This is why the draft report on the revision of the ETS Directive should also include a reference to a future ETS system for livestock GHG emissions.

Proposed new Amendments in Peter Liese’s draft report

Amendment nr.	Amendment text	Justification
115	In the European Green Deal for Food (Farm to Fork Strategy), the Commission wrote: “EU tax systems should also aim to ensure that the price of different foods reflects their real costs in terms of use of finite natural resources, pollution, GHG emissions and other environmental externalities”. So the Commission stated its intention to take additional measures to address greenhouse gas emissions from the food sector through a basket of fiscal measures to enable the Union to reach its emissions reduction targets. In this context, Directive 2003/87/EC should be	Food systems are responsible for 30% of EU GHG-emissions ³ . Consumption of meat in the EU increased in 2014-2018 while meat causes 54% of food related GHG emissions in the EU (see attachment 3). Meat, dairy and eggs cause 82% of food related greenhouses emissions in Europe and no CO2 eq. taxation is applied in EU countries on meat and dairy. The EU Court of

¹ https://www.europarl.europa.eu/doceo/document/ENVI-PR-703068_EN.pdf

³ <https://ec.europa.eu/jrc/en/science-update/edgar-food#:~:text=Main%20findings,comes%20from%20the%20food%20system.&text=On%20average%2C%20the%20food%20s ystem,emissions%20per%20person%20every%20year.>

	<p>amended to include the (most carbon intensive parts of the) agri & food sector in the EU ETS in order to ensure this sector contributes to the increased climate objectives of the Union as well as to the objectives of the Paris Agreement, with a CO₂ equivalent price for food related GHG-emissions. An ETS for food related GHG emissions – starting with livestock, “ETS3” - would be a good way to ensure real costs of GHG emissions are included in prices. In the Carbon Cycles Communication² the European Commission committed to look into how the polluter pays principle could be applied to agricultural GHG emissions by end of 2023. As part of this publication, a proposal can be developed for livestock related ETS stand alone system, comparable with transport and buildings. This stand alone system for an EU livestock ETS means that EU industries cannot buy CO₂ rights from agriculture GHG emissions cuts, to reduce their own GHG emissions (offset).</p>	<p>Auditors⁴ published a critical report in June 2021 with these facts and about the lack of effective GHG-emission reduction policies for EU Agriculture and the lack of polluter pays principle applied here. In a reply, the EU Commission committed to publish a report about applying the polluter pays principle in agriculture for GHG emissions. An ETS proposal for agriculture or livestock would be a logic result. New Zealand will tax agriculture GHG emissions in their ETS system by 2025. Europe has the ambition to lead the world in climate policies. In Alberta, California, China and Australia agricultural emissions already are under their ETS systems, either indirectly, through allowing on farm offsets, or directly, through requiring farmers to surrender allowances.</p>
116	<p>For livestock related GHG-emissions, a separate EU Livestock ETS3 can be applied starting by 2027, one year after the ETS2 for transport and buildings will start. Livestock is the only sector in Europe, not part of ETS in the future. Dairy processing factories (12.000 in the EU in 2017), EU slaughterhouses and meat/dairy import companies can become part of this new ETS3 system for CO₂ eq. trade and reduction, to include agriculture emissions (CO₂, CH₄ N₂O from animal husbandry, all together CO₂ equivalents) into the ETS (another option could be to bring EU retail and catering companies into an ETS system for for meat/dairy related CO₂ eq emissions). Under the proposed ETS3 system, companies who process or import meat/dairy have to hold allowances corresponding to the meat/dairy related CO₂ eq emissions, making high carbon livestock production more expensive compared to low carbon livestock production. At the same time, firms are incentivised to become more CO₂ eq. efficient, because they</p>	<p>According to a EEA report⁵ from December 2021, greenhouse gas (GHG) emissions from the EU agriculture sector, covered by national annual emissions targets, remained stable between 2005 and 2019 (appr. 450 Mton CO₂eq). Based on national projections, only a modest EU-level decline of 2% is expected by 2030 compared with 2005 levels (see att. 2). If currently planned additional measures are implemented, a 5% reduction is expected. These projected declines would be insufficient to meet most Member States’ binding annual targets, highlighting the need for further action if the EU is to meet its goal of climate neutrality by 2050.</p>

² https://ec.europa.eu/clima/system/files/2021-12/com_2021_800_en_0.pdf

⁴ <https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=58913>

⁵ <https://www.eea.europa.eu/ims/greenhouse-gas-emissions-from-agriculture>

	<p>can then sell their emissions permits on the market.</p> <p>Instead of EU ETS3 allowances, slaughterhouses and dairy processing factories can also buy credits from emission-saving projects at farm level. Farms who reduce GHG-emissions, e.g. by carbon farming (sequestration), shifting to organic dairy production, reducing livestock numbers, applying sustainable energy at farm level, rewet/increase groundwater levels for drained peat soils, or plant trees or a adopt agro-forestry can earn carbon credits for verified CO2 eq. reduction. Slaughterhouses and dairy processing factories can also reduce their CO2 eq. emissions by mixing plant based meat/dairy into processed meat/dairy products.</p>	<p>The ETS3 for livestock can best be implemented at the level of meat slaughterhouses and dairy processing companies and meat/dairy import companies to reduce the administrative burden (smaller number of actors compared to all EU livestock farms or to all EU retail and catering companies).</p>
117	<p>The EU ETS3 for livestock follows a “cap-and-trade” approach, starting from 2027: the EU sets a cap on how much greenhouse gas pollution can be emitted each year, and companies need to hold European Emission Allowance (EUA) for every tonne of CO2 eq. they emit within one calendar year. They receive or buy these permits – and they can trade them. Companies face a fine if they emit more CO2 than they have covered by emission allowances. The fine is 100 euros per excess tonne. Companies have an incentive to reduce emissions by investing in CO2 eq reduction options at farm or company level, because they can then sell excess allowances.</p> <p>When the ETS3 system starts, EU slaughterhouses, dairy processing companies and meat/dairy-importers will receive (or have to buy) CO2 eq. rights (allowances) based on CO2 eq. per kg meat type slaughtered or the kg milk processed, based on FAO data per country or EU27; most recent year 2017: http://www.fao.org/faostat/en/#data/EI/visualize. For the EU27 GHG-emissions per kg meat in 2017 were 15,4kg (meat cattle), 1,55 (meat pig), 0,28 (meat chicken), 19 (goat/sheep) and per kg cow milk (0,53), 0,9 (goat milk) and 0,75 (eggs).</p>	<p>The FAO 2017 data may be not fully correct and too low, not including all life cycle analyses GHG emissions for meat/dairy (e.g. compared to data in ‘Evaluation of the livestock sector’s contribution to EU GHG emissions, 2010’), but for now they may be the best available data; in this way complicated farm level monitoring and reporting of GHG emissions is not needed in the first years.</p> <p>If slaughterhouses/dairy factories would have to buy CO2eq rights from the start (fully or partly), organic meat/dairy related GHG emissions will be granted free emission allowances. In this way, organic farming is stimulated, to contribute to the Farm to Fork Strategy of 25% organic farm land by 2030 .</p>
118	<p>The objective of the EU livestock ETS3 is to reduce greenhouse gas emissions from</p>	<p>Organic pig and poultry farms often have a higher CO2 eq</p>

	<p>livestock by a certain percentage every year (linear reduction factor – LRF). Between 2027 and 2040 the overall number of (livestock ETS) emission allowances will decline at an annual rate of 2.2 percent, similar to the ETS for fossil fuels till 2030. For organic meat/milk the reduction factor is 1.1 percent. The reduction factor is needed to align with the EU targets of cutting all greenhouse gas emissions, also from agriculture, by at least 55 percent by 2030 compared to 1990 levels.</p>	<p>emission per kg meat and per egg, compared to conventional pig and poultry farms, because of animal welfare criteria (longer lifetime, more feed, more space per animal). For beef and dairy this can be similar. Animal welfare however is just as important as reducing GHG emissions. Reducing GHG emissions should not lead to less animal welfare and less organic farming. For this reason organic meat/dairy related GHG emissions will have another regime compared to conventional farming. In this way, organic farming is stimulated, to contribute to the Farm to Fork Strategy of 25% organic farm land by 2030. Also because organic farms have less options to reduce GHG emissions compared to conventional farms, annual reduction targets for CO2 eq emissions are 50% of annual reduction targets compared to conventional farms (1,1 compared to 2,2%).</p>
119	<p>50% of the revenue from the new trading system will go to the Social Climate Fund where it is to be invested in livestock farmers reducing livestock numbers, switching to plantbased food production or cellular meat, to innovations for companies producing plantbased meat/dairy alternatives. It can also be used to directly help households who are struggling with higher food costs, eg by providing food stamps for healthy, plant based food, to bring diets in line with national dietary guidelines. New or higher subsidies for healthy school meals and healthy lunches at work are also optional. EU ETS3 is a key financial instrument (revenues from the sale of CO2 eq. permits under the EU ETS3 flow into the EU Funds as well as into national budgets).</p>	<p>Revenues of the EU livestock ETS3 are used in a way they contribute to the EU Farm to Fork Strategy goals for more healthy and sustainable diets, shifting from animal to plant based proteins. But also to help farmers to reduce GHG-emissions and help consumers to deal with higher food prices as a result of implementing the ETS3 for livestock.</p>
120	<p>When the EU Commission would propose an extension of the ETS to livestock (ETS 3), the European Commission should simultaneously develop a Carbon Border Adjustment Mechanism (CBAM) to address the carbon leakage risk and global competitiveness</p>	<p>In amendment 116 it is said that under the proposed ETS3 system, companies who process meat dairy in the EU or import meat/dairy to the EU have to hold allowances corresponding to</p>

	<p>concerns. Meat and dairy imported to the EU should be treated in the same way as meat and dairy produced in the EU, with similar CO2 eq. prices.</p>	<p>the meat/dairy related CO2 eq emissions. In this way the CBAM is included in the system right away. FAO data of CO2-eq emissions per kg meat or dairy can be used to calculate the tariff for meat or dairy imports to the EU, see http://www.fao.org/faostat/en/#data/EI/visualize</p>
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Monitoring GHG-emissions at farm level?

The proposal is that when the ETS3 for livestock starts in 2027, EU slaughterhouses, dairy processing companies and meat/dairy-importers will receive (or have to buy) CO2 eq. rights (allowances) based on CO2 eq. per kg meat type slaughtered or the kg milk processed, based on FAO data per country or EU27; most recent year 2017: <http://www.fao.org/faostat/en/#data/EI/visualize>. In this way, farm level GHG emissions don't have to be monitored and reported in the first years of ETS3 introduction. From 2030, this may be done. Slaughterhouses and dairy processing companies however can buy CO2 eq. rights from livestock farms in the EU who reduce CO2 eq. emissions. For these transactions, GHG-emission reporting at farm level is needed of course, but only for specific, verified reduction options, like applying carbon farming practices mentioned in the EU Sustainable Carbon Cycles Communication⁶, shifting to organic dairy production, reducing livestock numbers or applying sustainable energy at farm level (e.g. solar panels on roofs or methane biogas).

There are uncertainties in GHG emission estimations and monitoring at farm level, for instance for N₂O and there are scientific discussions about methane (short term versus long term effects). However, such uncertainties can be reduced or solved in time before a fully developed ETS system for livestock will be implemented in 2030. New Zealand is 2-3 years ahead of the EU in implementing an ETS for livestock and they faced the same uncertainties in monitoring GHG emissions. They decided to give the system a go for implementing in 2025 and improve monitoring systems in 2021-2024 and solving issues on the way for monitoring, reporting and verifying.

See: <https://www.agmatters.nz/goals/know-your-number/>. The EU can do the same. In the EU there are similar digital methods to calculate farm level GHG emissions: <https://d-nb.info/1204067708/34>. And UK, Australia and other countries use GHG-emissions measuring tools for real GHG concentrations at farm level to verify the models. The EU can do the same.

With the improvement of measuring technologies and carbon accounting methods, however, the possibility to also regulate agriculture under the EU emissions trading scheme has become within reach. This was found by prof Jonathan Verschuere, who is doing research for the EU Commission on the ETS for EU agriculture: <https://blog.uvt.nl/environmentallaw/?p=475>.

An option (TAPP Coalition does not promote) is to start the EU ETS for livestock first with slaughterhouses who kill livestock from large scale livestock farms keeping livestock within closed buildings, such as piggeries. Methane emissions can easily be monitored here, technologies to capture the methane and convert it into biogas exist, thus allowing farmers to choose between buying allowances or investing in such technologies. Greenhouse gas emissions are currently not monitored at farm level in most EU countries, although commercial online carbon footprint tools are used widely at farm level. So, a EU wide monitoring methodology has to be developed, similar to developments in New Zealand and other countries that include livestock in their ETS systems (e.g. China, Australia, Canadian provinces). The pig and dairy sector in the Netherlands already have a carbon footprint monitoring system for many farms. Central to the development of these

⁶ https://ec.europa.eu/clima/system/files/2021-12/com_2021_800_en_0.pdf

monitoring systems there is an unambiguous European methodology such as the Product Environmental Footprint (PEF) (EC, 2019). The EU already has a calculation method developed for dairy and feed, eg.: https://ec.europa.eu/environment/eussd/smgp/pdf/PEFCR-DairyProducts_Feb%202020.pdf

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Attachment 1: including livestock in the ETS system in New Zealand by 2025

New Zealand announced to bring meat and dairy farms into the ETS system for GHG-emission reduction by 2025. During the UN Food System Pre Summit 28th July 2021, the Agriculture Minister of New Zealand told this in a Ministerial Declaration. This means that animal farms will have to pay for the GHG emissions they emit in 2025 and later. Tariffs are discussed; but in a previous document low tariffs were mentioned. Farmers can also receive funds for reducing GHG emissions eg. by carbon farming / sequestration. More info:

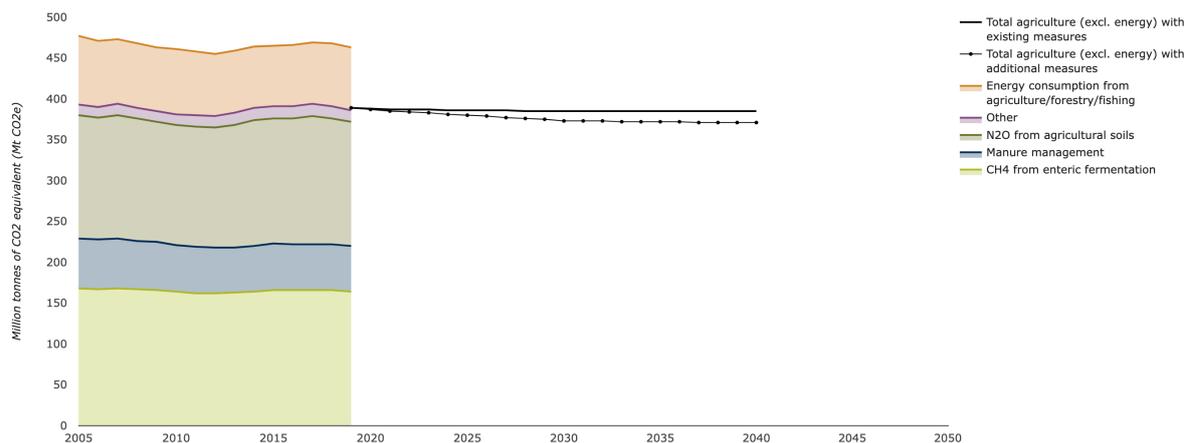
<https://icapcarbonaction.com/es/news-archive/658-new-zealand-proposes-to-price-agricultural-emissions-from-2025>

https://www.cooneyleesmorgan.co.nz/regulate_on-farm_emissions

<https://www.agmatters.nz/topics/he-waka-eke-noa/>

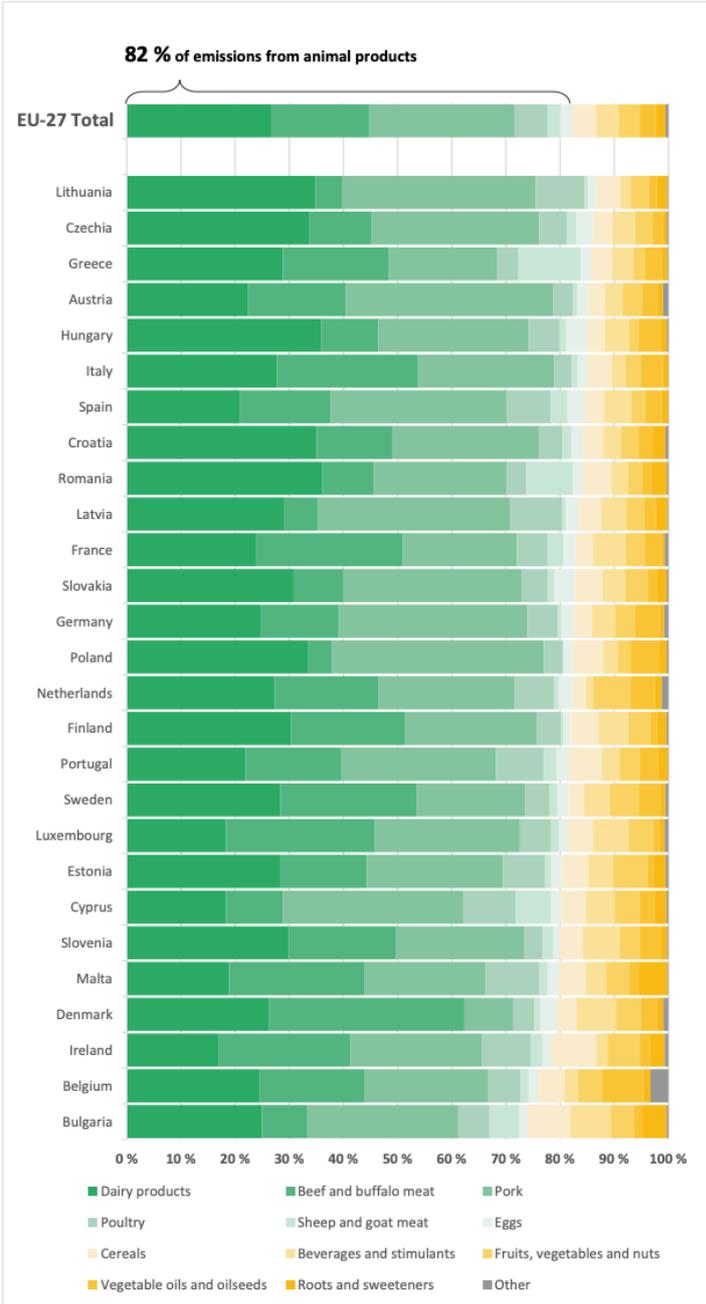
Attachment 2: EU agriculture GHG emissions

Figure 1. EU agricultural emissions by source and projected emissions



Attachment 3: GHG emissions from meat and dairy in the EU

Figure 13 – Carbon footprint of foods in EU diet



Source: Sandström, V. et al.: The role of trade in the greenhouse gas footprints of EU diets, 2018, p. 55 (constructed with data received from V. Sandström).

Figure 11 – EU annual consumption per capita of animal products not declining



Source: ECA based on data from the Commission Prospects for Agricultural Markets in the EU 2020-2030, 2020.