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### ENRD Thematic Group on Carbon Farming - Background document

### **Analytical overview of carbon farming**

March 2022

#### 1. Introduction

The Thematic Group on Carbon Farming provides an opportunity to bring Member State representatives and stakeholders together to discuss how to upscale carbon farming across the EU.

The proposed objectives of the Group are to:

- explore how greater action on carbon farming can be achieved via the Common Agricultural Policy (CAP) through the identification of key enabling conditions required;
- identify ways in which the range of CAP interventions can be used to support carbon farming and what other support is required to encourage uptake of carbon farming practices;
- share experiences and initiatives currently taking place in Member States on carbon farming and discuss how these can be upscaled and/or transferred to other farming situations within the EU.

This short background paper provides an introduction to the topic, drawing on recent research, EU policy initiatives and suggestions made by stakeholders who responded to the request for Expressions of Interest in joining the Thematic Group on Carbon Faming.

### 2. What is carbon farming?

The Commission's definition of carbon farming as set out in its Communication on Sustainable Carbon Cycles<sup>1</sup> is as follows:

"Carbon farming can be defined as a green business model that rewards land managers for taking up improved land management practices, resulting in the increase of carbon sequestration in living biomass, dead organic matter and soils by enhancing carbon capture and/or reducing the release of carbon to the atmosphere, in respect of ecological principles favourable to biodiversity and the natural capital overall."

The first priority for carbon farming must be **to avoid future emissions** by maintaining management of existing carbon stocks, especially those drained peat-rich soils, wetlands, trees and other woody



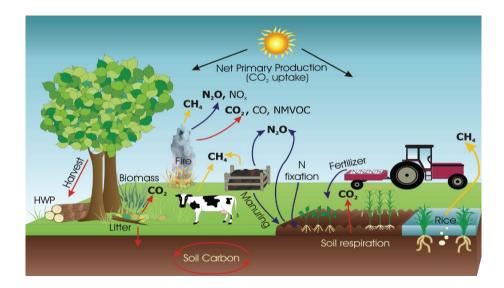


features; the second is **to reduce emissions that cannot be avoided** in routine farm and forest management; the third is **to create new, long-term carbon stores.** 

All farms have some potential to deliver carbon farming, the extent varies with the farming system, soils, climatic conditions and the economic viability of the business. Carbon farming practices can foster long-term resilience to climate change, also providing soil protection, water retention, shelter for livestock and crops and diversification of income.

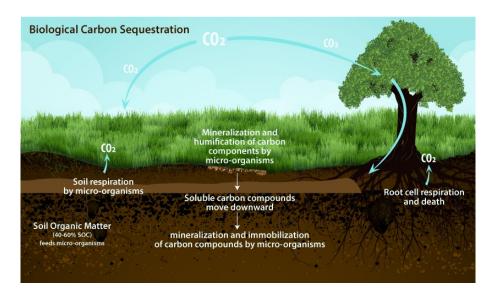
Carbon farming can help reduce GHG emissions, however, other actions at farm level will also be required to deliver on-farm climate mitigation, including those that address other greenhouse gases (methane, nitrous oxide) and take account of all emissions and removals over the whole farm.

Figure 1: CO₂ emissions and removals as part of the broader GHG processes on farmland



Source: IPCC (2006)

Figure 2: Biological carbon sequestration



Source: CalRecycle



### 3. Why is carbon farming important now?

The land use sectors (agriculture and forestry) have an important role to play in meeting the EU's target of achieving net zero emissions by 2050 and the 55% reductions required by 2030, as set out in the EU Climate Law<sup>2</sup>. The proposal for a Regulation on Land Use, Forestry and Agriculture<sup>3</sup>, as part of the 'Fit for 55' package, sets out the objective of a climate-neutral land sector by 2035 (carbon removals should balance the greenhouse gas emissions from all land, livestock and fertiliser use) and the land sector becoming a net sink from 2036 onwards. It also sets a Union target for net removals of 310Mt  $CO_2$ eq by 2030, a level last seen in 2013. Targets are set out for each Member State. Annex 1 sets out a comparison of the proposed targets with those under the current Land Use, Land Use Change and Forestry (LULUCF) regulation.

However, there has been some concern that the integration of non-CO<sub>2</sub> emissions from the agriculture sector will lower the incentive to reduce methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O) emissions, with greater emphasis being placed on CO<sub>2</sub> removals to offset these emissions, thereby undermining effective climate action.

As a key component of the EU Green Deal, in December 2021, the European Commission adopted a Communication on Sustainable Carbon Cycles in which it promotes the upscaling of carbon farming as a green business model and sets out a series of short to medium-term actions to address current challenges to achieve this. Amongst other things, this is intended to:

- accelerate the uptake of carbon farming initiatives in the EU;
- mainstream carbon farming activities into public support; and
- develop a regulatory framework for the accounting and certification of carbon removals.

### 4. Role of the CAP

The new CAP is considered to be a major source of funding to support the upscaling of carbon farming in the EU, alongside other EU funding sources, such as the LIFE programme, Interreg projects, Horizon Europe, State Aids and Cohesion Funding.

The CAP gives Member States the policy tools and funds to support their farmers in much wider adoption of carbon farming practices, through payments for improved land and livestock management and, crucially, in developing farmers' skills and funding pilot schemes.

The CAP Strategic Plans (CSPs) will be a key vehicle to promote land management activities and practices that reduce GHG emissions, increase carbon sequestration and provide incentives for land managers, farmers and foresters to increase carbon removals and protect carbon stocks.

Many of these types of actions also have the potential to deliver benefits for soils, water and biodiversity. The adoption of carbon farming practices can also lead to new economic opportunities

<sup>&</sup>lt;sup>2</sup> https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32021R1119

<sup>&</sup>lt;sup>3</sup> COM/2021/554 final



and allow new business models to develop, such as adding value to products, selling carbon credits or even selling the carbon sequestered or stored directly to customers.

The CAP supports many interventions that could be used by for this purpose in Member States' CSPs including the new eco-schemes under Pillar 1, rural development environment-climate and investment interventions (including actions for both agriculture and forestry), investments and cooperation measures, underpinned by advice, training as well as the strengthened environmental conditionality. The key opportunities in the CSP Regulation of December 2021 are identified in Annex 2.

CAP funds are essential in financing carbon farming initiatives but cannot alone provide the financial and regulatory certainty needed to encourage farmers to uptake such practices. Other EU and Member State interventions will be needed as well as private farming initiatives.

Many Member States are already using the CAP to support carbon farming activities. However, there tends to be a greater emphasis on soil management measures (e.g. minimum tillage and catch crops on arable land) or maintaining permanent grassland rather than practices that require a degree of land use change and potentially business re-orientation, such as rewetting peatland soils, agro-forestry or even novel types of management such as paludiculture. These sorts of changes require a shift in mindset as much as practical changes in management.

Indicators from the 2014-2020 programming period show that, at EU level, the following expenditure and area of land was devoted specifically to climate related activities under the CAP:

- 5.4% of rural development expenditure was allocated to Priority 5 promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy (2019 data);
- 1% of agricultural and forest land was under agreements supporting carbon sequestration or conservation (2019 data), with 8 Member States recording no land under agreement for these purposes.

This shows the potential for more to be done, and more ambitious targets can be set under the new CSPs.

### 5. Mitigation potential of carbon farming practices

McDonald et al (2021) estimated that carbon farming practices had significant mitigation potential, equivalent to 3-12% of current EU emissions (or 26+% of current EU agricultural emissions). This report also highlighted that there is a lack of information available at national and regional level on which practices deliver the greatest mitigation potential, although some studies exist on specific types of practice (e.g. Wiesmeier et al. 2020, Pellerin et al. 2013 on managing soil organic carbon on mineral soils in Germany and France).

Actions identified as most able to deliver strong co-benefits include practices or land use changes that maintain existing carbon stocks (thus avoiding future emissions) and/or restore sequestration potential in degraded stocks as well as those that create new carbon stocks. Table 1 summarises the mitigation potential of the most promising, including restoration of drained peatland, agroforestry, afforestation and the management of arable mineral soils. This table illustrates how wide the potential variation is (e.g. for catch and cover crops) because it depends, at the level of individual parcels of land,



on the biophysical conditions (e.g. soils, climate) the current farming system/land use and how easily reversed the practice is. At different scales from region to farm to parcel, the *actual* mitigation potential of carbon farming depends on how, where and for how long carbon farming is practised. Permanence of the mitigation benefits is crucial to achieving EU targets for the land-based sector. However it also affects how secure a carbon farming business model is for the land manager and therefore the funding options, both public and private, that will be most likely to support the upscaling required to deliver the demanding EU target for a climate-neutral land sector in just 13 years' time, and maintain this in perpetuity.

In achieving rapid upscaling of carbon farming at EU level, there will to a certain extent be a trade-off for policy makers between practices that involve limited change to the farm business model but are easily reversed, and practices which are long-term business changes in land use/farming systems, but more likely to provide security of mitigation benefits in the long-term. Furthermore, upscaling is not just about how much land is used for carbon farming, but also maximising the available mitigation potential on the land that is used (i.e. getting as close as possible to the maximum t  $CO_2$ -e/ha/yr on the land that is used, without risk to biodiversity and other ecosystem services. This is also relevant to reducing potential displacement of agricultural production.

Table 1: The mitigation mechanisms and potential of different carbon farming practices.

Carbon farming actions		Mitigation mechanism	Per hectare mitigation potential (t CO2- e/ha/yr)	Opportunities for scaling up in the EU
Peatland restoration	Peatland rewetting, subsequent maintenance and management, paludiculture	Avoided emissions	3.5 - 29	Drained peatlands, predominantly in northern MS
Agroforestry	Creation, restoration, and management of woody features in the landscape	Removal	0.03 – 27	
Afforestation	Creation of new woodlands and forests on sites that have not been forested within the last 50 years	Removal	2.39 – 5.74	Throughout the EU, in almost all soil/climatic conditions
Maintain and enhance SOC on mineral soils	Cropland and grassland management (permanent and ley)	Removal and avoided emissions	0.5 -7	
Catch/cover crops	Crops grown between the harvest of one main crop and the sowing of the next (cover crops can be undersown	Avoided emissions	-0.01 – 4.6	

<sup>&</sup>lt;sup>4</sup> Values for natural regeneration are lower and not included here.

Hedges and woody margins		Removal	0.65 – 3.3	
Conservation of near- natural peatland	Exisiting wetland/ peatland soils	Avoided emissions	0.7 – 2.85	Exisiting near-natural peatlands throughout the EU
Arable conversion to grassland	Conversion of arable land to permanent grassland which is no longer cultivated		0.33 -1.44	

Source: own compilation drawing upon Ecologic and IEEP (2022) and other research data

### 6. Co-benefits and trade-offs of carbon farming

As highlighted in the Commission's definition of carbon farming (above), carbon farming practices should adhere to ecological principles and be beneficial for biodiversity. Depending on the practices there may be other environmental co-benefits such as reduced risks of soil erosion and of floods, improved water infiltration and availability, and improved microclimate adaptation — but also risks, which require safeguards. Table 2 summaries the benefits and risks for the carbon farming practices identified as having significant mitigation potential. There could be economic benefits for the business too, but in common with biodiversity benefits these may take longer to achieve and carry risks in that they depend on commodity (including carbon) markets over a longer time frame than is typical for a farm business.

Table 2: Co-benefits, risks and safeguards for selected carbon farming practices

	Carbon farming actions	Co-benefits for land managers	Societal co- benefits	Risks	Safeguards needed
Managing peatlands	Peatland rewetting / maintenance / management, paludiculture	Potential for paludiculture and/or future income from carbon certification <sup>6</sup>	Biodiversity, flood regulation, water quality	CH <sub>4</sub> emissions (although net GHG benefit), decrease in production	Resilience to climate change impacts, consider effect of displacing production
Agroforestry	Creation, restoration, and management of woody features in the landscape	Diversification of outputs. protects against single crop failure	Improved water retention, microclimate, soil health, biodiversity	Non-native species' impact on biodiversity	No agroforestry on peatlands, consider nature conservation objectives
Afforestation	Creation of new woodland and forests on land in other use (or unused)	Diversification of outputs, potential for future income	Improved microclimate, flood risk management, recreation	Displacement of production (on agricultural land)	No afforestation on peatlands, consider existing nature conservation

<sup>&</sup>lt;sup>5</sup> Values based on sequestration in near-natural peatland.

<sup>&</sup>lt;sup>6</sup> For example, through the <u>Peatland Code</u>



		from carbon certification <sup>7</sup>	opportunities, health benefits		values and objectives
Maintain and enhance SOC on mineral soils	Cropland and grassland management (permanent and ley)	Improved water holding capacity and workability of soils, productivity	Improved water retention, soil health, biodiversity	Biochar, off- farm compost impacts on soil health/biodive rsity	Restriction on biochar and municipal compost

Source: own compilation drawing upon MacDonald et al (2021)

### 7. Issues and potential questions for discussion

The term 'carbon farming' is relatively new. Although many of the practices that can be used to contribute to carbon farming are not new, there are still a number of questions and issues that surround their use for the purposes of carbon storage and sequestration. These questions are important to address in order to encourage greater adoption of carbon farming practices to deliver a climate-neutral land sector by 2035. Practical solutions and consideration of their potential including how to make them economically viable are most often related to specific types of production.

Key issues and questions can include:

## a) Optimising long-term mitigation potential and co-benefits – choosing the practices to achieve this

- Issues of permanence: ensuring that carbon sequestered and stored in soils and biomass is not released back to the atmosphere, undoing climate mitigation benefits.
- Ensuring that LULUCF removals do not replace avoided emissions or emissions reductions in other sectors, but complement them.
- How to encourage the uptake of those practices with the greatest mitigation potential.

### b) Economic opportunities and business models, 'buy in' by farmers and foresters

- How to create economic benefits alongside effective climate mitigation for the farming and forest sector, over different time-scales. Adding value to products developed from carbon farming practices. What role does/should the agri-food industry play?
- Cost-benefit analysis of different carbon-farming practices in different farming systems, and trade-offs/risks of different practices/ approaches for famors and society.
- Overcoming the issues concerning the costs associated with the initial investments needed to shift towards more effective carbon farming, the amount of time it takes to recover costs associated with converting land.
- Addressing the administrative burden on farmers particularly small farmers given that the
  costs associated with adopting new carbon farming practices may be high and therefore
  disincentivise uptake.
- How to achieve from farmers/foresters and foster more positive and entrepreneurial attitudes
  to carbon farming. What are attractive carbon farming practices from the farmer/forester
  perspective that they may be willing to adapt? What are attractive support schemes or
  payment models from a farmer/forester perspective?
- Blending public/private funding e.g. between CAP funding and carbon credit mechanisms. What non-CAP incentives / business models can be used?

<sup>&</sup>lt;sup>7</sup> For example, through the Woodland Carbon Code





• Coordination between CAP funding and carbon credit mechanisms.

### c) How to support uptake of carbon farming via the CAP

- How to support / increase support for carbon farming via CAP Strategic Plans. Taking advantage of synergies that exist between measures/interventions to maximise uptake and impact? Structure and design of incentives (targeting, packages of carbon farming interventions).
- Coherence with other CAP objectives and EU policies to ensure that carbon farming also delivers for biodiversity, water quality and management, mitigation of flood and fire risk.
- To implement carbon farming at scale requires consideration of the payment framework, opportunity costs, rewarding maintenance of carbon stocks. What are attractive support schemes/ payment models from an administrative perspective?
- How to provide support for afforestation, forests and for carbon farming on public land and expand agroforestry?

### d) Advice, training and capacity building

- How to increase the knowledge of farmers and foresters on carbon cycles and the value of carbon sequestration – to them and society more widely.
- How to increase the capacity of Managing Authorities/ advisory services.
- How to accelerate and disseminate good practices within the EU.
- How to address the current lack of access to technical expertise to assist farmers.
- How to address the lack of capacity in some Member States in relation to certain carbon farming practices with high mitigation potential e.g. agroforestry, re-wetting peatlands.

### e) Monitoring / Reporting / Verification and research/data needs

- Monitoring, reporting and verification: accurate quantification of real, additional mitigation from carbon farming is difficult and costly. There remains a lot of uncertainty about mitigation potential.
- How to assess carbon baselines in soils. Is it possible to develop robust, reliable indicators of soil organic carbon (SOC) that are fit for all soil types?
- Need for different standards of verification for payment controls of different funding sources. Harmonisation of monitoring and sampling programmes.
- R&D needs. Incorporating the latest research and applying it to practice.

#### f) Governance

- Which governance / institutional changes are required to increase engagement and action?
- What governance structures and strategies for data are required to ensure a robust measurement, reporting and verification (MRV)?

### 8. Useful further reading

European Commission (2021) Communication from the Commission to the European Parliament and the Council Sustainable Carbon Cycles COM(2021) 800 final Brussels, 15.12.2021: https://ec.europa.eu/clima/eu-action/forests-and-agriculture/sustainable-carbon-cycles\_en



European Commission, Directorate-General for Climate Action, Radley, G., Keenleyside, C., Frelih-Larsen, A., et al. (2021) Setting up and implementing result-based carbon farming mechanisms in the EU: technical guidance handbook. https://data.europa.eu/doi/10.2834/056153

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McDonald, H., Frelih-Larsen, A., Lóránt, A., Duin, L., Pyndt Andersen, S., Costa, G., and Bradley, H. (2021) Carbon farming – Making agriculture fit for 2030, Study for the committee on Environment, Public Health and Food Safety (ENVI), Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Luxembourg.

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Sharma, M., Kaushal, R., Kaushik, P., Ramakrishna, S., (2021). Carbon Farming: Prospects and Challenges. Sustainability 13, 11122. https://doi.org/10.3390/su131911122

Enríquez-de-Salamanca, Á., 2021. Carbon versus Timber Economy in Mediterranean Forests. Atmosphere 12, 746. https://doi.org/10.3390/atmos12060746

Enríquez-de-Salamanca, Á., Martín-Aranda, R.M., Diaz-Sierra, R., 2017. Towards an Integrated Environmental Compensation Scheme in Spain: Linking Biodiversity and Carbon Offsets. J. Env. Assmt. Pol. Mgmt. 19, 1750006. https://doi.org/10.1142/S1464333217500065

EEB (2021): Carbon Farming for Climate, Nature and Farmers

ELO (2021): Carbon Farming, the landowners' perspective

EIP-AGRI (2021) Workshop 'Towards carbon neutral agriculture': Final report

EIP-AGRI (2019) Focus Group 'Moving from source to sink in arable farming': Final Report and Factsheet (with links to examples)

Pellerin, A., L. Bamiere, D. Angers, F. Beline, and others. (2013). Quelle Contribution de L'agriculture Française à La Réduction Des émissions de Gaz à Effet de Serre? Potentiel D'atténuation et Coût de Dix Actions Techniques. Délégation à l'Expertise scientifique, à la Prospective et aux Etudes (DEPE): INRA. Online available at <a href="https://librairie.ademe.fr/changement-climatique-et-energie/3468-quelle-contributionde-l-agriculture-française-a-la-reduction-des-emissions-de-gaz-a-effet-de-serre-.html">https://librairie.ademe.fr/changement-climatique-et-energie/3468-quelle-contributionde-l-agriculture-française-a-la-reduction-des-emissions-de-gaz-a-effet-de-serre-.html</a>

Wiesmeier, M., Mayer, S., Burmeister, J., Hübner, R., Kögel-Knabner, I. (2020): Feasibility of the 4 per 1000 initiative in Bavaria: A reality check of agricultural soil management and carbon sequestration scenarios. Geoderma 369, 114333. Online available at <a href="https://doi.org/10.1016/j.geoderma.2020.114333">https://doi.org/10.1016/j.geoderma.2020.114333</a>



Annex 1: LULUCF 2030 targets in Mt CO<sub>2</sub>

	Targets under current LULUCF Regulation (REGULATION (EU) 2018/841)	Proposal for a revised LULUCF Regulation COM/2021/554 final
Austria	-4.0	-5.6
Belgium	-1.2	-1.4
Bulgaria	-7.9	-9.7
Croatia	-3.6	-5.5
Cyprus	-0.4	-0.4
Czechia	-6.4	-1.2
Denmark	5.8	5.3
Estonia	-0.5	-2.5
Finland	-20.8	-17.8
France	-43.0	-34.0
Germany	6.1	-30.8
Greece	-2.9	-4.4
Hungary	-0.7	-5.7
Ireland	9.1	3.7
Italy	-21.0	-35.8
Latvia	3.7	-0.6
Lithuania	-3.7	-4.6
Luxembourg	-0.4	-0.4
Malta	0.0	0.0
Netherlands	5.1	4.5
Poland	-26.0	-38.1
Portugal	-10.8	-1.4
Romania	-24.0	-25.7
Slovakia	-6.1	-6.8
Slovenia	-3.9	-0.1
Spain	-33.3	-43.6
Sweden	-34.1	-47.3
EU-27	-224.9	-310.0

D(2021) 609 final, COMMISSION FF WORKING DOCUMENT IMPACT SESSMENT REPORT Accompanying document Proposal for a Regulation the European Parliament and the uncil amending Regulations (EU) 18/841 as regards the scope, plifying the compliance rules, ting out the targets of the Member tes for 2030 and committing to the lective achievement of climate itrality by 2035 in the land use, estry and agriculture sector, and (EU) .8/1999 as regards improvement in nitoring, reporting, tracking of gress and review





# Annex 2: CAP Strategic Plans – decision points for Member States to incentivise the uptake of carbon farming

CAP Strategic Plan decision point (references are to Regulation(EU) 2021/2115 of 2 December 2021)	Key choices for Member States to incentivise uptake of carbon farming practices and land uses
Needs and SWOT assessment and intervention strategy (Articles 108, 109 and 115)	<ul> <li>identify carbon farming needs and opportunities for different farming systems, soil types and land cover, including drained peatland and existing agroforestry systems</li> <li>detail how these are to be addressed through the coherent choice of interventions across the whole CAP, as part of the environmental and climate architecture</li> <li>identify co-benefits of meeting carbon farming needs (e.g. for biodiversity, soil quality water quality, flood risk management, diversifying income)</li> </ul>
Definition of 'agricultural activity' (Article 4(2)a and of' 'eligible hectare' (Article 4(4)b(i)(ii) and 4(4)c(ii)	<ul> <li>ensure that both definitions include paludiculture</li> <li>ensure that 'eligible hectare' also includes all woody and wetland landscape features on the farm, and also non-productive features on arable land (not just those defined for GAEC 8)</li> </ul>
Definition of 'permanent grassland' and 'permanent pasture' (Article 4(3)b and c)	<ul> <li>ensure that this definition includes permanent grassland habitats with shrubs and/or trees, including pastoral agroforestry systems</li> </ul>
Definition of 'arable land' (Article 4(3)a)	<ul> <li>ensure that this definition includes arable agroforestry systems</li> </ul>
Conditionality – standards of Good Agricultural and Environmental Condition (GAEC)  (Article 13 and Annex III)	<ul> <li>maintain permanent grassland ratio (GAEC 1)</li> <li>protect wetland and peatland (GAEC 2)</li> <li>ban on stubble burning, tillage management, protection of soils in winter and crop rotation (GAEC 3, GAEC 6 and GAEC 7)</li> <li>protect all existing woody landscape features, wetlands and non-productive areas; create new wetland and woody features on arable land (GAEC 8)</li> <li>designate all permanent grassland (including agroforestry systems within Natura 2000 sites as environmentally sensitive (GAEC 9)</li> </ul>
Farm Advisory Service and Agricultural Knowledge and Innovation System (Articles 3(9), 15 and 114)	<ul> <li>ensure that Farm Advisory Services and the wider AKIS system provide up-to-date technical advice on needs/benefits/techniques of all carbon farming practices</li> <li>provide technical training on carbon farming for advisory services (public and private)</li> </ul>
Eco-schemes (Articles 31 and 97)	top-up to basic income support, for agroforestry systems



	<ul> <li>top-up to basic income support, proportional to the density of woody and wetland landscape features on the farm (going beyond requirements set out in GAEC 8)</li> <li>top-up to basic income support, for rewetted peatland used for grazing or paludiculture</li> </ul>
Coupled income support (Articles 33 and 34)	• for short-rotation coppice, for environmental reasons
Environmental management commitments (Article 70)	<ul> <li>(result-based pilot and) action-based schemes for peatland restoration and rewetting</li> <li>(result-based pilot and) action-based schemes for management of low-intensity traditional agroforestry systems under threat</li> <li>action-based schemes for SOC in mineral soils and grasslands</li> </ul>
Natura 2000 disadvantages (Article 72)	<ul> <li>Natura 2000 compensation payments for permanent grassland, peatland, wetland, agroforestry and forest habitats</li> </ul>
Investments in biodiversity, ecosystem services, habitats and landscapes, afforestation and the establishment and regeneration of agroforestry systems, (Articles 6(1)d and 6(1)f and Article 73(4)c(i)	<ul> <li>rewetting/restoration of drained peatland</li> <li>restoration/creation of new woody landscape features</li> <li>restoration of low-intensity traditional agroforestry systems under threat</li> <li>creation of new agroforestry systems</li> <li>afforestation</li> <li>conversion of arable to permanent grassland</li> </ul>
Cooperation (Article 77)	<ul> <li>set up European Innovation Partnership Operational Groups and/or LEADER initiatives for carbon farming, including result-based pilot schemes</li> </ul>

Source: own compilation based on Regulation (EU) 2021/2115 on CAP Strategic Plans