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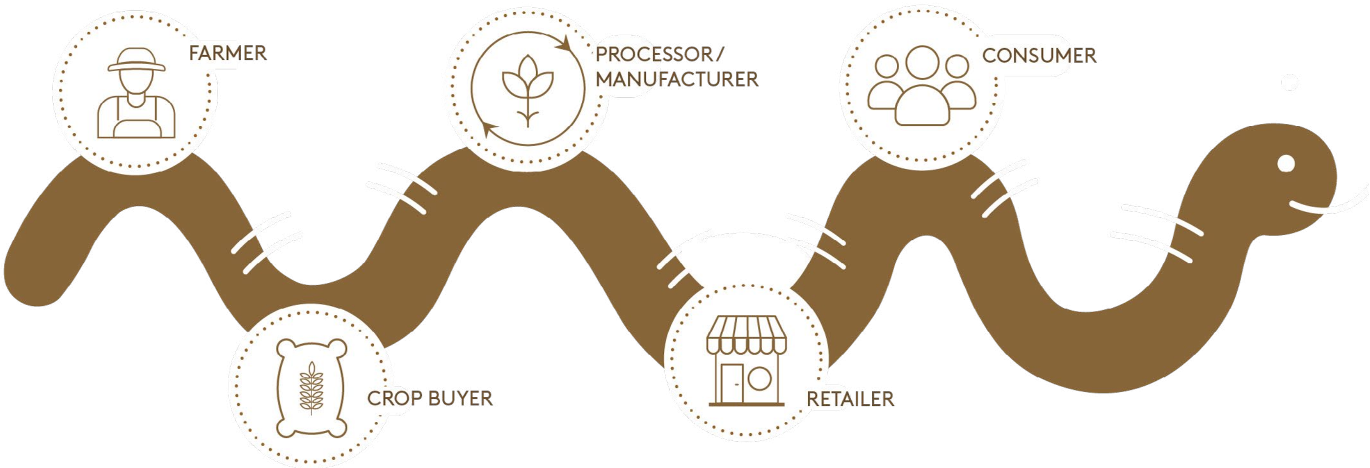
Decoding new EU AgFood Policies with Soil Capital

Contextualised in agricultural supply chain

Webinar - October 2024

A Simplified Value Chain



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PREFACE

The Agriculture and Food Sector will need to meet forthcoming requirements regarding greenhouse gas emissions. The European Union (EU) is developing a long-term strategy with new policies driving significant changes in corporate sustainability practices. However, legislative processes involve multiple stakeholders and various legal bodies and institutions at both EU and member state levels. Understanding and anticipating these future norms is a time-consuming challenge.

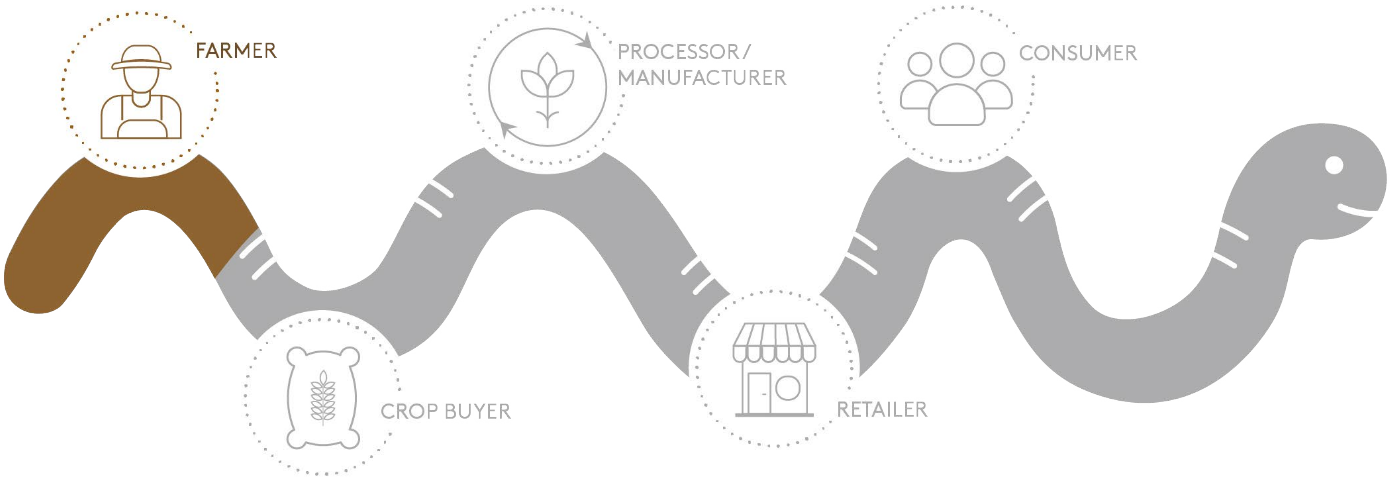
In this context, Soil Capital introduces the Wiggly Worm, our visual guide exploring the implications of the new EU policies on the AgFood Value Chain. Representing a simplified version of a value chain, the Wiggly Worm was first introduced during a webinar presented by Andrew Voysey, Chief Impact Officer at Soil Capital. You can access a recording of this webinar by clicking on the link below. This session, featuring policymakers shaping the AgFood landscape at the EU level, provides valuable insights into the complexities of evolving regulations and their direct impact on Scope 3 emissions strategies.

Watch The Webinar Here

This document explores the key concepts discussed during the webinar in greater depth, offering additional context and insights. Each page summarises one policy, covering a total of six policies, along with a bonus page highlighting how Soil Capital's programme and expertise are positioned at the EU level.

We hope this paper proves to be a valuable resource. If you have any questions arising from your reading or if you wish to build a more resilient AgFood supply chain, please contact us at hello@soilcapital.com.

Carbon Removal Certification Framework (CRCF)



WHAT ?

EU certification of high quality carbon removals, for public and private sector use.

WHEN ?

Overarching regulation agreed April 2024. Delegated Act with detailed methodologies in 2025.

Of note : carbon removals in agriculture require improvements in **soil health**, **biodiversity** and avoidance of **land degradation** as well.

The CRCF applies **on the supply side of carbon removals, the farmer side**. Those who are able to achieve carbon removals in soil or biomass.

It represents the European Union's effort to establish **a certification process**, backed by regulation, to define high-quality carbon removal.

The CRCF is designed for both public and private sector use. In the future, it may also be integrated into the Common Agricultural Policy (CAP) and other public sector schemes and initiatives as well.[1]

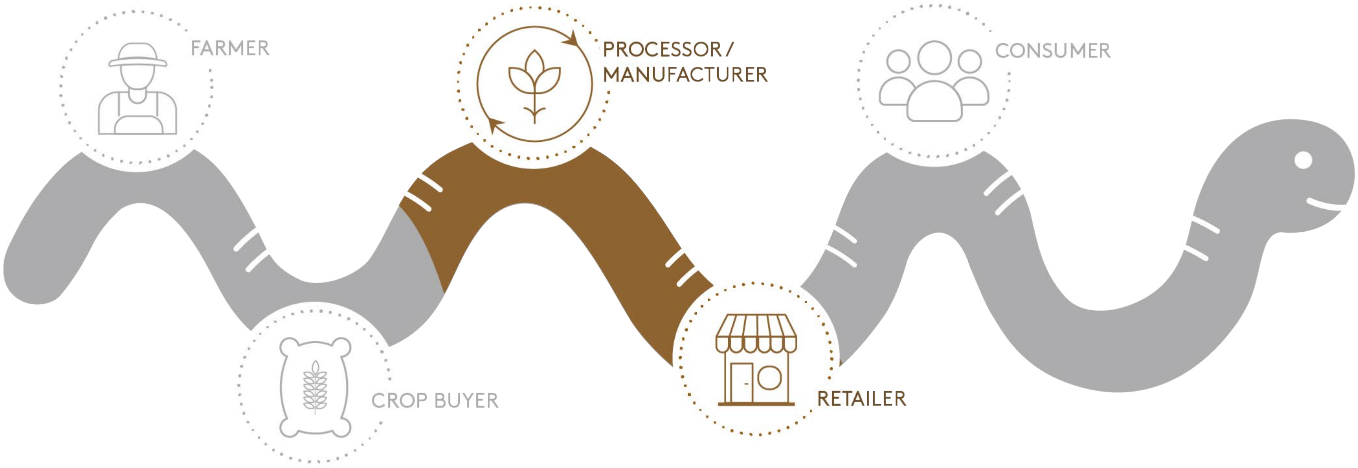
In terms of time scale, the CRCF was agreed upon by three different European political institutions[2] in April 2024, establishing the overarching regulation. The formal adoption into European law is anticipated in the coming months. Following this, a Delegated Act is expected in 2025. This act, which exclusively tasks the European Commission with creating supporting regulations, will include detailed methodologies for farmers, foresters, and peatland managers.

It is important to note that, despite the regulation's focus on carbon, certification by the EU in the future will require demonstrating **improvements in soil health and biodiversity, as well as preventing land degradation**. This means the regulation will support **a more holistic, regenerative agriculture approach**, which may not be immediately apparent from its title, as these aspects were introduced later as an amendment.

1 In Scope 3 emissions and where relevant in the Voluntary Carbon Market (VCM) as well.

2 The European Commission, the Council of the European Union and the European Parliament

Corporate Sustainability Reporting Directive (CSRD)



WHAT ?

EU corporate reporting requirements, including for supply chain activities.

WHEN ?

For large businesses (250+ employees, balance sheet EUR 25 milllion +, turnover EUR 50 million +), reporting on 2024 data required in 2025, cascading to others in following years.

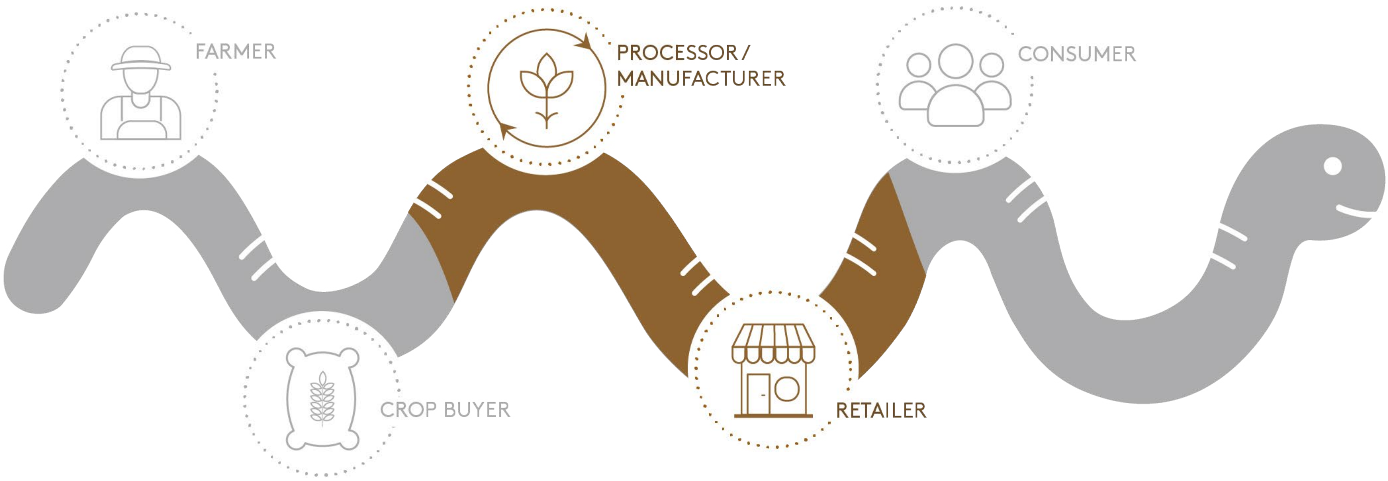
Of note : all significant sources of **GHG emissions** in supply chains must be **reported**, in alignment with **GHG Protocol**, with primary data being encouraged. The underlying philosophy is that market transparency will reward better performance.

We display processors, manufacturers, and retailers for convenience, but the scope of CSRD is broader. It actually extends to all large businesses and **it is cascaded to smaller businesses over time**.

CSRD is an EU corporate **reporting regulation, covering not only a company's own activities but also those of its supply chain as well**. All significant sources of GHG emissions in the supply chain must be reported, aligning closely with the GHG Protocol. This is relevant when considering other voluntary initiatives **requiring Scope 3** disclosure. The CSRD framework encourages the use of primary data - data obtained directly from farm levels - as opposed to secondary data derived from industry averages.

The directive's underlying philosophy is that **market transparency enables better performance to be rewarded**. Although this shift won't happen overnight and may be complex, the idea is that with better information, investors, customers, and others can make capital allocation decisions that favour better performers. Thus, **the quality, consistency, and direction of the data provided are crucial**.

Corporate Sustainability Due Diligence Directive (CSDDD)



WHAT ?

EU corporate reporting requirements, including for supply chain activities.

WHEN ?

Adopted April 2024, now being transposed into national law for implementation for large businesses (5000+ employees or EUR 1.5 billion) in 2027, cascading to others in following years.

Of note : Article 15 requires companies to have **transition plans** to ensure their business model and strategy are compatible with **limiting global warming to 1.5 degrees.**

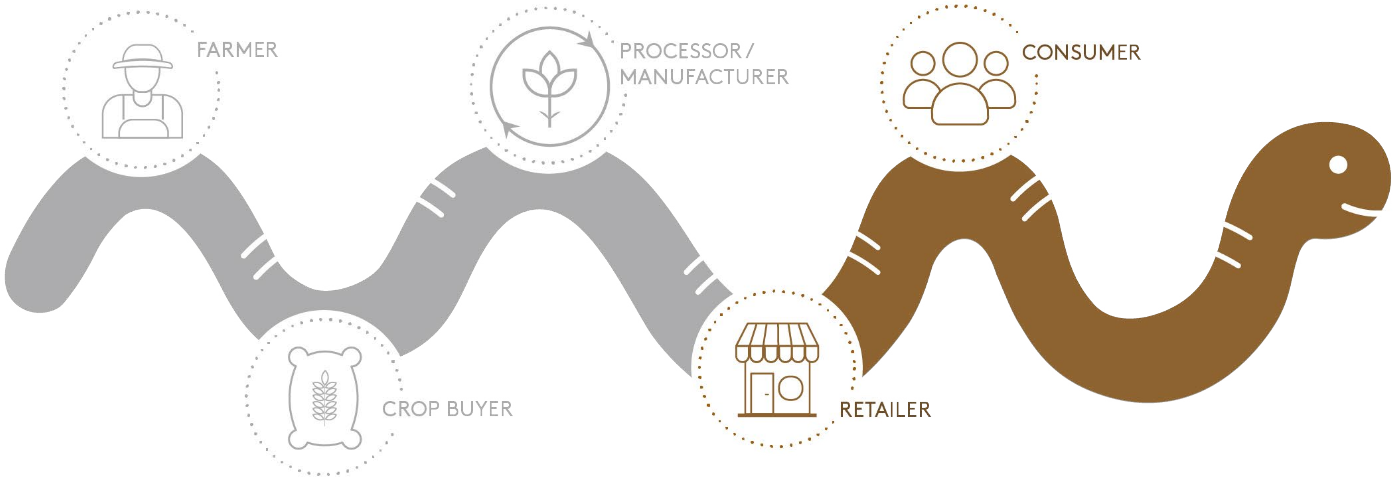
As for CSRD, we display processors, manufacturers, and retailers for convenience, but the scope of CSDDD is broader. It actually has broader applicability, depending on the size of the business.

The CSDDD **focuses on corporate sustainability activities**, moving from the voluntary sphere into the regulatory sphere. It was adopted in April 2024 and is now being implemented through national laws, starting with larger businesses and gradually including others.

This directive is quite broad, but a key feature is Article 15, which **requires companies to develop transition plans**. These plans must ensure that their business models and strategies are compatible with limiting global warming to 1.5 degree Celsius.

There is a **clear synergy between the reporting requirements under the CSRD and the need for a transition plan**. This means that the impact reported in terms of climate and GHG emissions must align with a plan to reduce these impacts in accordance with the scientific requirements for a 1.5 degree trajectory.

Empowering the Consumer for the Green Transition Directive (ECGTD)



WHAT ?

Update to existing EU consumer protection laws, providing the foundations for the more specific Green Claims Directive (to come).

WHEN ?

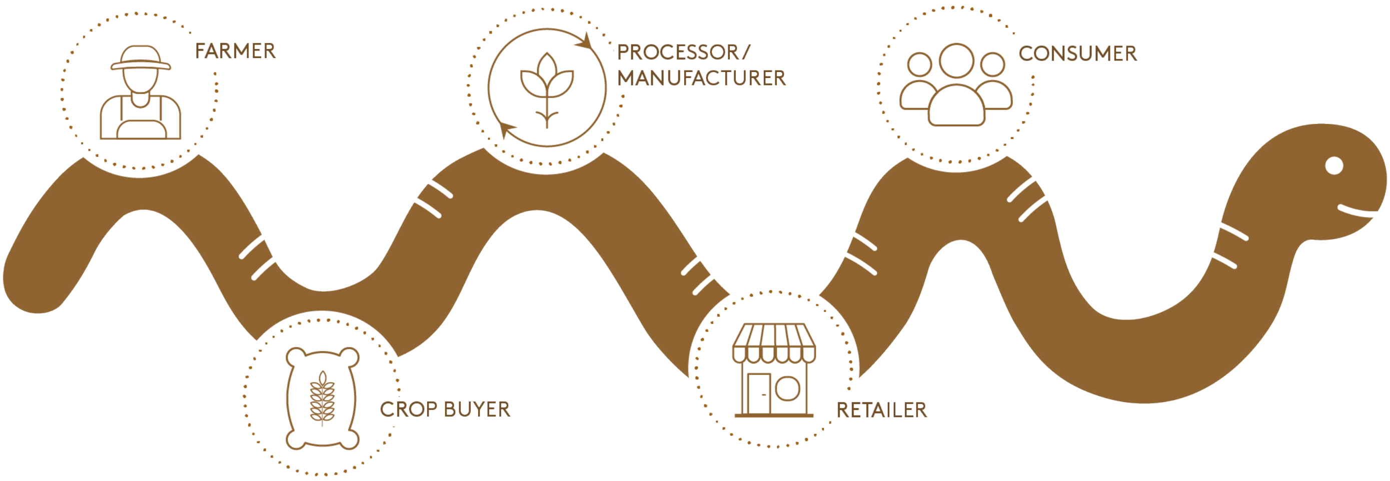
Adopted March 2024, entering into force 2026.

Of note : prohibits **claims** such as «climate neutral» etc., when these claims are based on offsetting greehouse gas emissions outside the product's value chain - **only allowed when related to actual reductions in product lifecycle.**

The penultimate regulation we're discussing doesn't have a four-letter acronym but is crucial nonetheless. It targets retailers and consumers by building on existing European law to enhance consumer protection. This directive also lays the groundwork for a more specific upcoming regulation, the Green Claims Directive.

Adopted in March 2024, this directive will come into force in a few years. A key aspect is that **it prohibits companies from making claims like "climate neutral" when these claims are based on offsetting activities outside the product's value chain**. The regulation covers a range of claims and language, restricting those based on external GHG offsets. Instead, companies must make claims that reflect actual reductions within the product life cycle.
It is relevant to see this in connection with other regulatory developments. Earlier, we discussed regulations defining high-quality carbon removals (CRCF) and requirements for companies to disclose value chain activities (CSRD) and align business strategies with a 1.5 degree world (CSDDD). Now, this latest regulation prohibits misleading consumer claims based on offsetting, emphasising **the EU's focus on real, measurable reductions within value chains, especially Scope 3 emissions**. Together, these policies illustrate a comprehensive EU effort to drive significant changes in corporate sustainability practices.

Agriculture Emissions Trading Schemes (EU Ag ETS)



WHAT ?

Expansion of existing EU ETS to apply to agriculture value chain.

WHEN ?

At early exploration stage.

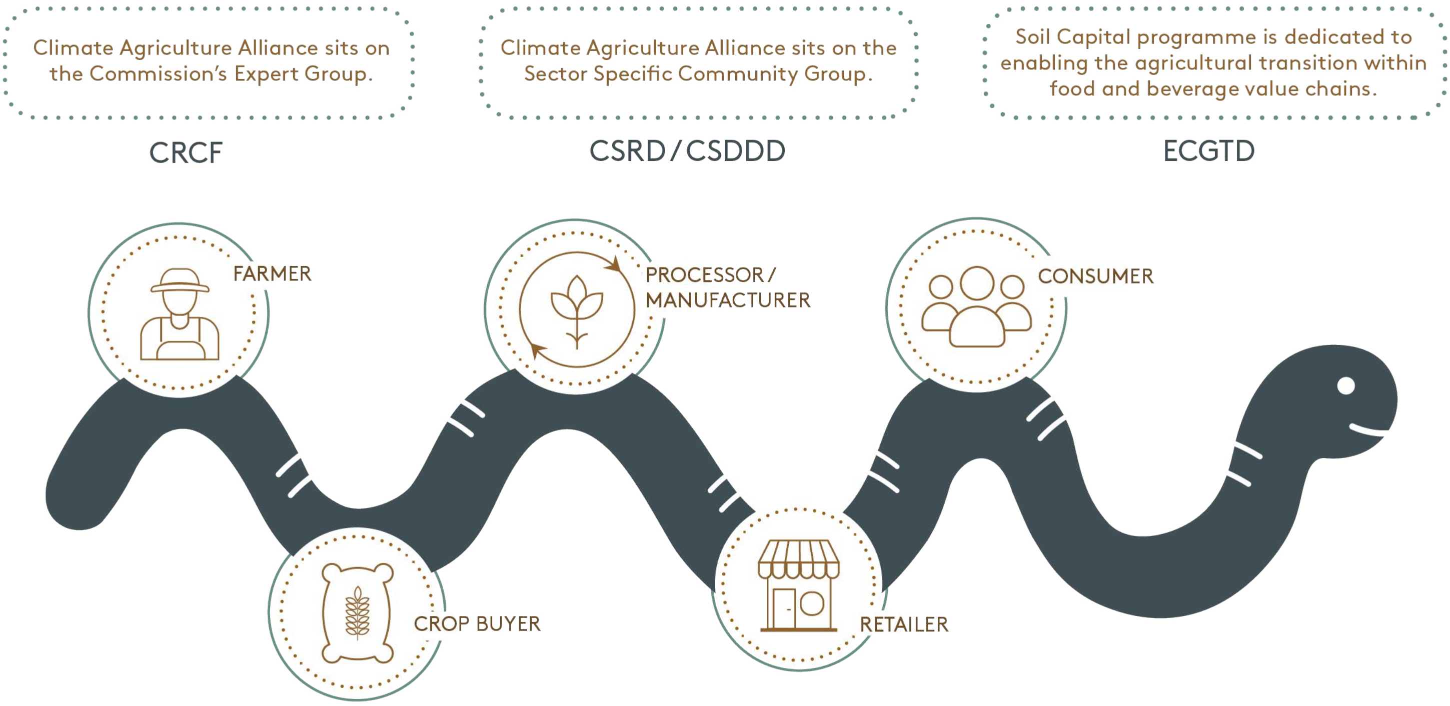
Of note : considerations for different scopes (e.g livestock, fertiliser, all farming) and ways to leverage farm-level carbon removals.

The EU Ag ETS is currently at the idea stage, with no political commitment yet. The European Commission is **considering expanding the existing European trading scheme to include the agricultural value chain, encompassing food and farming**.

The existing trading scheme imposes a regulatory cap on emissions and establishes a trading system where entities can buy permits if they cannot meet their emission obligations. This would shift the agricultural sector from a voluntary market to a regulated one. However, this concept is **still in early exploration, without a clear roadmap or policy development timeline**.

The Commission is considering various scopes: whether this expansion would apply only to the livestock value chain, solely to fertiliser use on farms, or specifically to the farm level of the value chain. Additionally, different methods for incorporating farm-level carbon removals into the scheme are being explored.

Soil Capital's Expertise in EU Agricultural Regulation



Soil Capital's Regenerative Agriculture Transition Programme aligns with various policy areas mentioned. In relation to the CRCF, Soil Capital is involved through an Expert Group established by the European Commission, which gathers stakeholders to provide technical expertise for policy development, including the Delegated Act. The Climate Agriculture Alliance (CAA), which we helped to co-found, represents our industry peers in this Expert Group. Andrew Voysey, Chief Impact Officer at Soil Capital, represents the CAA on the Group, ensuring our peer group's views are closely connected to the policy development process.

The CAA also has a similar role with the CSRD, where our Chief Impact Officer again represents the Alliance in developing sector-specific reporting standards.

As we consider the various policies, it is clear that **the European approach increasingly emphasises achieving reductions and removals within value chains**. This is directly in line with our regenerative transition programme, which is dedicated to fostering transformation within the food and beverage value chains. Notably, **we have an insetting strategy; our focus is within the agrifood value chain**. This focus stems from our core convictions, feedback from farmers, and the direction of European policy.

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CONTACT

About Soil Capital

Soil Capital is a certified B Corp company whose mission is to support farmers in their transition to regenerative and sustainable agriculture. Soil Capital's programme benefits over 1,600 farmers in France, Belgium and the UK, covering 350,000 hectares. It is based on a reliable methodology, certified by a tangible carbon indicator, aligned with corporate objectives to reduce scope 3 carbon emissions. Soil Capital's certificates comply with the FLAG requirements of the SBT initiative, and are measurable and verified by third parties.

Contact Us

If you're interested in discovering how Soil Capital's regenerative programme can help you build a more resilient AgFood supply chain, please contact us at hello@soilcapital.com.