

Pricing and Rewarding Impact Can Restore Natural Balance

On Monday, June 17, 2024, the European Environment Council approved the Nature Restoration Law, marking a significant step in the protection of nature and climate in Europe. This is urgently needed, as the state of European nature and climate is deteriorating. What does this mean for Dutch farmers, the natural balance, and investors? Could pricing the negative impact on nature and rewarding positive impact be the answer? Cardano considers incorporating agriculture into the European Emissions Trading System, provided it is done transparently and fairly.

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Dutch farmers are among the most efficient food producers in the world, yet this efficiency comes at a significant cost to resource consumption. Food production and the environment are interconnected: manure, nitrogen, pesticides, and PFAS threaten the quality of groundwater, drinking water, and biodiversity. Banning food production here would leave our plates empty, relocate farmers abroad, and shift the negative impact elsewhere.

Expert



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To Concede to Farmer Protests or Not?

In early June, farmers from across Europe marched to Brussels to express their dissatisfaction with the European Green Deal, which includes agreements to combat climate change and biodiversity loss. These agreements cover the mandatory 4% fallow land in the Common Agricultural Policy, the Nature Restoration Law, and the reduction of chemical crop protection agents. For farmers, this also means reduced subsidies and increased bureaucracy. However, conceding to farmer protests will not solve the problem. Farmers deserve a good income and there must be food security for European citizens. On the other hand, the European Commission states that by 2035, agriculture in Europe must be climate-neutral, meaning no net greenhouse gas emissions.

Short-Term vs. Long-Term Choices

The central question is whether farmers and society are willing to accept short-term losses, knowing that delaying nature restoration measures will lead to greater losses in the future. It is well known that biodiversity loss and environmental pollution result in higher long-term costs, disrupted ecosystems, increased healthcare costs, lower agricultural productivity, and reduced attractiveness of tourist areas. This also affects Europe's competitiveness, economic growth potential, and, consequently, the financial markets.

Better Prices for Sustainable Products

Farmers and horticulturists who make extra efforts, such as reducing nitrogen, sequestering carbon, working with higher water levels, or maintaining healthy soil, should receive better prices for their products. However, these better prices do not automatically arise in the free market. As a result, consumer prices have been rising for years, while the prices farmers and horticulturists receive for their products have not kept pace. This can and must be fairer. Implementing the Nature Restoration Law will lead to painful choices for farmers, but ultimately, this transition is unavoidable and must contribute to nature restoration, climate adaptation, and a healthy living environment.

Producing Food Within "Planetary Boundaries"

For Cardano, the question is how our agricultural and food system can be organized to produce healthy, sustainable, and cost-effective food within "planetary boundaries." How can we, as investors, influence producers, consumers, and governments to make decisions where social costs are borne by the polluter and risks are not passed on to future generations? Pricing positive and negative externalities ensures higher prosperity and well-being and creates a level playing field between conventional and sustainable agriculture.

An example is Denmark, which recently decided to tax greenhouse gases emitted during food production. Danish farmers must pay a levy of about 100 euros per cow to tax methane emissions.

Submitting Restoration Plans

Now it is up to the European member states to properly enforce the Nature Restoration Law and collaborate to restore our valuable ecosystems. To successfully implement the Nature Restoration Law, member states must submit various national restoration plans to the European Commission until 2050. These plans must describe how they will achieve the objectives and can consider region-specific needs such as population density.

Incorporating Agriculture into ETS?

One measure that can contribute to restoring the natural balance is expanding the European Emissions Trading System (ETS) to include the agriculture sector. The ETS is the main EU instrument to limit greenhouse gas emissions. Rabobank, "the bank for farmers," previously advocated for expanding the ETS to other economic sectors, including agriculture. Former RABO executive Draaijer expressed support for a levy on meat and CO2 pricing for all agricultural products in a podcast. Food would become more expensive, but we would pay the "real price" for farm products. At the same time, the higher price in the supply chain could be used to reward farmers for delivering "positive impact."



Making Financial Impact Transparent

In addition to incorporating agriculture into the European Emissions Trading System, Cardano believes that the loss of biodiversity and ecosystem services should also be included in the trading system, provided it is done transparently and fairly. Cardano strongly supports making the financial impact of losing natural value transparent and is an early adopter of the [Taskforce on Nature-related Financial Disclosures \(TNFD\)](#). This initiative supports a shift in global financial flows from nature-negative to nature-positive outcomes. TNFD provides guidelines for companies and financial institutions to assess nature-related dependencies, risks, and opportunities, enabling them to integrate nature into their decision-making.

Achieving Positive Impact

Cardano seeks companies that already have a positive impact and those willing and able to make their processes and products more sustainable. Together with the [Impact Institute](#), Cardano has developed a method to measure the impact of individual companies on biodiversity loss. This provides insight into the extent to which companies cause risks and experience the negative consequences. Using this measurement method, an investor can invest sustainably at the biodiversity level and mitigate risks. Just as carbon credits aim to reduce CO2 emissions, biodiversity credits can be an option to limit biodiversity loss and contribute to the much-needed restoration of the natural balance.