

Financial Support to Fossil Energy Free Technologies and Strategies (FEFTS)

What is the challenge?

- Lack of well-structured and coherent financial incentives specifically for FEFTS.
- There is an insufficient framework supporting pioneering entrepreneurs focusing on FEFTS development for agricultural use.
- The financing needs of smaller farms to integrate FEFTS in their production system are usually not addressed by horizontal tools.
- Many different subsidy policies by different government bodies, which in some cases can either be conflicting or not compatible. Specific economic incentives for FEFTS are not clearly provided.
- High uncertainty hindering investments in FEFTS, as the result of multiple factors like perceived uncertainties of technological maturity of specific FEFTS, of the economic viability of the investments as well as limited financing options for such investments.
- Farmers primarily sell agricultural products. Selling other products that are energy or carbon related is frequently not “on their radar”, even if they could diversify their income streams, decrease food production cost, and improve their income.
- While all EU countries have a framework for Energy Communities, sometimes specific provisions for agricultural focus are missing.

Policy Recommendations

- Defossilising agriculture is a multi-sectoral endeavour that is based on multiple pillars: The Farm to Fork Strategy and the Common Agricultural Policy, the revised Renewable Energy and Energy Efficiency Directives along with the REPowerEU Plan. **Optimal harmonization among the different policies and directives should be ensured.** This challenge is more evident at the National level. There are cases where the administrative requirements for accessing funds or incentives under the renewable energy policies and the CAP differ and accessing tools stemming from one policy might not allow to access tools stemming from the other. For example, a farmer who wants to install a small wind turbine might need to navigate both agricultural and energy regulations, each with their own set of complex application procedures, eligibility criteria, and reporting requirements. Another example is that the CAP supports biofuels, some of the Member States do not allow farmers to produce their own biofuels on-site in their farms.
- **Well-structured financial incentives:** While the energy policy of the EU includes a variety of financial incentives to support the deployment of renewable energy technologies, these incentives need to be aligned with the realities of agriculture under specific measures. At the same time, the eco-schemes of the current CAP (25% of the direct payments), which are voluntary programs that incentivize farmers to adopt sustainable and climate-friendly practices, **should be designed in a way that effectively supports the adoption of FEFTS.** The new CAP has higher green ambitions, adopts the eco-schemes instrument with at least 25% of the direct payments to be dedicated to them and foresees green architecture tools. At the same time, there is high flexibility in many aspects concerning how the Member States will implement the CAP. In the future, CAP can foresee more compulsory measures facilitating the defossilization of EU agriculture. Concrete targets like the ones present in the RED II directive can provide better direction to the Member States. While the set of Agri-environmental indicators (AEIs) track the integration of environmental concerns into the CAP at EU, national and regional levels, these are not high-level political targets that can be communicated with ease.
- Even though the need for financial incentives is horizontal across the EU, the Member States need to employ measures to support FEFTS that are in **alignment with their geographical and socioeconomic conditions, the rest of their policies and then implemented instruments.**
- **Framework for supporting pioneering entrepreneurs:** The EU has several horizontal policies and measures including incubation programs, mentorship, and access to capital. At the same time, the CAP includes support

for young farmers and new entrants, providing them with access to land, capital, and training. This can help facilitate the entry of new entrepreneurs in the agricultural sector who are interested in adopting FEFTS. Intuitive tools are needed so that farmers are aware of the different schemes and mechanisms and are supported for effectively combining them. One great example is the European Commission's "De-risking Energy Efficiency Platform" (DEEP)³⁶. This is an open-source database for monitoring and benchmarking energy efficiency investment performance. It aims to help users to better understand the real risk and benefits of energy efficiency investments based on market evidence and tangible track records. The DEEP 2.0 platform includes over 17 000 energy efficiency projects from 30 providers. Such a platform for defossilisation investments in agriculture can play a significant role in the way forward, either as a new platform or as an extension of the DEEP.

- **Financing needs of smaller farms:** small farms face specific challenges many times including limited collateral, less diversification in their operations, lack of credit history, high upfront costs which cannot be afforded without access to credit coupled often with limited financial literacy of small farmers. This reality creates the need for specific support for smaller farms. This can be realized either through dedicated instruments or with instruments providing the necessary versatility and adaptability with the small farm realities. Some of the characteristics these instruments could have include flexibility, accessibility, risk mitigation, longer term loans and micro-finance options.
- **Streamline subsidy policies** and ensure that they are compatible with each other to avoid conflicting rules that can make farmers ineligible for certain benefits.
- Provide long-term **certainty and stability** to investors and farmers **by setting clear targets** for emissions' reduction and sustainable agricultural practices. Governments ought to promote de-risking mechanisms, coupled with a mechanism to optimize investment plans before these are eligible for the new schemes can unlock high private capital for investments in FEFTS.
- Encourage farmers to **diversify their income streams** by promoting the **production and sale** of energy-related products, such as electricity, liquid biofuels, and biogas. Create new food/clean energy business models.
- Create **specific economic provisions within the Energy Communities** framework to support agricultural projects and initiatives put forward by Agricultural Cooperatives or other Agricultural Associations.
- Fund **training and knowledge transfer programs** that promote sustainable agriculture practices and clean technologies business models.

Expected Impacts

- **Reduced greenhouse gas emissions:** Funding sustainable agriculture practices and the deployment of renewable energy technologies and energy efficiency measures can reduce greenhouse gas emissions from the agriculture sector and help the EU achieve its climate targets.
- **Increased energy security:** Increased use of renewable energy in agriculture and adoption of energy efficiency practices can reduce the sector's dependence on fossil fuels, increasing energy security for farmers and reducing the EU's overall energy import dependence.
- **Improved farm incomes:** Diversifying income streams through the production of renewable electricity and fuels, along with carbon farming and other non-food products can improve the financial sustainability of farms.
- **Enhanced biodiversity and soil health:** Sustainable agriculture practices can enhance biodiversity and soil health, contributing to the preservation of ecosystems and the promotion of agroecology.
- **Increased rural development:** Promotion of FEFTS can support rural development, creating new jobs and business opportunities in rural areas.
- **Improved air and water quality:** Adoption of sustainable agriculture practices can improve air and water quality by reducing the use of pesticides and fertilizers and promoting the conservation of natural resources.

³⁶ https://commission.europa.eu/news/improved-platform-monitoring-energy-efficiency-financing-deep-20-2021-07-01_en

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