Price premiums

Price premiums are voluntarily agreed financial incentives, typically provided in the form of higher purchase prices or additional payments, offered by agricultural value chain actors—such as food processors, traders, or multinational corporations—to farmers who adopt climate-smart agricultural practices. These premiums are usually conditional upon compliance with specific criteria, such as low-emission production methods, carbon sequestration efforts, climate change adaptation and mitigation strategies, or broader sustainability standards

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REWARDING MECHANISM: PRICE PREMIUMS

Tier 1	Monetary
Tier 2	**Producer price premiums**
Tier 3	
Description	**Price premiums** refer to additional payments or higher prices that value chain actors (e.g. processors) offer to farmers who apply climate-smart agricultural practices. These premiums are not only the result of emission reduction, carbon sequestration, and climate change adaptation actions, but may also be linked to the achievement of various co-benefits, e.g. biodiversity or other sustainability outcomes. Environmentally aware consumers and companies with clear sustainability objectives both contribute to the increasing demand for agricultural goods produced in sustainable ways. Some agri-food companies, especially those aligning their operations with climate targets aligned with the Science Based Targets initiative (SBTi), use price premiums within their strategies to encourage regenerative, low-emission, and conservation-oriented farming systems (Ecosystem Marketplace, 2024). Despite this trend, consumers still hesitate to purchase products that come with a price premium. Concerns about affordability and doubts about the credibility of sustainability claims may reduce their willingness to pay (Lamerre, J., et al., 2024).
References	- Pawlewicz, A. (2020). *Change of price premiums trend for organic food products: The example of the Polish egg market. Agriculture*, MDPI AG. https://doi.org/10.3390/agriculture10020035 - Network for Business Sustainability. (2011). *When "green" means premium—and when it requires a discount*. Retrieved from https://nbs.net/when-green-means-premiumand-when-it-requires-a-discount/ - Ecosystem Marketplace. (2024). *State of the Voluntary Carbon Market (SVCM) 2024: On the path to maturity*. Retrieved from https://www.ecosystemmarketplace.com/publications/2024-state-of-the-voluntary-carbon-markets-sovcm/ - Lamerre, J., Orliac, E., Duparque, A., & Hopquin, J. P. (2024). *Rapport final ACCLIM-AGRI*. ADEME. Retrieved from https://librairie.ademe.fr/ged/9429/ACCLIM_AGRI_RF.pdf

Advantages	**Disadvantages**
Farmers can sell products at higher prices compared to conventional markets (at higher-than-average market price) (Ecosystem Marketplace, 2024).	The added price is often limited and may be insufficient to fully compensate for the costs of sustainable practices (Pawlewicz, A., 2020).
Price premiums programs usually provide support services and technical assistance (Pawlewicz, A., 2020).	Access to price premiums is often limited for smallholders, who might face challenges in meeting program requirements or accessing associated benefits (Network for Business Sustainability, 2011).

Example Price premiums: FarmAhead™ (Arla climate check)

REWARDING MECHANISM: PRICE PREMIUMS

Tier 1	Monetary	Supportive	Regulatory
Tier 2	Producer price premiums		
Tier 3			
Example	FarmAhead™ (Arla climate check)		
Summary	FarmAhead™ is a sustainability incentive model developed by the cooperative Arla to calculate and reduce the carbon footprint of its dairy products. It forms part of Arla's broader sustainability strategy, which aims to reduce CO_2e emissions from farms by 30% per kilogram of milk by 2030.[1] The model is based on internationally recognised methodologies for calculating carbon footprints and operates as a point-based system, where farmers earn points by engaging in various sustainability activities. Each point corresponds to an additional €0.03 per kilogram of milk delivered to Arla. In addition, Arla awards €0.01 per kilogram of milk for submitting data to the "Climate Check" tool, which serves as a prerequisite for receiving the sustainability incentive. The tool consists of 200 questions that every Arla farmer must answer, covering five main categories: feed efficiency, protein efficiency, animal robustness, fertiliser use, and land use.[2] Each Arla farmer also participates in a consultation with an expert advisor, who verifies the farm data and provides tailored recommendations for reducing CO_2 emissions. Small and medium-sized dairy farmers may come under pressure, however, as the model tends to benefit from intensive livestock farming. [3]		
Type of climate action	**Carbon removal**	**Emission reduction**	Climate adaptation
Appropriate for: Who can benefit from this type of rewarding mechanism (in the agricultural sector?)	- Farmers - Farm advisors - Value chain actors		
Source of rewarding mechanism: Who provides the rewarding mechanism?	Public	**Private**	Public-Private

1 How Arla farmers are rewarded for their sustainability activities. https://www.arla.com/sustainability/the-farms/arlas-sustainability-incentive-model-qa/#when-will-the-incentive-be-paid-to-arla-farmers
2 Arla earmarks up to 500 m EUR annually for rewarding climate activities on farm. https://www.arla.com/company/news-and-press/2022/pressrelease/arla-earmarks-up-to-500-meur-annually-for-rewarding-climate-activities-on-farm/
3 Dairytales: Arla's smokescreen for its lack of climate action. https://changingmarkets.org/report/dairytales-arlas-smokescreen-for-its-lack-of-climate-action/

REWARDING MECHANISM: PRICE PREMIUMS

Rewarding method: What is the reward based on?	Result-based

Type of on-farm action:
What is the recipient obliged to deliver in return?
	- Submit Climate Check data
	  - Complete the mandatory questionnaire with 200 questions
	- Implement actions from the Climate catalogue: How to reduce CO2e emissions on your farm, from Arla:
	  - Reduction of CO2 emissions
	  - Improve animal feed characteristics
	  - Use of solar panels and wind turbines
	  - Use of manure for biogas
	  - Reduction of fertiliser use for feed production
	  - Reduction of fuel use
	  - Etc.

Recipient requirements: What requirements must the recipient meet to receive finance?	- Be part of the Arla Cooperative - Answer a 200 questionnaire about the dairy farm production - Meet with external expert advisor to verify data
Timing of rewarding: When is the reward received?	expost
Rewarding timeline: How often is the reward received?	Ongoing Monthly based: the incentive is included in the milk price only if the farmer has participated in the annual Climate Check.
Governance: Who manages the programme, provides the reward, and where does the money come from?	The price premium is directly managed by Arla. Each year, the Arla allocates a portion of its earnings to support farmers who implement verified climate-smart agricultural practices. A part of the price consumers pays for Arla Products is used to finance the rewards paid to farmers.
References:	- Arla Foods. (2022). *Climate Check Report 2022.* Retrieved from https://www.arla.com/49162b/globalassets/arla-global/sustainability/dairys-climate-footprint/climate-check-report-2022.pdf - Arla Foods. (2024). *How Arla farmers are rewarded for their sustainability activities.* Retrieved from https://www.arla.com/sustainability/the-farms/arlas-sustainability-incentive-model-qa/#where-does-the-money-for-the-sustainability-incentive-model-come-from