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CEFS POSITION PAPER: THE PATH TO CARBON NEUTRALITY BY 2050 MUST BE SUPPORTED BY SOLID LEGAL AND FINANCIAL TOOLS

Producing roughly 18 million tonnes of sugar across nineteen Member States¹, CEFS (Comité Européen des Fabricants de Sucre) unites virtually all sugar-producing companies, making their European Association highly representative of the sector and a reference at EU and international level for its technical expertise.

With the publication of the European Green Deal in December 2019, the European Commission set the goal of EU carbon neutrality by 2050, introducing a new intermediate target for 2030.²

CEFS supports the Green Deal's ambition to pave the way to an economy combining sustainability, circularity, and innovation. However, achieving climate neutrality is a true challenge for the sector. It will be possible only if environmental policies are coherent and consistent and if investments for the greening of infrastructures is supported by financial measures, including state aids. In order to prevent carbon leakage, rules should be adapted for our sector, which lies at the heart of European rural communities.

1. Carbon intensity decrease and reduction of environmental impact: the cornerstones of EU sugar production for years

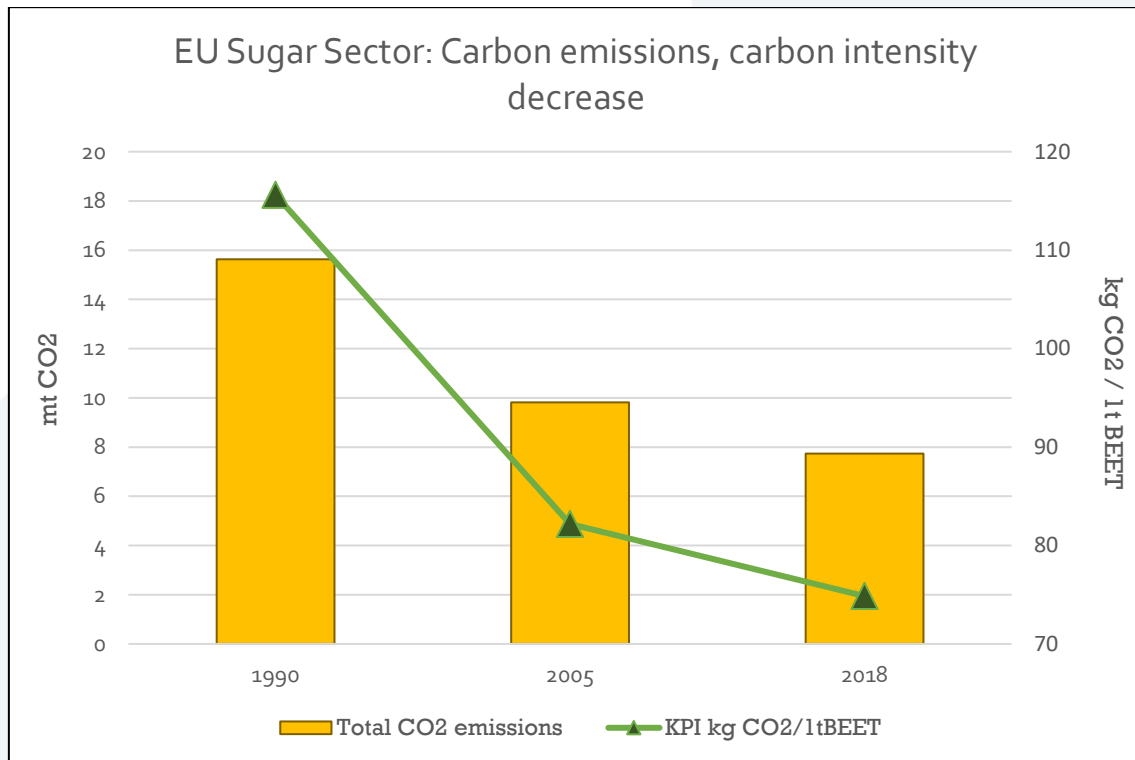
As sugar production is an energy intensive activity, the EU sugar industry - even before the introduction of ETS rules or the EU Green Deal - has been a front runner in increasing energy efficiency and reducing GHG emissions.

In particular, through the use of combined heat and power systems (CHP) and heat recovery, factories have managed to produce both steam and electricity in an energy-efficient manner. In addition, by optimising transport and logistics, using high capacity trucks, many factories have created a system of energy-efficient transport with the aim of reducing environmental impact. The local processing of the raw materials remains, from an ecological perspective, a characteristic and significant feature of the European sugar industry. The EU sugar manufacturing industry, moreover, strives for great resource efficiency, for instance when it comes to the water used in the factory: up to 90% comes from the beet itself.

¹ 2018/19 Marketing Year Figures for EU-28; this sugar is produced from approximately 110 million tonnes of sugar beet.

² Regulation establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999.

Reducing carbon intensity has been a constant objective in the EU beet sugar industry. As shown in the below graph, EU sugar manufacturers have decreased their CO₂ emissions by 51 % compared to 1990.



Source: CEFS confidential survey led by PwC, spring 2020. Representativeness: 97% of EU operating factories.

Our sector is committed to further reduce greenhouse gas emissions by 2030, and ultimately by 2050.

Nevertheless, the further reduction of emissions presents an ambitious task for EU sugar manufacturers. The sector is intrinsically linked to agriculture and is peculiar because of its seasonality aspect, which should be taken into account in the elaboration of emissions reduction policies. The effort required by sectors regulated under the ETS system, like sugar manufacturing, is still unclear. This is problematic, because stability and predictability of the policy framework are key for industrial sectors to manage decarbonisation.

The reduction of GHG emissions historically happened mainly by increase of energy efficiency (initiated locally in individual plants but also due to politically driven reform of the EU sugar market) as well as switch to less GHG-intensive fuel used in production. Since approximately 2010 the GHG reduction curve flattens as for most existing factories there is limited potential to further increase energy efficiency.

For the future, further reduction of GHG emissions will predominantly happen by switching to less GHG intensive energy sources (natural gas, electricity, renewable fuels) which require high investments and which will generate higher production costs.

Key policy asks

- An intermediate target of GHG emissions reduction by 2030 of no more than 55%.
- No increase of ETS ambition by 2030 without accompanying financial measures.

2. Energy transition requires the elimination of regulatory stumble blocks

For the EU to achieve more ambitious GHG emission reduction targets, various production parameters are necessary: higher energy efficiency, higher penetration of renewable energy, electrification of processes and final energy use, as well as better sector coupling between gas and electricity sectors. The coordination between the sectors producing renewable energy and potential users of such energy is essential and should be encouraged.

EU sugar manufacturers stand ready to achieve a higher share of renewable energy in the final energy consumption in the EU, already by 2030. Policymaker should however, facilitate the decarbonisation of industries, rather than introduce restrictions on the use of food crops for renewable energy applications as foreseen in the revised Renewable Energy Directive. This hampers the transition into climate-neutral sugar production.

The same goes for the policy limitations on the production and use of sustainable biogas under the revised ETS Monitoring and Reporting regulation, which are not aligned with the objectives of the Green Deal. Sugar beet material is ideally suited for biogas production (fast fermentation, high yield) and beet material biogas is highly valuable for uses on CHP, heating and transport fuel, thus reducing fossil energy consumption and hence associated GHG emissions. The production and use of beet material biogas should in no way be restricted.

Natural gas should be considered as an enabler of the transition, helping the EU reach the 2030 targets as a climate-friendly alternative to coal. In this regard, several EU sugar factories will close their coal facilities to the profit of natural gas, thereby reducing emissions and increasing energy efficiency.

Key policy asks

- No restriction on renewable energy produced with sugar beet material.
- No restriction on the production/use of biogas and equal treatment across the EU on the use of biogas directly or through the gas grid.

3. Targeted investment support mechanisms are a must

Greater energy efficiency, renewable energy, and development of new technologies such as hydrogen and fuel cells, require technology integration. The decarbonisation of the sugar industry will be possible only with access to affordable, clean, renewable energy and investments in infrastructure enabling electrification. These requires substantial investments for EU sugar companies. The costs of alternatives energy sources represent a barrier to the sector's decarbonisation.

Therefore, EU sugar manufacturers need legal and financial support to compensate these additional costs, through the deployment by public authorities of available EU, national and regional budgets to focus on the regions and sectors most affected by the transition (for instance: Just Transition Mechanism, InvestEU Fund to fight climate change, Green national budgeting tools, ...).

Key policy asks

- Compensation for the additional costs of using renewable energies compared to fossil fuels (e.g. biogas vs. natural gas).
- Investment aid must take into account the additional costs linked to the seasonality of our activity.

4. Sugar beet as an enabler of the circular bio-economy

The bioeconomy has a pivotal role to play in the transition to a more circular, sustainable, carbon neutral and resource-efficient society. The bioeconomy is a true European solution: biorefineries valorise local materials in a circular economy. The EU sugar manufacturing sector is a pioneer of the circular bio-economy.

Maximising the value of co-products and minimising waste has a long tradition in the sector. In addition to sugar, manufacturers also produce amongst others construction materials, bioethanol, fermentation products, animal feed, and biogas. The sugar beet sector is able - and willing - to provide substantial amounts of "green", sustainable products, allowing further GHG reduction in other sectors (e.g. raw materials for the production of biobased products). This will only be possible on the basis of an adapted enabling legal framework. The political will to replace traditional fossil-based products by bio-based alternatives should be supported by an adequate market environment. The use of sugar beets and their products in renewable materials needs investment and still faces high competition from traditional, fossil-based products. In order to boost their relative competitiveness, it is important to help bio-based alternatives reach economies of scale and supporting the production of bioenergy and bio-based products as alternatives to fuel products.

Key policy asks

- Policy stability to boost investment in innovation.
- Support of bio-based alternatives by an adequate market environment.
- Support in education and training to further develop the bioeconomy in the EU.

5. An international level-playing field for EU producers

To be in line with the Paris Agreement, it is crucial that a level-playing field is established between EU sugar and sugar from third countries. The Covid-19 crisis has shown that food chain resilience is crucial, and even more that there is a necessity to keep food production within the EU. This will also allow the European environmental and social model to be taken into account in international trade.

EU sugar manufacturers proudly take a stand for the highest environmental and social norms and health and safety rules in the business. It is critical to align the EU's trade policy with the climate neutrality objective to avoid the undermining of sustainability accomplishments of domestic producers.

EU sugar manufacturing is significantly exposed to the risk of carbon leakage into countries with less strict emissions rules than the EU. CEFS therefore advocates for policies that guard against that risk.

CEFS takes note of the European Commission's announcement to create mechanisms to protect the European industry against carbon intensive imports. If engineered correctly, such a tool could have the capacity to effectively protect EU industrial sectors from carbon leakage by imposing a fee on imports that corresponds to the amount of carbon emissions released during a product's manufacturing cycle.

To promote manufacturing cycle effectiveness abroad and uphold domestic standards at home, it will be critical to take into consideration the wider scope of emissions linked to imports. This includes emissions from co-products, transport and deforestation for instance. EU sugar manufacturers are in favour of a sustainability mechanism, taking into account environmental impacts such as land use changes, water consumption, agricultural practices, and third countries' use of pesticides banned in Europe. In addition, social standards, health, welfare and education are parameters that should be included in a fair, adequate price for agricultural products.

Key policy asks

- Coherence between trade and Green Deal policies.
- Enforcement of trade & sustainable development chapters in trade agreements.
- Additional parameters beside carbon intensity to be taken into account.

6. Securing the industry's jobs in Europe

Beet sugar production provides high-quality, remunerative jobs in some of the EU's most vulnerable rural areas, reflecting a labour productivity that reached over 150,000 euros per employee, compared to 57,000 euros in the wider food and beverages industry. 1 job in a sugar factory generates more than 14 indirect jobs. The industry supports almost 300,000 direct and indirect jobs.³ Ensuring the continued competitiveness and sustainability of our industry is vital to the livelihoods of hundreds of thousands of European citizens and some of our most fragile communities.

Key policy asks

- The transition to a greener industry should not compromise the industry's jobs; it should be just and inclusive, leaving no one behind.
- The transition should also aim at creating economic growth and build a predictable environment for investment.

³ Source: WiFOR (2017), The Economic Contribution of the EU Sugar Industry. All figures refer to year 2017 and exclude the UK and Switzerland.