



CARBON BORDER ADJUSTMENT MECHANISM: INSUFFICIENT TO PROTECT THE EU SUGAR INDUSTRY AGAINST CARBON LEAKAGE

The objective of carbon neutrality by 2050 is the EU Green Deal's core priority. In a globalised economy without common standards for greenhouse-gas-neutral production, differences in levels of ambition evidently exist. This leads to carbon leakage, meaning that production is transferred from the EU to other countries with lower ambition for emission reduction. The proposed Carbon Border Adjustment Mechanism (CBAM) should eliminate this risk. The EU sugar industry, however, does not believe this goal will be achieved.

CARBON LEAKAGE CREATES A COMPETITIVE DISADVANTAGE

EU sugar manufacturing is regulated under the EU ETS and is part of the Carbon Leakage List because of its high trade intensity (19,7 %) and its CO₂-relevance.

Existing studies¹ show an overall superior environmental and social sustainability performance of EU beet sugar production compared to imported cane sugar, and this is due to the efforts made by EU sugar manufacturers.² In particular, the life-cycle greenhouse gas emissions (product carbon footprint) of existing EU beet sugar production is lower or at least equal to imported cane sugar.³

Whilst the dependence on fossil fuel has already been reduced in EU sugar production, further transition is needed and supported by the manufacturers. Evidently, the transition towards renewable energy sources will increase production costs for EU producers. Therefore, the challenge for the EU sugar beet sector is to further reduce the climate impact of its energy use while remaining competitive.

THE CBAM MECHANISM IS NOT AN APPROPRIATE TOOL TO ALLEVIATE CARBON LEAKAGE IN THE EU SUGAR SECTOR

CEFS is supportive of increased climate ambitions including enhanced protection of EU production against carbon leakage and avoiding global increase in GHG emission. That being said, CEFS does not consider the CBAM to be a viable instrument to eliminate the risk of carbon leakage.

For agricultural products like sugar, the carbon content is not a suitable criterion to calculate carbon emissions. In theory, a full life-cycle GHG emissions analysis (product carbon footprint) is more appropriate. However, there are obvious limitations to computing the product carbon footprint in a non-discriminatory way, as sector-specific production parameters prevent the use of a universal methodology.

¹ E.g. Blonk for Suiker Unie; EBP for Schweizer Zucker AG.

² Including European cane sugar producers (La Réunion and Guadeloupe), who respect high environmental and production standards while having a remarkably-low footprint, unlike EU trade partners who produce cane sugar.

³ E.g. Blonk for Suiker Unie; CEFS (2012).

If the CBAM would be set up by the European Commission under the proposed legal framework, it would function only in theory:

- ▷ The experience gained from the EU's biofuels policy (RED / RED II) has shown that it is impossible to ensure high environmental and social sustainability performance or high GHG performance of products worldwide, even by calculating the product carbon footprint.
- ▷ In that context, the attempt to avoid deforestation and reduce the loss of biodiversity did not succeed by using a legal framework consisting of the product carbon footprint. In fact, a simple split of the product flows has occurred: third countries export a low-share of well-performing products to the EU, while the majority of the production is exported to other destinations.
- ▷ For sugar, we expect the CBAM to lead to massive greenwashing of sugar imports from third countries. The EU would select imports of sustainable, already available sugar, but the less sustainable production would be redirected to other regions. Therefore, this would not have any positive effect on global emissions reduction. In addition, the CBAM will not make a meaningful contribution to halting deforestation.
- ▷ It appears that the CBAM focuses only on the climate impact of a product. Product comparison on that single basis will be insufficient, as the majority of aspects of environmental and social sustainability performance are not accounted for.
- ▷ Furthermore, even the currently developed PEF-method (Product Environmental Footprint) is not ready for adequate product comparison. Consequently, this would not help overcome the abovementioned greenwashing risk. Indeed, considering the PEF's climate change aspect, it is not assured that the GHG emissions from deforestation are taken into account properly, regardless of being associated directly or indirectly with the production of an agricultural product.

CEFS therefore formally requests that the EU Commission creates a legal framework that:

- ✓ Keeps free allocations of emission allowances under ETS rules and/or under other legislations that address the phasing out of fossil fuels. The best-performing sectors should not bear additional costs.
- ✓ Adds elements that enable the transition away from fossil fuels, such as funding for investments and compensation of higher production costs.
- ✓ Creates a market environment that accepts higher production costs associated with the implementation of Green Deal targets.
- ✓ Creates market conditions that accelerate the reduction of life-cycle GHG emissions, including emissions from fossil fuels and chemicals production. For this purpose, it is mandatory to price fossil carbon used in the production of chemicals, thereby allowing for a level playing field with biobased chemicals, which can for instance be turned into biobased plastic.