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ENERGY TAXATION DIRECTIVE REVISION: CEFS POSITION

The EU sugar industry has reduced its CO₂ emissions by 51 % compared to 1990.¹ The industry is on track to meet the objectives of the Fit for 55 package for 2030. And we recognise the importance of transitioning to climate neutrality by 2050.

In the sugar manufacturing sector, the heat and electricity required to produce beet sugar is generally provided by high efficiency Combined Heat and Power (CHP) systems. This form of self-supply is necessary in view of the deficit network situation in rural areas, and to ensure security of supply during the production campaign.

Because of the rural location of sugar factories and limited access to high-voltage grids, full electrification is neither a cost-effective nor even feasible decarbonisation pathway for our sector. The use of biomass, especially own-produced (from residues and waste), in combination with the partial conversion to renewable electricity, presents a more promising avenue to decarbonise the industry.

Energy costs make up almost 20% of EU sugar manufacturing costs.² Higher energy tax rates would have a direct impact on the competitiveness of the EU beet sugar sector. They would also aggravate the existing risk of carbon leakage.

With these considerations in mind, CEFS has several requests regarding the Energy Taxation Directive proposal.

¹ CEFS greenhouse gas emissions survey, led by PwC. Spring 2020. Representativeness: 97% of EU operating factories. Reference year: 2018.

² CEFS Manufacturing Costs Survey, led by PwC. February 2021.

1. ENERGETIC SELF-USE OF RESIDUES AND WASTE FROM IN-PLANT PROCESSES IS NEEDED TO FURTHER REDUCE GHG EMISSIONS IN THE SECTOR

The self-use of biomass residues from biomass processing is essential for the EU sugar industry's decarbonisation. In addition, the self-use of residues and waste maximises resource efficiency and strongly contributes to the EU's circular economy objectives.

Because they are located in rural areas, sugar factories often do not have access to high-voltage electricity grids. For the same reason, they are unlikely to be serviced by future hydrogen distribution infrastructure. Self-use of residues and waste should therefore be facilitated by the revised Energy Taxation Directive.

A. BIOGAS FROM WASTEWATER OR PRODUCTION RESIDUES FOR SELF-USE SHOULD BE EXEMPT FROM THE SCOPE OF THE ETD

The ETD proposal should clarify that biogas from wastewater or production residues/production waste should not be burdened with increased sustainability requirements from the Renewable Energy Directive (RED) (EU) 2018/2001 in case of self-use. Additional burdens for taxation would restrict the free use of renewable energy products, which have the potential to further reduce CO₂ emissions.

The current proposal for the RED extends the sustainability requirements to the use of biogas from own on-site waste water treatment, biogas from beet residues, and solid biomass residues. As well as additional administrative burden, this approach would undermine the use of self-supplied biogas and solid biomass residues by bringing them into the scope of the ETD.

- When used for self-sufficiency/self-consumption, biomass from residue/waste of own production should be excluded from the scope of the directive in Art. 3, para. 1 points b) and c), respectively, as follows:

(b) the following uses of energy products and electricity:

- [...],

- biogas and sewage gas from wastewater treatment from the plant's own production process used for self-supply, including the production of heat (self-consumption),

(c) Biomass fuels and feedstock from the plant's own production process used for self-supply, including for the production of heat (self-consumption).

B. MINIMUM TAX RATES MUST NOT DISCRIMINATE BETWEEN SUSTAINABLE BIOMASS FUELS FOR HEAT PRODUCTION ON THE ONE HAND, AND ADVANCED BIOMASS FUELS AND RENEWABLE FUELS OF NON-BIOLOGICAL ORIGIN FOR HEAT PRODUCTION ON THE OTHER

Where sustainable biomass fuels for heat production are not self-used, they must not be taxed at three times the rate of renewable fuels of non-biological origin (RFNBOs) and advanced sustainable biogas, bioliquids, or products of CN 4401/4402. This approach would needlessly increase costs for sectors that do not have access to sufficient, affordable quantities of advanced biofuels and RFNBOs. By contrast, an incentive to switch to available biomass energy sources would make a valuable contribution to the early transformation of many sectors.

- Therefore, for the purposes of the ETD, such fuels must be taxed at a significantly lower rate than natural gas.

2. EXEMPT FROM TAXATION ALL ENERGY PRODUCTS AND ELECTRICITY USED BY COMBINED HEAT & POWER PLANTS

Several PFP sectors rely on high-efficiency Combined Heat & Power (CHP) plants to provide inputs to the production process. CHP have a much higher efficiency than power-only plants and play an important role in the energy transition, particularly in areas where electricity grids are under-developed.

Currently, the proposal contains a mandatory exemption from taxation for "energy products and electricity to produce electricity and electricity used to maintain the ability to produce electricity" (Art. 13).

However, no reduction below the minimum taxation rates is possible for energy products and electricity used to produce heat from CHP (Art. 17).

- Energy products and electricity used by CHP to produce both electricity and heat should be exempt from taxation under the ETD.

3. THE PRODUCTION OF QUICKLIME AS A MINERALOGICAL PROCESS SHOULD REMAIN EXCLUDED FROM THE SCOPE OF THE ETD

The draft proposal has withdrawn from recital 20 the reference that it is “in the nature and the logic of the tax system to exclude from the scope of the framework dual uses and non-fuel uses of energy products as well as mineralogical processes”, and the tax exemption for mineralogical processes is eliminated.

The future inclusion of mineralogical processes (production of quicklime in the sugar industry) in the scope of the ETD would lead to a noticeable increase in the cost of sugar production. In addition, it would not contribute to one of the main objectives of the ETD, namely: CO₂ emissions reductions and improved environmental performance.

Lime milk is used in the sugar production process to precipitate non-sugar substances from the raw sugar beet diffusion juice. The CO₂ released from the lime in the burning process is captured and reincorporated in the secondary product (process of “carbonatation”) together with the precipitated plant nutrients. The resulting product, carbonatation lime, is listed as a fertiliser in fertiliser law and is offered to agriculture as a natural soil nutrient. This is a textbook example of cascading use of products.

- In view of the environmental objectives of the ETD, Art. 3 para. 1 point (b) should keep the production of quicklime as a mineralogical process in the sugar industry excluded from the scope of the Energy Tax Directive.

4. SUSTAINABLE FUELS (FOR TRANSPORT) FROM FOOD AND FEED CROPS SHOULD NOT BE TAXED AT THE SAME RATE AS FOSSIL FUELS

The taxation of sustainable fuels from cultivated biomass (food and feed crops) provided for in the proposal would rise after a ten-year transition period to the same minimum rate as for fossil fuels of €10.75/GJ (Annex I, table A) or €0.9/GJ, respectively (Annex I, Table B). This increase cannot be objectively justified due to the superior life-cycle environmental balance of these biofuels.

The proposal is particularly disproportionate in this regard because fuels from cultivated biomass contribute significantly to achieving GHG neutrality in the transport sector: their contribution to reduce GHG compared to fossil fuels must be taken into account. The production of such energy products goes hand in hand with the parallel production of food or feed: there is no withdrawal of resources for nutrition. Indeed, output and thus space efficiency are even increased.



- A lower tax-rate than for fossil fuels shall be applied to sustainably produced biofuels from food and feed crops to take into account their superior environmental performances in comparison to fossil fuels.