

## Agricultural and industrial competitiveness of the EU beet sugar sector: key factors

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The European beet sugar sector plays an important role in the rural economy of 17 EU Member States. It provides well-remunerated, skilled, industrial employment in areas where few alternatives exist. And it has broad spillover effects: every direct job in the industry supports 14 indirect ones. However, EU beet sugar production is also facing competitive pressures requiring pragmatic solutions.

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Over just the past year the EU sugar sector has faced an unprecedented spike in energy costs, a surge of sugar imports from Ukraine and a ruling from the European Court of Justice that ends the possibility of new emergency derogations for the use of seeds coated with neonicotinoids. These developments reflect the three broad factors affecting the competitiveness of the sector: rising input costs, stagnating agricultural competitiveness and increased exposure to competition from third country sugar. Added to these is a fourth factor which will only grow in importance in the coming years: the progress of the industry towards decarbonisation.

## Input costs

The post-COVID rebound in demand, and more still Russia's aggressive invasion of Ukraine, caused the cost of fuels, especially natural gas, to skyrocket. The EU's previous dependence on Russian energy meant that no other part of the world has been so impacted. Although energy prices have fallen somewhat over the past months, the cost effect during the last beet campaign was enormous. This was due not only to the elevated cost of energy but also in part to the mitigation measures taken by sugar manufacturers, such as switching from natural gas to less expensive fuel (which required engineering and administration) and starting the production campaign earlier to avoid the peak demand month of January (which lowered beet yields).

Meanwhile, beet costs for growers are up owing to higher fertiliser prices, diesel and labour costs. As are other operating costs such as transport, logistics, packaging, along with inputs such as steel, construction materials, and processing aids.

These higher input costs have been mitigated to an extent by higher sugar prices. But should prices fall, sugar manufacturers will find themselves in a sandwich position. The development of energy costs and inflation remains highly uncertain and will be a defining factor.

## Agricultural competitiveness

Climate change is already making itself felt by the EU beet sugar sector. Europe is warming at twice the rate of the earth as a whole. Lack of rain is impacting beet yields. Warmer winters are worsening pests and diseases that would normally be eradicated by the cold. Addressing the cause of climate change – greenhouse gas emissions – is more urgent than ever before.

Protecting sugar beet crops is now a real challenge. The dramatic reduction of the growers' toolbox is affecting all active substances, be it to control pests and diseases or weeds. European sugar beet growers recognise that their productivity (sugar yield per hectare) is structurally affected in the short-term due to a lack of effective alternatives for a satisfactory control of harmful organisms. This can be seen in the trend of sugar beet yields: after many years of progress, yields have stagnated over the past decade.

There are opportunities: New Genomic Techniques, once allowed by EU legislation, should open the way to disease-resistant and higher-yielding sugar beet varieties. New methods such as precision weeding could help reduce input costs. However, these are not silver bullets. And breeders and technology developers must be convinced that sugar beet is a crop worth investing in.

## Competition from third country sugar

Contrary to popular belief, the EU sugar market is not closed. Over the past 10 years the EU has increased its zero- and reduced-duty sugar import quotas by over 50% to total over 1.5 million tonnes per annum. This progressive opening of the EU sugar market comes on top of our generous duty-free, quota free access offered to the African, Caribbean and Pacific and Least Developed Countries under the framework of the Cotonou Agreement. The EU is pushing hard to ratify its agreement with Mercosur, which would open a duty-free import quota of 190,000 tonnes alone. Negotiations with other major sugar producers such as Australia, India and Thailand are ongoing.

In marketing year 2022/23, around 400,000 tonnes of Ukrainian sugar have entered the EU market, i.e. almost 22 times the annual quota of 20,070 tonnes. Exports have been banned by the Ukrainian Government until September to replenish stock levels. However, Ukraine has increased sugar beet areas by over 20% for campaign 2023/24. Ukrainian sugar exports have resumed and it has been reported that availability for export to the EU could be as high as 600,000 to 700,000 tonnes. This could unbalance the EU sugar market.

Market opening presents challenges for EU sugar manufacturers.

Third countries are subject to far fewer environmental and social requirements than the EU. They can use many plant protection products that are unavailable to European beet growers, and are not subject to an Emissions Trading System that puts a price on emissions. In addition, the price of imports is generally set by the world market – a residual dump market where excess production is sold at “everything must go” prices that in many cases do not cover the production costs of even some of the most competitive world sugar producers. The world sugar market is further depressed by export subsidies by countries such as India, which was only recently condemned by the WTO for this practice.

## Decarbonisation

With the European Green Deal decarbonisation has rapidly risen to the top of the EU policy agenda – and that of energy-intensive industries such as beet sugar manufacturing. With the progressive and accelerating reduction of free allowances for sugar manufacturers under the EU Emissions Trading System, and the rising price of allowances traded on the carbon market, the costs of not decarbonising are rapidly becoming untenable.

The EU sugar industry has already reduced emissions substantially over the past decades.

Emissions fell by 59% between 1990 and 2021. But more efforts are needed to reach climate neutrality by 2050. The industry will need to invest billions of euros – no easy task for a traditionally low-margin industry such as sugar production.

The fact that there is no single sugar factory configuration means there is no single solution to decarbonise EU beet sugar production. Some factories dry beet pulp for animal feed, produce bioethanol, and use residues for biogas; others do none of these things. But all beet sugar manufacturers must contend with the specificities of sugar production: its energy-intensity, its seasonality, and its rural location, all of which make full electrification difficult and expensive.

## Policies

What does the EU sugar sector need to safeguard its competitiveness moving forward?

First, sugar prices must be allowed to remain at levels that are sufficient to cover dramatically higher input costs. This is essential for the long-term economic sustainability of the sector.

Second, sugar manufacturers must retain the flexibility to address higher input costs if needed (e.g. via permits for fuel switching).

And conditions for State aid under the Temporary Crisis and Transition Framework must be sufficiently flexible to compensate sugar manufacturers in case of future energy price spikes.

Third, EU legislation on New Genomic Techniques and plant reproductive material must be sufficiently flexible. Breeders and developers of plant protection products should get support for their sugar beet research.

Fourth, the EU needs to develop a more holistic trade policy with environmental and social sustainability at the forefront. All market opening of the sugar sector must take account of the impact on EU beet sugar manufacturers and their long-term sustainability.

Finally, decarbonisation must be supported by policies and funding. This means sensible implementation of the RED III by Member States to ensure that sugar beet residues can be used for energetic self-use. It also means exempting the energetic self-use of biomass residues from the revised Energy Taxation Directive. Meanwhile, financial support will be essential: grants and loans under both EU programmes and Member State funds such as the national Recovery & Resilience Plans and State aid facilitated by the Temporary Crisis & Transition Framework.

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