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CEFS CONTRIBUTION

EU VISION FOR AGRICULTURE & FOOD

EU BEET SUGAR BASICS

The EU beet sugar sector is highly specific. It is at once an agricultural sector, subject to the seasonality of the sugar beet harvest, and an industrial one, with factory investments often running into the hundreds of millions of euros. Our industry provides 24,000 direct, industrial, skilled jobs in some of the EU's most vulnerable rural areas.

EU sugar production is a pillar of EU food security.

Most of the world's sugar comes from sugar cane. But beet sugar supports food security and employment in regions where cane sugar production is unviable. The EU is the world's leading producer of beet sugar: around 50% of the world's beet sugar is cultivated and processed in the EU.

Since the end of production quotas in 2017 the EU sugar market is substantially less regulated than most other sugar industries in the world. Yet EU sugar prices track a world sugar market that is distorted by dumping of excess, often subsidised, production.

Mutual dependence between sugar manufacturers and growers

Sugar production is characterised by a symbiotic relationship between sugar manufacturers and growers. Put simply, sugar factories rely on sugar beet production and farmers rely on sugar factories to provide an outlet for their sugar beet. Without sugar beet a sugar factory must close down and is unlikely to reopen, leading to the loss of direct jobs on-site and revenue for farmers. This means that the economic stability of sugar manufacturers and growers is essential for the sector's success.

Sugar beet is an important rotational crop

Sugar beet is always grown in crop rotation with for example winter wheat, barley, potatoes, etc., thus mitigating the depletion of crop-specific nutrients and the

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accumulation of crop-specific pests and diseases. As such, in addition to the financial value derived from the sale of the sugar beets to sugar manufacturers, sugar beet provides environmental and agronomic value to farmers.

Beet sugar production involves seasonal processing of a perishable raw material

Sugar beet processing is highly seasonal due to the natural cycle of beet cultivation and the perishability of sugar beets after harvesting. Sugar is extracted from beets over a period of 90-150 days a year (the 'campaign'), usually between mid-September until the end of February, with sowing taking place in the spring. It is impossible to store the beets for more than two and a half months, since the root (living matter) degrades considerably beyond this period. The seasonality of beet sugar production has important consequences for industrial investments, since equipment is only used for part of the year. Sugar beet perishability – which means it cannot be imported or exported – reinforces the interdependency of farmers and factories and the local rooting of the latter.

Sugar is an energy-intensive industrial sector

Sugar production requires large volumes of energy, especially heat. Sugar is the second largest energy user and the second largest CO₂ emitter within the agri-food sector (after animal feed).¹ Our industry consumes over 30 TWh of energy per year, and emitted 6.4 million tonnes of CO₂ in 2021. Sugar production is covered by the EU Emissions Trading System (ETS) and is on the carbon leakage list due to its energy- and trade-intensity. Energy can make up to 30% of industrial manufacturing costs.

CEFS' REQUESTS

Common Agricultural Policy

The EU's Common Agricultural Policy (CAP) has endured successive real terms budget cuts over the past decades. Yet it remains a critical policy for sugar beet farmers and by extension EU beet sugar manufacturers. The CAP budget for the next multiannual financial period should be increased in line with inflation, and direct payments under the CAP should be indexed to inflation annually to ensure that financial support for farmers does not decrease further over time in real terms.

The last sugar market crisis peaked in 2019 and led to the closure of 15 factories across the EU. This is not sustainable. Therefore, the European Commission should adopt a more proactive approach to market management, utilising tools under the Single Common Markets Organisation (CMO) Regulation to mitigate threats of market disturbance effectively.

¹ Ricardo Confidential. 7 July 2021. Decarbonisation road map for the European food and drink manufacturing sector A report for FoodDrinkEurope. P. 6, table 1.

Ukraine is a major agricultural producer and exporter. The EU's enlargement to Ukraine will therefore have a major impact on the organisation of the CAP. This issue should be treated carefully.

CEFS' requests:

- The CAP budget and direct payments should be increased in line with inflation.
- The European Commission should adopt a more proactive approach to market management.
- Enlargement to Ukraine should be carefully managed in close dialogue with all stakeholders concerned.

Supply chain

The EU beet sugar sector has been regulated by a specific framework for contractualisation (including compulsory written delivery contracts) since production quotas were established in 1968. Written contracts have long been compulsory within the EU beet sugar sector, in addition to "agreements within the trade" to govern such contracts (Art. 125 to the Single CMO Regulation). These written contracts and agreements within the trade must conform to a detailed set of beet purchase terms laid down in Annex X to the Single CMO Regulation.

The current system of contractualisation within the EU beet sugar sector reflects a careful balance between beet growers and sugar manufacturers reached over successive in-depth discussions and must not be modified. Any changes could introduce significant disruptions to the established framework governing the sugar sector

Transparency is a core characteristic of the EU sugar sector, and CEFS members pride themselves on the comprehensive and timely disclosure of prices, volumes, and other critical market information. However, a pronounced asymmetry remains: sugar users and other downstream actors are not held to the same standard of transparency. This imbalance creates an uneven playing field due to asymmetric information. CEFS strongly advocates for measures to rectify this inequity, urging policymakers to implement requirements that mandate equivalent transparency across the entire supply chain. We can ensure that all stakeholders operate under fair and informed market conditions only through balanced and consistent information sharing.

CEFS' requests:

- Maintain unchanged the current provisions on contractualisation in Art. 125 and Annex X to the Single CMO Regulation.
- Extend market transparency obligations to sugar users and retailers.

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Trade

Sugar is a sensitive and strategic agricultural product. It has traditionally been protected by substantial Most Favoured Nation tariffs. Unfortunately, this protection has been eroded in recent years by market opening in free trade agreements and following successive enlargements. As a result, European sugar must increasingly compete with dumped and subsidised sugar imports from third countries.

The problem is structural: the world sugar market is a residual dump market used to offload sugar that is not needed for domestic consumption. As such, trade defence measures targeting single supplying countries are of limited use to the EU sugar sector.

The EU must take a principled position not to open its markets in free trade negotiations where subsidies or dumping occur in the partner country for the product concerned.

Regarding border protection against emitting imports, our preliminary assessments show that the Carbon Border Adjustment Mechanism (CBAM) would provide no effective protection for the EU sugar industry and may even exacerbate the competitive disadvantage faced by EU sugar manufacturers vis-à-vis cane sugar producers when combined with the accelerated phase-out of free allocation under the ETS. This is because the CBAM GHG methodology only allows fair comparison for products where scope 1 and 2 emissions are the hot spot. Where field and transport emissions are hot spots and significantly differ between domestic and non-EU production – which is the case for sugar – the method fails. The EU's energy infrastructure is not yet sufficient to enable the full scope 1 and 2 decarbonisation of EU sugar manufacturing.

CEFS' requests:

- No market opening to dumped or subsidised sugar imports from third countries.
- No inclusion of sugar in the CBAM until the expiry of free allowances under the EU ETS.

Industrial decarbonisation

Sugar factories are industrial facilities that face many of the same challenges have heavy industry when it comes to decarbonisation. Unfortunately, sugar manufacturing – and primary food processing in general – is often overlooked in the debate around industrial decarbonisation.

a. Energetic use of sugar beet residues

The use of sugar beet residues as an energy feedstock to fuel factory processes is an important decarbonisation pathway for sugar manufacturers.

Residue status, where granted, is sufficient for the zero-rating of upstream emissions under the RED. Zero-rating of upstream emissions ensures that energy produced from sugar beet residues is able to meet the stricter sustainability criteria under the RED III.

The use of sugar beet residues for energy is aligned with the objective of the Clean Industrial Deal to develop the use of renewable energy at affordable cost. It also reduces the need for biomass resources of forest origin (thus avoiding additional pressure on an already strained sector).

The proposal to revise the Energy Taxation Directive is not fit for purpose. The focus of the revision should be to reduce minimum tax rates on electricity and thereby spur electrification. Unfortunately, the proposal goes far beyond this scope by proposing minimum tax rates for biomass fuels. This overreach is in part to blame for the deadlocked discussions in the EU Council. Sugar beet residues should be included in a sub-category in Annex III.

CEFS' request: Annex III should include a sub-category encompassing materials recognised as residues and wastes and not included in said annex.

b. Electrification In addition to the use of primary food processing residues, process electrification will play an important role. Unfortunately, this is currently hampered by high electricity prices. These should be brought down by reducing generation costs and cutting taxes, tariffs and levies (e.g. grid usage fees, renewable energy surcharges). The EU sugar industry urgently needs access to long term contracts with competitive electricity prices based on production costs.

In addition, the upgrade and extension of the EU's electricity grids must be accelerated. Unfortunately, permitting processes to electric grid can be a major obstacle to decarbonisation projects based on electrification. Innovative solutions may need to be considered for energy-intensive seasonal industries located in rural areas. The extension of electricity grids must be done in an efficient way to avoid any increase in grid cost to be paid by the consumer.

CEFS' requests:

- Sugar industry needs access to long term contracts with competitive electricity price based on production costs.
- More build-out of low-carbon energy generation and grid infrastructure that also supports industries in rural areas without increase in costs per energy unit.
- Accelerate connection to electric grid by simplifying permitting procedures for energy intensive industries.
- Energy-intensive industries such as sugar should be exempt from grid tariffs.

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c. Funding

Primary food processors need public funding to decarbonise. This goes for both capital expenditure (CAPEX) and operational expenditure (OPEX). Unfortunately, existing EU funding programmes do not provide adequate support for the decarbonisation of primary food processing. Certain Member States have offered grants and loans to co-finance decarbonisation of some primary food processing factories, but this is not always the case.

Due to the seasonality of sugar production, public co-financing of capital expenditure (CAPEX) is essential. The seasonality of our industry should not be penalised when awarding public financial support for decarbonisation. That is the case when funding is awarded on the basis of cost per tonne of CO₂ abated, since seasonality can unavoidably multiply these costs by a factor of three or four, skewing the playing field against sugar manufacturers.

The Industrial Decarbonisation Accelerator Act (IDAA) must remedy these shortcomings. It must address the challenges faced by all energy-intensive industries. Sugar must not be overlooked because of its relatively small size and processing of agricultural raw material.

CEFS' requests:

- **The seasonality of our industry should not be penalised when awarding public financial support for decarbonisation**
- **The use of ETS revenues for industrial decarbonisation must be drastically scaled up and not only focused on innovative technologies.**
- **The Industrial Decarbonisation Accelerator Act should introduce new funding possibilities for energy-intensive industries in rural areas using technologies which have been already developed.**

More support for farmers outside the CAP

Agricultural yields must be supported by providing farmers with a complete toolbox relevant to their crop and location.

This means a future legal framework for New Genomic Techniques (NGTs) that is fit for purpose to allow their uptake in the EU market. It will also require an EU-wide information campaign to explain the safety and utility of these techniques.

In addition, the EU should move towards a science- and risk-based approach to approving active substances and accelerated approval processes.

Innovative farming techniques, including exploiting AI applications for agriculture, must be mainstreamed among European farmers through communication and technical assistance.

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Carbon markets should be strengthened to compensate farmers for carbon sequestration and CO₂ reduction practices can make a financial incentive for environmentally friendly agriculture. Keeping carbon credits within the food supply chain is of the utmost importance to further enhance the resilience and prosperity of Europe's agricultural sector.

CEFS request: the EU must maximise the availability of tools to farmers, including NGTs, new active substances, innovating farming techniques, and carbon markets.

Nutrition & labelling

Sugar is a carbohydrate that provides the body with the energy that our organs and muscles need to function. It has many different functionalities and cannot easily be replaced in foods: sugar among others provides taste, texture and helps conservation and fermentation.

Sugar has its own place in a sustainable and balanced diet and as part of a healthy and active lifestyle. Sustainable and balanced diets are pivotal in fighting overweight and obesity, root causes of diet-related non-communicable diseases such as type 2 diabetes, cardiovascular diseases and certain types of cancer.

Obesity is a complex and multifactorial issue, but in the end always caused by an imbalance between energy intake (consumption of all types of food and beverages, including sugars) and energy expenditure (the energy our body actually uses).

In this context, any new policy measures or food reformulation initiatives to fight obesity should be framed in a way that encourages calorie reductions in products and in consumers' diets.

CEFS supports initiatives that promote and facilitate consumers' informed choices. Thus, any upcoming revision of the EU food labelling legislation should ensure that consumers are provided with clear, informative, science-based, and non-misleading labelling of food products.

CEFS requests:

- The energy balance is crucial, which is why any new nutrition guidelines or initiatives should be geared towards reducing calorie content.
- Consumers should benefit from clear, informative, science-based and non-misleading labelling of food products.

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