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CEFS POSITION

CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

Achieving carbon neutrality by 2050 is the EU Green Deal's core objective. However, in a globalised economy without common greenhouse gas (GHG) reduction standards, differences in ambition levels are inevitable. This creates a risk of carbon leakage, where production shifts from the EU to countries with lower environmental standards.

The EU Emissions Trading System (EU ETS) has so far mitigated this risk by providing free emission allowances to sectors exposed to international competition, including the sugar sector. Although free allowances will steadily fall for all sectors over the coming years, for sectors covered by the CBAM this process is significantly accelerated.

The accelerated phase-out of free allowances under CBAM will significantly increase production costs for EU sugar manufacturers without ensuring equivalent protection against imports of sugar from third countries. The EU sugar sector sees this as a major threat to its competitiveness, the more so given that third country cane sugar manufacturers benefit from the full use of bagasse (the fibrous residue remaining after sugar has been extracted from sugar cane) as a renewable energy feedstock.

LOSS OF FREE ALLOWANCES: A COMPETITIVE DISADVANTAGE FOR EU SUGAR MANUFACTURERS

EU sugar production is highly energy- and trade-intensive, making it particularly vulnerable to carbon leakage. Despite efforts to reduce its carbon footprint, the significant investment is still needed to complete the transition away from fossil fuels. The removal of free allowances will:

- Increase production costs for EU sugar manufacturers while competitors in third countries face no similar carbon pricing.

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- Jeopardise future investments in decarbonisation, as companies will be burdened with rising costs instead of reinvesting in green technologies.
- Distort competition, as imports from non-EU countries will remain largely unaffected, leading to an uneven playing field.

Phasing out free allowances without effective compensation mechanisms undermines the industry's ability to sustain this advantage.

CBAM FAILS TO ADDRESS CARBON LEAKAGE IN THE EU SUGAR SECTOR

While CBAM is intended to prevent carbon leakage, it is not a viable alternative to free allowances for the sugar sector. Its fundamental flaws include:

- Inappropriate methodology: CBAM is designed for direct emissions but does not account for the full life-cycle carbon footprint of agricultural products like sugar.
- Failure to prevent deforestation: The current CBAM framework does not properly account for land-use changes and deforestation-related emissions, making it ineffective in addressing the broader environmental impact of sugar imports.
- Greenwashing risk: Just as seen with biofuels, the exporters of sugar to the EU are likely to engage in "resource shuffling", sending their greenest production to the EU and saving the rest for less-regulated markets. This will do nothing to reduce overall global emissions.
- Narrow focus on carbon emissions: CBAM ignores other key sustainability factors, such as biodiversity loss, labour conditions, and water use, which are essential for fair product comparisons.

CEFS CALLS FOR A FAIR AND EFFECTIVE CLIMATE POLICY

As the European Commission reviews the CBAM this year, CEFS urges the European Commission to recommend maintaining the exclusion of the sugar sector from the policy.

The European Commission must adopt a cautionary approach. This means:

- Not extending CBAM's product scope as long as the impact assessment planned by the European Commission has not been carried out and validated by the Member States; extending CBAM's product scope only to sectors expressing a need for protection through this mechanism

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- Supporting the transition away from fossil fuels by providing funding for low-carbon investments and compensating higher production costs, including via the Competitiveness Fund, Clean Industrial State aid Framework and the Industrial Decarbonisation Accelerator Act.
- Creating a market environment that reflects Green Deal ambitions while preventing unfair competition from countries with lower sustainability standards.
- Ensuring a level playing field by pricing fossil carbon used in chemical production, supporting bio-based alternatives, and promoting a truly sustainable sugar sector.

Eliminating free allowances without an effective carbon leakage protection mechanism threatens the future of EU sugar manufacturing. If the EU is serious about its climate ambitions, it must adopt policies that support industries striving for sustainability – rather than penalising them.

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