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CEFS POSITION

REVIEW OF THE EU EMISSIONS TRADING SYSTEM (ETS)

Introduction

The EU sugar industry reduced its CO_2 emissions by 59 % between 1990 and 2021.[1] By this metric, we are well on the way to meeting the objective of the ETS1 to reduce emissions by 62% by 2030. Sugar manufacturers recognise the importance of continued progress in reducing greenhouse gas emissions in order to reach climate neutrality by 2050.

Large volumes of heat and electricity are required to produce beet sugar and co-products. Heat and electricity are generally provided by efficient 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.

In addition, sugar manufacturers operate lime kilns to produce quicklime and CO_2 by decomposition of limestone ($CaCO_3$) with heat into Calcium Oxide (CaO) and CO_2. In-water suspended CaO and the CO_2 are injected into sugar diffusion juice to re-carbonate the CaO to $CaCO_3$ and precipitate non-sugar impurities. The resulting carbonated lime (also known as Sugar Factory Lime) is marketed as a soil additive and improver, since its alkaline pH reduces soil acidity. The CO_2 is not emitted into the atmosphere but instead stored in the carbonated lime. As will be seen, this process is now covered by the ETS.

[1] CEFS greenhouse gas emissions survey, led by PwC. Representativeness: 97% of EU operating factories. Reference year: 2021.

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The decarbonisation of EU beet sugar manufacturing requires energy efficiency improvements, electrification of sugar processes and the use of biomass, especially own-produced (from residues and waste). There is no one-size-fits-all solution.

In recent years energy costs have made up over 30% of EU sugar manufacturing costs (versus c. 20% previously).[2] Annual reductions in free allowances, combined with an increase in allowance prices, is aggravating the existing risk of carbon leakage. The increases in the Linear Reduction Factor and the maximum benchmark update rate brought about by the 2023 ETS review will put the sector under further pressure.

Since the end of quotas in 2017 20 beet sugar factories have been closed and almost 5,000 direct industrial jobs lost. The costs of decarbonisation, combined with limited public support for investments, an unsuitable trade policy, declining beet yields, and stagnating sugar consumption, among other challenges, mean the EU sugar sector is under increasing and potentially unsustainable pressure.

With these considerations in mind, CEFS has several requests regarding the ETS proposal.

The design of the EU ETS should be adapted to mitigate excessive emissions allowance prices and ensure the availability of allowances post-2038

The effectiveness of ETS in reducing emissions has been moderate. By increasing costs of emissions it has driven investments in emissions reduction. However, in some cases increased costs have contributed to a reduction in industrial activity in Europe that has not led to a reduction in global emissions due to the "outsourcing" of this production to outside of the EU ETS.

The current trajectory of CO_2 allowance prices under the EU Emissions Trading System (ETS) suggests a high likelihood of further sharp price increases. Unchecked, this could pose significant risks such as inflated operational costs for industry, reduced predictability for investments, and heightened carbon leakage. Given these concerns, it's essential to assess whether existing safeguards—such as the Market Stability Reserve and Article 29a—are sufficient to prevent excessive price volatility, or if additional regulatory tools are warranted.

We call for an analysis of available and potential mechanisms to moderate CO_2 price spikes, including dynamic price corridors, trigger-based interventions, and enhanced market

[2] CEFS Manufacturing Costs Survey, led by PwC. February 2025.

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transparency. The aim is to ensure the ETS remains a credible and balanced tool for emissions reduction, supporting both environmental ambition and economic stability.

Post-2030 the cancellation of allowances under the Market Stability Reserve (MSR) should be stopped in order to ensure the long-term stability of the system by maintaining a reserve of allowances. Because the supply of emissions allowances will continue to decline, the usefulness of the MSR Decision will disappear.

CEFS requests:

- Analyse available and potential mechanisms to moderate CO_2 price spikes
- End the cancellation of allowances under the MSR after 2030

The ETS should cover scope 1 emissions only

The 2023 revision of the ETS Directive deleted the words "into the atmosphere" from the definition of emissions in Art. 3(b). This article previously read: "'emissions' means the release of greenhouse gases into the atmosphere." Regrettably, this change was not mentioned in the preamble to the proposal, despite its significant anticipated effects on certain sectors.

This change means that CO_2 emissions that are released but recaptured (and thereby not released "into the atmosphere") must, under the 2023 Directive, be monitored, reported and at least partially covered by the surrender of emissions allowances, unless the CO_2 is "permanently chemically bound" in a product (defined restrictively in a Delegated Regulation).[3]

The 2023 revision of the ETS Directive is overly restrictive. It fundamentally contradicts the "polluter pays principle". Moreover, in the sugar sector, the use of Sugar Factory Lime as a soil additive on the field, while resulting in the emission of a portion of the CO_2 captured during the processing phase, delivers other climate benefits, such as the avoidance of N_2O emissions (GHG factor: 298). In addition, the portion of the captured CO_2 that is emitted depends on a number of factors, including soil acidity, soil type, and presence of fertilising material. Assuming that the entirety of the captured CO_2 is emitted is unscientific and leads to overpayment by sugar industry operators.

[3] Commission Delegated Regulation (EU) 2024/2620 of 30 July 2024 supplementing Directive 2003/87/EC of the European Parliament and of the Council as regards the requirements for considering that greenhouse gases have become permanently chemically bound in a product.

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CEFS request: The ETS should cover scope 1 emissions only; the previous definition of emissions should be restored.

Revenues from the sale of emissions allowances should be better used to support the defossilisation of industry

The EU beet sugar industry needs public funding to decarbonise (or, more accurately, "defossilise"). Certain Member States have offered grants and loans to co-finance decarbonisation of some sugar factories, but this is not always the case.

Due to the seasonality of sugar production, public co-financing of capital expenditure (CAPEX) is essential. Capital-intensive decarbonisation investments include additional evaporation effects, high-efficiency cogeneration, biomethane production, and heat pumps. 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 CO_2 abated, since seasonality can unavoidably multiply these costs by a factor of three or four, skewing the playing field against sugar manufacturers.

Operational expenditure (OPEX) support is also important, particularly in the case of electricity-intensive investments.

There is wide latitude to increase the funding of EU industry from ETS revenues: only 3% of Member States' revenue from the ETS was redirected back to industry in 2023.[4] Unfortunately, existing EU funding programmes do not provide adequate support for the decarbonisation of sugar manufacturing. The ETS Modernisation and Innovation Funds are heavily oversubscribed, and the latter focuses on innovative technologies only, overlooking that the technologies the EU sugar industry will use to decarbonise have largely already been developed.

The use of ETS revenue should correspond to the contributors of said revenue, so that the sugar industry and others benefit from support for industrial decarbonisation that is roughly equivalent to the amount paid into the system.

The sugar sector should be covered by the Industrial Decarbonisation Bank. The Innovation Fund, by focusing on innovative, cutting-edge technologies, is of very limited

[4] European Commission. 19 November 2024. REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the functioning of the European carbon market in 2023.

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utility for sugar manufacturers, for which the main challenge is the deployment at scale of existing technologies (be this energy efficiency, heat recovery, on-site biomass/biomethane production, on-site renewable energy generation, etc.).

CEFS' request:

- The use of ETS revenues for industrial decarbonisation must be drastically scaled up to be commensurate to amounts paid in.
- The Sugar sector should be covered by the Industrial Decarbonisation Bank when it is proposed in Q2 2026.

Permanent carbon removals should be recognised under the EU ETS

The EU sugar industry supports the possibility for permanent carbon removals certified under the CRCF to be used by EU ETS entities to count towards their compliance obligations, as they contribute meaningfully to long-term climate goals. We support the possibility to deduct from compliance obligations any permanent removals generated from own activities, **without** the need for a CRCF credit.

Carbon capture and use should fall under a separate system. This is because material use has an inherently limited lifespan compared to long-term storage methods. The objective for material use should focus on circularity – maximising recycling and substituting unavoidable carbon losses with biomass and CCU. To support this, a dedicated certification system is needed to incentivise the capture and use of renewable carbon. As such, we don't support the inclusion of temporary removals in the EU ETS.

CEFS' requests:

- Permanent carbon removals should be counted as negative emissions under the EU ETS.
- A dedicated certification system is needed to incentivise the capture and use of renewable carbon.

Sugar must not be included in the Carbon Border Adjustment Mechanism (CBAM)

The accelerated phase-out of free allowances under CBAM would 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

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the full use of bagasse (the fibrous residue remaining after sugar has been extracted from sugar cane) as a renewable energy feedstock.

The removal of free allowances will:

- increase production costs for EU sugar manufacturers while competitors in third countries face no similar carbon pricing;
- jeopardise future investments in decarbonisation, as companies will be burdened with rising costs instead of reinvesting in green technologies; and
- distort competition, as imports from non-EU countries will remain largely unaffected, leading to an uneven playing field.

CEFS' request: Sugar must not be included within the scope of CBAM.