

Brussels, Wednesday, 01 April 2020

CEFS FEEDBACK ON THE CARBON BORDER ADJUSTMENT MECHANISM ROADMAP

Producing roughly eighteen million tonnes of sugar across nineteen Member States¹, CEFS (Comité Européen des Fabricants de Sucre) brings together practically all sugar-producing companies making their European Association (www.cefs.org) highly representative of the sector and a reference at EU and international level for its technical expertise.

CEFS welcomes the possibility to provide feedback on the inception impact assessment on the carbon border adjustment mechanism, although recommendations after the finalised impact assessment are also crucial for developing well-balanced policy options. We share the ambition of the initiative, stressing that as long as many international partners do not share the same climate ambitions as the EU, there is a risk of carbon leakage; meaning that there is a risk of production being transferred from the EU to other countries with lower ambition for emissions reduction, or that EU products are replaced by more carbon-intensive imports.

There is a choice here: securing the sugar supply of EU citizens either by a highly efficient, sustainable domestic industry or through external sources on which the regulatory framework of the EU has a very limited impact.

Sugar Sector

The EU sugar sector - in contrast to all of its global competitors - is now operating in a very liberalised market environment, becoming increasingly open to competition, due to the end of the production quotas on 30 September 2017. The EU is already granting preferential, tariff-free access for Least Developed Countries (LDCs) and African, Caribbean and Pacific Countries (ACPs). The entry into force of a large number of new Free Trade Agreements entails enhanced competition for EU manufacturers, and puts EU sugar manufacturers in an awkward competitive situation, as sugar in third countries is often produced on the basis of lower social and environmental standards. In contrast, at global level, the EU sugar industry must trade on an uneven level playing field, at global level, with the major sugar-producing players receiving increasing trade-distorting public support and protection.

In the conditions described above, and because sugar is an international commodity, the EU market is inevitably affected by a world market price which does not represent real production costs.

¹ 2018/19 Marketing Year Figures for EU-28; this sugar is produced from approximately 110 million tonnes of sugar beet.

EU sustainable sugar production should not be undermined and replaced by cheap, unfair or illegal sugar imports sometimes travelling long distances.

Sugar manufacturing in the EU is currently subject to the highest standards and requirements of the world, when it comes to environmental protection, agricultural production and workers safety for instance.

Amongst others, sugar manufacturing is regulated under the EU ETS (e.g. heat and electricity production in high-efficient CHP generation, drying processes, lime production for purification of raw juice). Because of its high trade intensity (19,7 %) and its CO₂ relevance, it is a sector part of the Carbon Leakage List.

CEFS would therefore like to stress that, in any case, protection against carbon leakage needs to be ensured for the European sugar manufacturing sector.

Recommendations

The proposed system of carbon border adjustment mechanism nevertheless brings questions:

1. Scope of such mechanism:
 - a. Will it encompass all sectors that are part of the Carbon Leakage List? If not, how will the selection be made?
 - b. Will this system only take into account transformation, or additional parts of the value chain and environmental impacts?
 - c. Could this policy option work well only on the import side (export reimbursement is not part of the present Commission's concept and would not be in accordance with WTO requirements)? If so, how to preserve the competitiveness of our exports?
2. Will the huge amount of necessary regulation be feasible?
3. What use will be made out of the revenues from this mechanism?

1. Scope of the mechanism

a. The proposed system seems rather straightforward to set up for materials such as steel or cement (sectors eligible for state aid for indirect carbon costs compensation). However, when it comes to food products, and especially sugar, the system leaves room for interpretation. In case only transformation is counted, the impact of primary, raw materials and other co-products in the value chain (such as feed, fertilizers etc.) will not be collected and can lead to miscalculations. An alternative compensation system should then be put in place in this case.

It is moreover unclear whether such system will complement or replace the ETS rules. In order to guarantee a fair protection of the EU sugar manufacturing activities, CEFS advocates for the carbon border mechanism to be used *in addition* to the ETS rules, and *not instead* of the ETS system.

b. In food products, the agricultural upstream of production should be taken into account for this mechanism. In this way, land and soils use will be accounted for, as has been done in the past with ILUC in the RED II. It should be recalled that EU sugar is made out of beet, a very efficient crop in terms of land use and water usage. Sugar produced outside the EU comes from cane, a tropical crop. In case the impact of cane on land is not taken into account in the mechanism, this could lead to undesirable situations of certain tropical forests being cut and burnt down in order to grow cane or to create space for other crops. This would be counterproductive and would not be in line with the Green Deal policies the EU Commission is currently putting in place.

A further aspect that seems not to be taken into account is the fact that European sugar manufacturing brings further co-products as a result of the ETS-regulated processes of a beet sugar plant, such as: a large stillage of feed (several sorts of beet pulp), fertilizers (carbonatation lime), raw materials for fermentation and alcohol production. All of these products need to be taken into account by creating a system of CO₂ calculation for a border tax adjustment scheme to come to fair and coherent policy option replacing the present system of free allocations. Comparing sugar from abroad with European beet sugar needs to include the impact of those co-products into the scope of the future mechanism by allocating the correct emission share to each of these products. Only this procedure will represent a realistic carbon leakage protection, not mentioning the above-mentioned environmental impacts of our competitors on tropical crop level.

c. While a protection on export level is not planned (and perhaps legally not feasible), a Carbon Border Adjustment mechanism (CBA) will constantly suffer only to manage one side of the carbon leakage medal. Therefore, facing an environment of distortion-free international trade relations, the question may be allowed whether it could really be a considerable policy option. If border (customs-based) measures cannot be implemented in order to fully cover the competitive gap (either on exports or imports), alternative and/or additional compensation systems should be envisaged.

We therefore request the European Commission to efficiently protect our sector with a more effective system taking into account the high performance of the EU sugar sector regarding agricultural, environmental and social standards.

2. Bureaucracy

No doubt that a well working CBA will be based on a lot of results of international negotiations and well agreed international regulation. Facing the huge time and effort this will need to be achieved without any risk of retaliation measures from the WTO members, and the fact that it can only be an intermediate result on international level until 2050 we are asking whether it will not

be the smarter way to keep the present system and to put all negotiation power in finding a common CO₂ price on global level directly.

3. Benefits of the CBA

The potential revenues stemming from the CBA should be allocated to the transition to a low-carbon economy of our European industry.

CEFS therefore requests for a fair treatment of EU industries in order to be protected against carbon leakage, for coherence and consistency between regulations and policies when proposals are made by the EU. Furthermore, we consider that a more global approach (taking into account production modes among others) in determining the scope of the mechanism for food products is required, especially for sugar.

CEFS remains available for more information or any question you may have.