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## REVISION OF STATE AID GUIDELINES FOR ENVIRONMENTAL PROTECTION AND ENERGY– EU SUGAR INDUSTRY CONTRIBUTION TOWARDS CLIMATE NEUTRALITY

### ➤ The EU sugar industry's path to carbon neutrality

CEFS, the association representing European sugar manufacturers, is attentively following the revision of the 2014-2020 State Aid Guidelines for environmental protection and energy (EEAG).

In the EU 27, 92 factories produce around 16 million tonnes of sugar, transforming above 100 million tonnes of sugar beet on nearly 1,5 million hectares of land<sup>1</sup>. Sugar processing supports 120,000 beet sugar workers with 80% of our GDP contribution (15.6 billion €) generated in rural areas supporting high-skilled jobs.

Sugar manufacturers acknowledge the need to update legislative instruments to fit with the higher ambitions to cut Greenhouse Gas (GHG) Emissions by at least 55% by 2030 compared to 1990 levels. This should set Europe on a responsible path to becoming climate neutral by 2050. CEFS supports the Green Deal's ambition that paves the way to a sustainable, circular and innovative economy.

Admittedly, achieving climate neutrality is a challenge for our sector. It will only be possible if:

- environmental policies are coherent and consistent;
- investments for the greening of infrastructures are supported by financial measures, including state aid, whilst ensuring that the sugar sector has access to investments in infrastructure enabling electrification;
- the sector has access to an affordable, clean and competitive renewable energy (electricity, biomasses or biomethane).

Reducing carbon intensity has consistently been an objective of the EU beet sugar industry. EU sugar manufacturers have decreased their CO<sub>2</sub> emissions by 51 % compared to 1990<sup>2</sup>, thus already significantly delivering on the requested emission reductions.

However, the EU Commission's draft review of the EU ETS directive<sup>3</sup> presented on 14 July 2021 is asking for increased efforts from European industries to reduce CO<sub>2</sub> emissions by 61% compared to 2005 levels. This new requirement is very challenging and does not take into consideration efforts already made by frontrunner-sectors in decarbonising their industries.

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<sup>1</sup> Source: CEFS Statistics for campaign 2019/2020 and 2020/21

<sup>2</sup> Source: CEFS confidential survey led by PwC, spring 2020. Representativeness: 97% of EU operating factories.

<sup>3</sup> [revision-eu-ets\\_with-annex\\_en\\_0.pdf \(europa.eu\)](#)

The sugar industry is highly capital intensive and has to be operated at scale to be competitive. Sugar factory construction entails substantial investment – in the range of several hundred million euros for each plant. Operating costs are also substantial. Sugar factories rely on sugar beets as raw material. Sugar beets are cultivated in close geographical proximity to the factories that process it due to the relatively high cost of beet transport. A few months after sowing, sugar beets can be collected and transformed in the sugar factories which process them 4 months per year (from September to January).

The production process creates a strong interlinkage between farmers and processors. Farmers rely on sugar producing companies to provide the fixed capital and expertise to extract the sugar from their beets, and processors are dependent on their contracted farmers to supply the raw material.

**Further reduction of GHG emissions from energy use / phase out of fossil fuel use (“decarbonization”) will come with costs.** The sector is intrinsically linked to agriculture and is very specific due to its **seasonality aspect**, which should be taken into account in the elaboration of emissions reduction policies. Aid which covers sugar production operating costs will result in more environmentally friendly operating decisions.

### ➤ **The EU sugar sector: Transition and challenges driven by EU policies**

In 2017, the end of the quota system constituted a **complete overhaul** and a fundamental change in the functioning the EU sugar sector, dismantling a system which was in place for more than 50 years. **Sugar producers are now in competition within and outside the EU:** they are producing for the EU market, with internal prices tracking the world market price; the latter is substantially influenced by a just few players: Brazil, India, Thailand.

This phase of **transition** turns out to be a profound change: **closure of 12 factories in rural regions** since the 2017/18 campaign<sup>4</sup>, the first years without quotas; decrease in the number of sugar beet growers and above all, an **average European price** more than **three consecutive years (41 months)**<sup>5</sup> below the reference threshold fixed by EU Regulations.

Operating results of sugar companies have been under **high pressure** resulting in **financial losses, restructuring measures** in the form of factory closures and **cost reduction programmes**. **These difficulties have clearly been acknowledged by the European Commission and Member States** in the 2019 Report of the High-Level Group of Sugar<sup>6</sup> and more recently during the Common Agricultural Policy (CAP) negotiations by the European Council, the European Parliament and the European Commission which agreed on a joint statement calling for appropriate future policy initiatives<sup>7</sup>.

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<sup>4</sup> In the last campaign 2020/21, 7 factories have closed.

<sup>5</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/farming/documents/sugar-dashboard\\_en.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/farming/documents/sugar-dashboard_en.pdf)

<sup>6</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/plants\\_and\\_plant\\_products/documents/final-report-high-level-group-meeting-sugar.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/plants_and_plant_products/documents/final-report-high-level-group-meeting-sugar.pdf)

<sup>7</sup>Annex 4: <https://data.consilium.europa.eu/doc/document/ST-10219-2021-REV-1/en/pdf>

## ➤ Sugar Sector and a fair inclusion in the State Aid List (draft Annex 1)

Despite being energy intensive and therefore also part of the ETS Carbon Leakage List, sugar manufacturing is not on the list of eligible sectors in Annex 1 of the draft communication of the revised Climate, Energy and Environmental Aid Guidelines (CEEAG) for 2022. Single sectors or companies, for whom EUROSTAT does not provide sufficient trade data, must be given alternative options to show their exposure and be included on the list.

Following the publication of the Green Deal in December 2019, and in light of the planned policy proposals and legislative revisions, it appears obvious to sugar manufacturers that the EU will increasingly encourage electrification of processes. Based on this observation and in light of the evident economic changes experienced by the sector based on public policy changes, **CEFS is asking the European Commission to show more flexibility in the establishment of the draft Annex-1-list and include the sugar industry.**

More specifically, CEFS would like to make the following remarks in relation to the draft Communication on CEEAG for 2022:

### 1. Section 4.1 (page 36): Aid for the reduction and removal of GHG emissions, including through the promotion of renewable energies

The sugar industry has started its transformation process towards zero GHG emissions and, in view of its need for a secure supply of high-temperature heat and electricity in rural areas, is focusing on providing and using sustainably generated biofuels.

In this respect, it is essential that:

- **Biofuels, bioliquids, biogas and biomass fuels which can apply sustainability criteria** remain recognised and eligible for funding, allowing to use sugar beet products for biomethane production or for the direct production of heat and electricity (para. 76).
- The application of ILUC criteria of RED II (EU) 2018/2001 or, in the future, of RED III, **must not lead to a situation where the remaining, non-processed parts of the beet can no longer be used** for the production of heat and electricity in view of phasing-out fossil fuels or due to the fact that support measures cannot be granted during the conversion process as with other technologies. If the thresholds to use food and feed crops for biofuels set in RED II would be fully used in transport no support at all would be possible. **This would endanger investments and business predictability.** The sugar beet sector is able and willing to provide substantial amounts of "green", sustainable products, by maximising the value of co- and by-products and minimising waste, but this will only be possible provided that an adapted enabling legal framework is properly set (para. 77). If the ILUC criteria are kept, an exemption should at least be applied for bioenergy from wastewater production. The added value of ILUC criteria for bioenergy from residues can be questioned. It would increase the administrative burden and costs for operators.

- Bioenergy solutions are specifically targeted at the problematic grid situation in rural areas, where cogeneration (grid stabilising effect) and self-supply of biomass contribute to low environmental protection costs for society (avoidance of grid integration costs) (para. 83). The seasonality of the sector (as explained above), coupled with the situation in rural areas, makes investments in the development of networks (gas or electricity) for the sugar industry not economically sustainable.
- With a view to reducing the bureaucratic burden, the possibility of **derogating from the principle of tendering** should not only be possible up to < 400 kW, but in accordance with § 22 para. 3 EEG, up to or equal to **750 kW** (para. 92 (b)).

CEFS generally welcomes the flexibility the draft guidelines foresee for the use of the so-called **contracts for difference (CCfDs)** to bridge the difference between operating costs (OPEX) and a lower CO<sub>2</sub> price (para. 103). However, should the CO<sub>2</sub> price rise very rapidly, the repayment mechanism would mean that only projects with a very high (firmly agreed) strike price cannot lead to an exceeding CO<sub>2</sub> price (reference price). Projects in an upscale CO<sub>2</sub> price segment of 100 - 150 €/EUA would no longer be guaranteed safe incentive through CCfDs. Only those ones well above this level (footnote 61). For this reason, **a phased solution is needed.**

Furthermore, repayment may not be considered for previous periods in which the reference price could still be bridged. To ensure predictability, security and investments, the payment of the aid must not be retroactive.

## [2. Section 4.7 \(page 70\): Aid in the form of a reduction in taxes or taxes similar to taxes](#)

An EU legal framework that allows maintaining a tax cap for most energy intensive users is **essential** to guarantee the competitiveness of EU sugar industry in certain Member States and the necessary liquidity in the light of the forthcoming decarbonisation efforts of our sector (para. 269(b)).

In this respect coherence with the requirements of the Energy Tax Directive 2003/96/EC (in compliance with sections 4.7 and 4.1 of the guidelines) (para. 272 et al.) should be maintained.

It is necessary to **keep the possibility of being able to continue to base national energy and electricity tax relief on agreements** such as those provided by the current Art. 17(1)(b) of the Energy Tax Directive which "lead to the achievement of environmental protection objectives or to improvements in energy efficiency".

### 3. Section 4.11 (Page 85): Aid in the form of a reduction in electricity levies for energy-intensive undertakings

In the current "Guidelines on State Aid for Environmental Protection and Energy 2014-2020", Annex 3 lists the industry sectors that are eligible due to the costs of promoting renewable energies, which have an electro-intensity and a trade intensity of 10 % each at EU level. Annex 5 includes other sectors with a reduced trade intensity of more than 4%, The sugar manufacturing sector is only mentioned in Annex 5.

Looking at the draft Guidelines to be applied from 2022, the sugar industry is not listed in the new Annex 1 (to replace the current Annex 3). A follow-up regulation within the meaning of the current Annex 5 is not foreseen. For producers, this may lead to severe consequences as exemptions granted today from levies for renewable energies (especially for high-efficient co-generation) may become void, even for existing installations.

**For the guidelines from 2022, an electricity intensity of at least 10 % is again required for the eligibility of a sector. However, the Commission proposal requires a trade intensity of 20%.**

Currently, as indicated by the Commission's explanatory note on sector eligibility under section 4.11 of the draft CEEAG<sup>8</sup>, the sugar manufacturing industry (Nace 10.81) has a trade intensity of 19.7%, just below the required value, and an electro-intensity of 17,6% substantially above the required level of 10%. This assessment by the EU Commission is based on the averaged figures for the period 2013 – 2015.

From the European sugar sector's point of view, **data from the period 2013-2015 are completely outdated and do not consider the specificity and challenges experienced from our sector in the past couple of years.** As a result, gross value added has declined massively over the last years, putting the sector at high risk of delocalisation outside the EU. This is clear from the public reports of the companies but also from the Price Reporting System delivered by the Commission (see above).

Considering this observation and considering the evident economic changes experienced by the sector, **CEFS is asking the European Commission to show more flexibility in the establishment of the draft Annex-1** and allow sugar factories to deliver on their growing willingness to electrify, thereby contributing to the objective of reducing emissions and the amount of fossil fuel used.

CEFS asks to **recognize the specificity of the sugar sector** as regards electro intensity and trade intensity levels by:

1. Basing its data on **more recent years** for the European Sugar Sector, and specifically:
  - ✓ On years **2017 to 2019**, which would fully take into consideration the new reality of the sector.

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<sup>8</sup> [https://ec.europa.eu/competition-policy/system/files/2021-07/CEEAG\\_explanatory\\_note\\_sector\\_eligibility\\_under\\_section\\_4.11.pdf](https://ec.europa.eu/competition-policy/system/files/2021-07/CEEAG_explanatory_note_sector_eligibility_under_section_4.11.pdf)

- ✓ If the above years of reference are not possible, in coherence with Directive 2003/87 on greenhouse gas emission allowance trading within the EU<sup>9</sup> art 10b<sup>10</sup> which allows exceptions to the generally applied rules “to support certain energy intensive industries in the event of carbon leakage” more recent data should be considered, **by using reference value for the period 2014-2016.**
- 2. Including a **tolerance threshold of 0.5%** that could be granted in line with art. 10 (b) of Regulation 2003/87 to Energy Intensive Industries as the sugar industry, given the risk of delocalization outside the EU.
- 3. **Reconsidering the doubling of the required trade intensity from 10 % to 20 %.** With a foreign trade share of 19.7% for the period used by the EU, the vulnerability of EU sugar production should be considered including the higher environmental, social and climate protection standards applied in comparison to third countries competitors.
- 4. **Assessing the possibility of a phased system** with different amounts of aid, in relation to its electro intensity and trade intensity values.

CEFS calculations of trade intensity are attached for completeness of information and further assessment. Our calculations show that also considering the averages 2013-2015 the sector would have trade intensity values above 20%. Moreover, considering data only for EU 27 would increase the values of trade intensity for sugar manufacturers.

Not being eligible for “Aid in the form of a reduction in electricity levies for energy-intensive undertakings” in the revised guidelines is unjustified and would put the industry at a real risk of delocalization in third countries. This would affect a key strategic food product in the EU, limiting the possibility to contribute to the EU climate objectives set by the EU Green Deal and hampering investments into the electrification processes.

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<sup>9</sup> [EUR-Lex - 02003L0087-20200101 - FN - EUR-Lex \(europa.eu\)](#)

<sup>10</sup> Relevant extract of interest of Art 10b par. 2 of Directive 2003/87 refers to “Sectors and subsectors in relation to which the product resulting from multiplying their intensity of trade with third countries by their emission intensity exceeds 0,15 may be included in the group referred to in paragraph 1 [100% free allocation], using data for the years from 2014 to 2016, on the basis of a qualitative assessment and of the following criteria a) the extent to which it is possible for individual installations in the sector or subsector concerned to reduce emission levels or electricity consumption;(b) current and projected market characteristics, including, where relevant, any common reference price;”