

## **CEFS (European Sugar Industry)**

### Reply to the EC consultation on the analytical report in the light of international negotiations on the situation of energy intensive industries.

*1. In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?*

The reform of the EU sugar market initiated by Council Regulation 318/06 has led to a great increase of trade intensity with countries outside the EU due to the opening of the EU market to sugar from third countries either completely (duty-free, quota free for LDC countries) or under preferential conditions (for ACP countries; for other regions of the world under bilateral agreements or simply to take into account the enlargement of the EU to Bulgaria, Romania and other countries in the near future). Moreover, the restructuring of the EU sugar market has led to many factory closures and the partial transfer of activities to the remaining factories. Beet processing being a seasonal activity, this means that the remaining factories have increased the duration of the processing campaign, increasing overall emissions despite no change in the installed capacities. It is expected that the cost of CO<sub>2</sub> compared to the added value will also increase. Hence, the economic turnaround coupled to the EU sugar market Reform has put further pressure on and reduced overall the companies' value added.

*2. Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?*

We fear that pledges are not sufficient, and thus will lead to higher cross sectoral correction factors, which will be necessary to reach the overall ETS-targets. This will hit sectors deemed to be at risk of carbon leakage with additional burdens (as it is already the case if no free allocation is given for highly efficient electricity self-generation on the production site and if the benchmark-approach leads in fact to a significant amount of actual emissions (up to 50% or more) not being covered by free allowances.

The pledges of the Copenhagen Accord only show that the result of Copenhagen is nothing final but just a first step. These pledges are not binding and not near the level of the EU commitments (20 or 30 % compared to 1990 values). The outcome of Copenhagen is in no way an agreement involving similar efforts by third countries and the EU is left alone to reduce its emissions at an ambitious level thus putting at risk its own industries. For example Brazil, the major world sugar producer, intends to achieve a high level above "business as usual" which is far away from a real mitigation burden and the vast bulk of this effort shall come from REDD (Reducing Emissions from Deforestation and Degradation). But REDD is highly contested as a real instrument to achieve climate change mitigation.

*3. In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?*

A reduction of the level of free allocation for CL sectors should only happen when the direct competitors of a sector in the world market will have really comparable burdens (same mitigation level, same reference 1990, also an auctioning system, also a binding cap and trade system).

The developing countries will be supported e.g. by funds (30 billion USD 2010 -2012) from the developed countries to cut carbon emissions. These funds might impact the balance of competition and increase the risk of leakage. Moving sugarproduction to developing countries will not only result in carbon leakage but also increase emissions through transports and the refining process of raw sugar. Therefore it's important with an efficient system to protect against carbon leakage and globally increasing carbon emissions.

Finally the economic crisis and the credit crunch that has followed has limited the investment capacities of companies and this is another factor to be taken into account so as not to decrease the level of free allocation to those sectors (but rather to make sure that the actual level of free allocation granted is not excessively low to avoid carbon leakage)

*4. Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?*

Free allocation to CL sectors can be sufficient if it is close to 100% of the actual emissions. In reality, depending on whether benchmarks are solely based on natural gas, factories might get less than 50% for free, which would be a significant risk of closures of factories, thus resulting in carbon leakage. In such case it would be of outmost importance that a 'positive' correction factor applies to compensate those factories with no access to natural gas. Also, if free allocation would cover also emissions from electricity generation at CHP-plants operated by energy intensive manufacturing sectors, this may reduce the risk of carbon leakage substantially. Otherwise, other measures such as border tax adjustment will be required.