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Brussels, 7 June 2010

Mrs Connie Hedegaard
Commissioner, Climate Action
European Commission
Rue de la Loi, 200
1049 Brussels

Dear Commissioner,

Re. ETS benchmarking and the need to keep jobs in support of the economy of rural areas while fostering the environment.

The new European Emissions Trading System (ETS), taking shape today but which will apply from 2013 and beyond 2020, could endanger rural development and economic activities in rural areas if the specificities of agro-industry sectors like the beet and sugar sector are not taken into account. CIBE, EFFAT and CEFS represent, respectively the European beet growers, Food & Agriculture Trade Unions and sugar beet processors.

In 2009, the beet sugar sector was classified by the EU as an "energy-intensive sector at risk of carbon leakage". In practice, that means that the sector is highly sensitive, on the one hand, to the additional costs linked to the future price of CO_2 in the EU and, on the other hand, to the loss of international competitiveness in relation to industries, in third countries, not supporting similar CO_2 costs. Carbon leakage sectors are deemed to receive 100% of their *benchmarked* emissions for free during the transition period 2013-2020.

Despite the above classification, the Commission, led by DG Climate, is in the process of developing a so-called 'benchmarking' model which may very seriously reduce the amount of free emission rights ('allowances') that our sector could receive during the transitional period (2013-2020). According to a benchmarking study of the beet sugar sector completed in May 2010 by an external consultant (Entec) this may result in the beet sugar sector receiving roughly 50% of its *actual* emissions during the transition period and thus being obliged to cover that huge gap by buying allowances on the ETS carbon market. We believe this will cause an unreasonable damage not only to the sector and EU farmers but also to employment and economic development of EU rural areas, where our factories and farms are based. Ultimately, this may lead also to lower the sustainability of the sector.

The EU-led 'sugar reform' and the role of the sector in rural areas

Following the EU decision to thoroughly modify its sugar market (Council Regulation 318/06), the European beet and sugar sector has undergone a very deep reform which is just now being finalized. As a result, the sector has reacted responsibly to the necessity of improving its competitiveness and sustainability[1]. Nonetheless, the sugar market reform has led to the closure of 44% of the EU beet sugar factories between 2005 and 2009. The EU has also turned from net sugar exporter to net importer in a very short period of time.
Beet sugar factories are bound to rural areas, as they must be near the fields from which they obtain its main raw material, sugar beet. Despite the severity of the sugar reform in terms of job losses (-41% since

[1] For more details, please consult our new CIBE-CEFS report on environmental sustainability http://www.comitesucre.org/userfiles/file/Brochure%20CIBE-CEFS%20Final_05_05_2010.pdf

campaign 2004/05), both beet growing and sugar beet processing remain an important economic activity in rural areas where they provide employment (direct and indirect, full or partial) to 180.000 industry workers and support the activity of more than 170.000 farms. The sector therefore remains fully committed to its long-term sustainability in the social, economic and environmental areas.

Keeping jobs and supporting the economy of rural areas while fostering the environment should be compatible with any ETS benchmarking model chosen by the EC.

The benchmarking model currently supported by DG Climate makes no difference regarding the relative access of factories to low-carbon fuels such as natural gaz and sets a reference value which is roughly equivalent to the one of natural gaz. For factories running on higher-carbon fuels such as coal or oil this means substantially less allowances during the transitional period. Sugar beet factories are bound to rural areas and that means, for factories in many countries, that there is low or no access to gaz pipelines. For those factories, we claim and request that a different fuel benchmark, based on their relative access to the different fuels, should be possible.

Our sector, like several other manufacturing sectors, is also concerned by the fact that factories may be considered as ‘electricity generators’ because they produce their own electricity (via ‘co-generation’, also called ‘CHP’, Combined Heat and Power). Under the new ETS, ‘electricity generators’ are treated in the same way as the power sector (which is deemed to be able to pass on to consumers all of its carbon costs), and therefore would receive no free allocations. In the case of the beet processing sector, producing its own electricity in an especially designed plant is not an option but an obligation due to its location in rural areas with low-level electricity infrastructure. By doing so, many CO2 emissions are saved compared to equivalent supply from the public electricity grid. We therefore claim that DG Climate can and should clarify that, on that point, the ETS Directive does not prevent the manufacturing sector from receiving allowances also for the electricity self-produced and self-consumed on site via highly efficient co-generation.

Finally, by being close to the beet fields, many transport emissions are saved by beet processing factories as roughly 100 Million tonnes of beets are transported in the EU every year! Moreover, sugar beet and beet sugar remain locally produced commodities which do not have to travel far to reach the EU consumers and to supply other EU industries such as the food & drinks, chemical and pharmaceutical industries. All in all, we claim that penalizing beet sugar factories due to their isolation, low access to gas pipelines and self-production of electricity, means not only penalizing the sector but also damaging the development of economic activities in rural areas and ultimately penalizing the environment itself by encouraging the sector’s carbon leakage in favor of competing production in third countries.

We remain at your disposal should you or your services require any clarification or further details on the above. We also look forward to continuing the good cooperation with the services of the different DGs with regard to finding solutions for some technical and yet sensitive matters which concern specifically the beet sugar sector and strongly recall the need for coherence between the various EU policy decisions, notably on CAP and on Climate.

Yours sincerely,

Harald WIEDENHOFER
Secretary General, EFFAT

Jos VAN CAMPEN
President of CIBE

Johann MARIHART
President of CEFS

Cc: Ms Elena ESPINOSA, President of the Council of the EU – Agriculture and Fisheries
Mr Antonio TAJANI, Mr Dacian CIOLOS, Mr Günther OETTINGER, Commissioners
Mr Paolo de CASTRO, Chairman COMAGRI, Mr Jo LEINEN, Chairman ENVI Cttee, European Parliament