

Carbon Border Adjustment Mechanism

Potential Impacts on Turkey's Exports to EU

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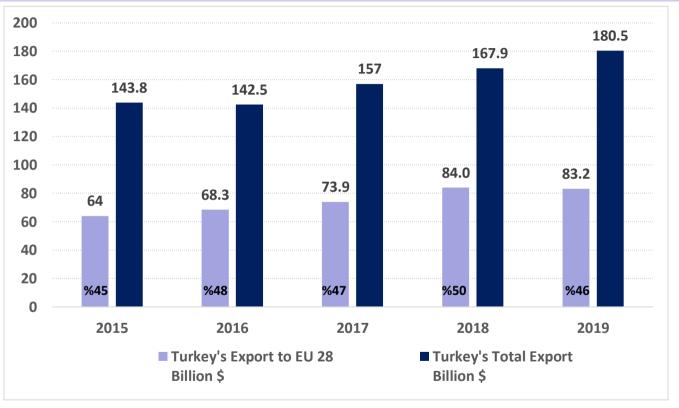
EU Green Deal – A New Growth Strategy





EU & Turkey Trade





- EU is the first trading partner of Turkey with %45-50 of Turkey's total exports
- Turkey is the EU's 5th largest trading partner both in exports and imports

Carbon Border Adjustment Mechanism





- The Carbon Border Adjustment Mechanism (CBAM) will be designed to ensure lowering carbon leakage risk within the EU.
- Proposal for a carbon border adjustment mechanism for selected sectors is expected in 2021.
- Public consultation process is initiated by the Commission between
 4 March 1 April 2020.



- There are considerable uncertainties about the type of instrument that will be applied:
 - Sectoral scope of the mechanism
 - > Type of policy instrument (new carbon customs duty or tax on imports, or the extension of the EU ETS to imports)
 - Evaluation methodology for carbon content and carbon pricing

Potential Impacts on Turkish Industry



Competitiveness

Risks



- The decisions that do not take the agreements with the third countries & WTO rules into account, will carry the risk of carbon/investment leakages.
- Legal uncertainties will affect the competitiveness of Turkey as an important EU trade partner.
- Turkey should make a comprehensive analysis of how bilateral agreements provide a competitive advantage to other countries.

Opportunities



- Under a fair application, the process of transformation can generate new innovative business models, products, and services for Turkey.
- It can create opportunities to enhance the regulations and leverage the efforts on climate to align with the EU objectives in reducing GSH emissions.
- New market opportunities can be created for critical sectors.
- Modernisation of CU is the most effective tool at hand to tap the full potential of well advanced economic ties and to strengthen the sustainability agenda.

Potential Impacts on Turkish Industry





- Some sectors will be highly affected such as cement, steel, aluminium, glass.
- Impose a **new tax burden** on any product at high carbon leakage risk, it will **change the cost structures** of the industry.
- Key factor is the clarification of the methodology for the calculation of the carbon content.
- It is not clear if the mechanism will focus on investigating the complex value chain of the end products which will also cause excessive administrative burden.

Access to Finance



- No well-proven models for access to the finance for domestic firms.
- It is unclear if Turkey will have access the funding in scope of Green Deal Investment Plan and Innovation Fund proposed by the EU.

Impacts on Sectors





- Emissions-intensive sectors and sub-sectors are more likely to at high risk of carbon leakage.
- Sectors at high carbon leakage was published in 2019 by the Commission, there are nearly 60 sectors and sub-sectors on the list.
- Production of **cement, steel, aluminium, glass** that are energy-intensive sectors are highly trade-exposed to Europe.
- The top exports of Turkey such as **automotive and durable goods sectors** which constitute %17 and %6 of Turkish exports respectively will be likely impacted linked with possible cost increase in the supply chain. (costs of steel etc.)

Proposals for Possible Measures





- "Common but Differentiated Responsibilities and Respective Capabilities" Principle of the United Nations Framework Convention on Climate Change (UNFCCC) should be taken into consideration when setting a fair border carbon adjustment.
- It is clear that Paris Agreement will be an essential element for all future trade agreements of EU. National policies should be enforced to strengthen climate change mitigation related measures and ensure their effective implementation in complying with the Paris Agreement's Goals.
- Necessary transition time should be given for in-depth analysis and to remove uncertainties.
- Implementation of both **public and private investments** are highly critical to achieve the ambitious targets.
- European Commission recently announced mobilizing 1 trillion € in the next decade from both private and public sources.
- It will be critical for 3rd countries to access to EU funds in order to get aligned with the goals.

Financing

Proposals for Possible Measures





- Focus on increasing **energy efficiency studies** and **invest in renewable energy** is important to decrease the energy emissions for production.
- In scope of the policy documents published by EU, it is also emphasized that digital component will also be a key in reaching the ambitions of the European Green Deal and the Sustainable Development Goals.
- From digital perspective necessary policy measures (cybersecurity, compliance to GDPR, cross-border non-personal data flows etc.) inline with EU and digital infrastructure investments will be an important enabler to reach green transformation targets.