

Potential Effects of the EU's Carbon Border Adjustment Mechanism on the Turkish Economy

Ahmet Atıl Aşıcı-

Istanbul Technical University/2020-21 IPM-Mercator Fellow

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European Green Deal

- EU Commission announced the European Green Deal in December 2019
 - Climate-neutrality by 2050
 - Through transforming
 - Energy, Manufacturing, Transportation, Construction etc. (Energy Efficiency/Clean Production)
 - Food system (Farm-to-Fork)
 - Consumption and production patterns (Circular Economy)
 - while
 - making Europe the most innovative and competitive region
 - increasing the climate action ambition globally
 - securing transformation in a socially just manner (Just Transition Mechanism)
- Environmental concerns are evident but it envisages **economic** and **social goals** as well.

How does EGD affect the Turkish economy?

- EGD not only affects EU but all trading partners via
 - **The Carbon Border Adjustment (CBA) Mechanism**
 - Taxes carbon content of exports made to EU
 - **The Circular Economy Action Plan**
 - Requires product-redesign to allow for longer lifespan; re-use, easily-repairable; energy-efficient
 - Extends producer responsibility (recycling; refurbishing etc.)
- EU is the most important trading partner of Turkey
 - 47% of Turkish exports sold in the EU market in 2018
- **What would be the “carbon bill” of the Turkish exporters if the carbon embedded in the exported goods were to face a price of 50 Euros per ton of CO₂e?**

CBAM Regulation (most likely)

- EU Commission expected to announce CBAM regulation by mid July
- During the transitional 2023-2026 period
 - **Electricity+ Metal Ore Roasting+ Iron-Steel+ Aluminum +Cement + Ammonia + Fertilisers +Nitric Acid**
 - Scope 1 **and** Scope 2 emissions
 - Free Allocation will be granted to non-EU producers as well (till 2030?)
 - But benchmarks gradually decline
 - Non-EU exporters should buy CBAM Certificate
 - Same price as ETS EUAs; currently 50 euros per ton CO₂e
 - Revenues to the EU budget

Yeldan, Acar, Aşıcı (TUSIAD, September 2020)

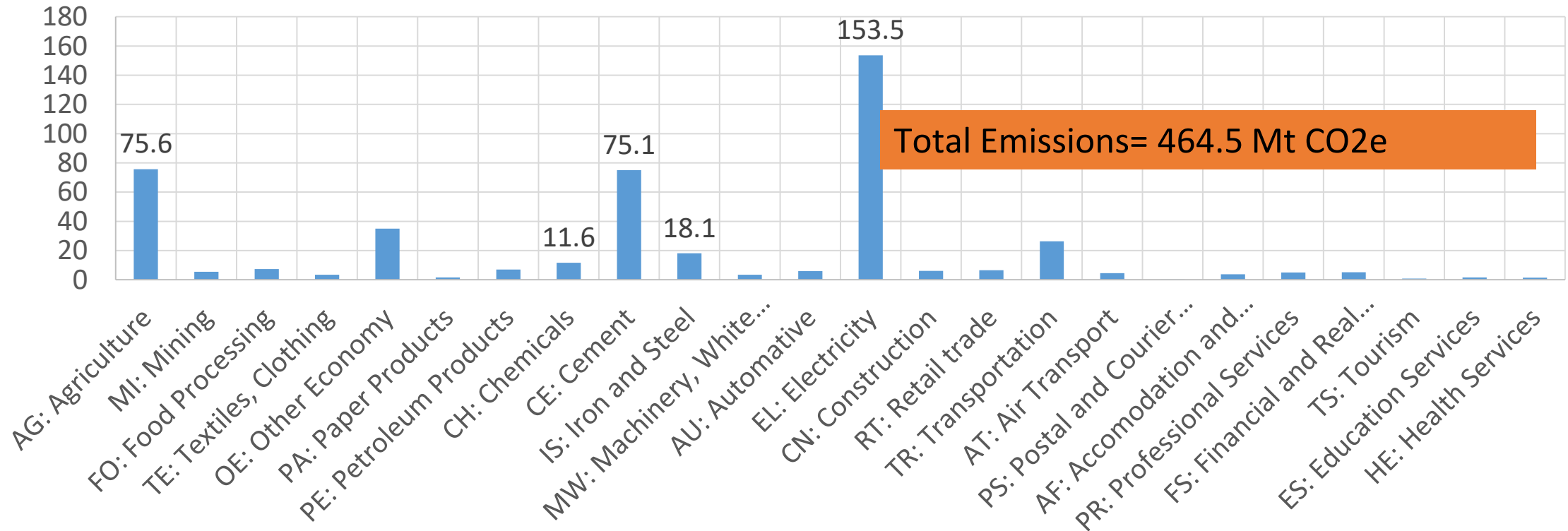


- The **risk** of having an inactive climate policy
 - Carbon Bill at the EU Border
- The **opportunities** attached to be a party of the Paris Agreement
 - Retain competitiveness
 - Energy-efficiency gains
 - Better access to global climate funds
- Input-Output and Computable General Equilibrium Analysis

Analysis-1: Sectoral GHG Allocation

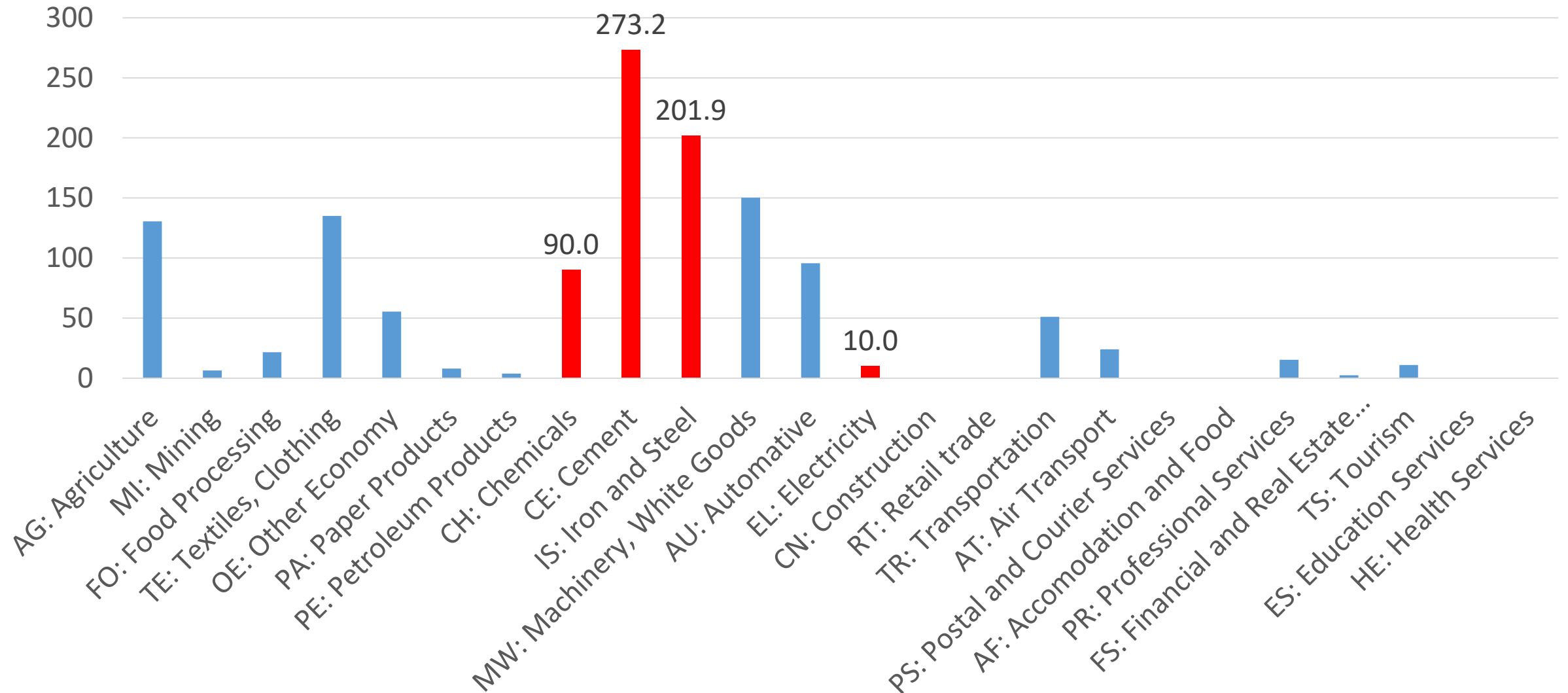
- Turkey's Total GHGs emissions in 2018: **520.9** million tons CO₂e
 - Excluding households and waste
 - Economic activity-related emissions: **464.5 million tons**

Sectoral GHG Emissions (2018, Mt CO₂e)



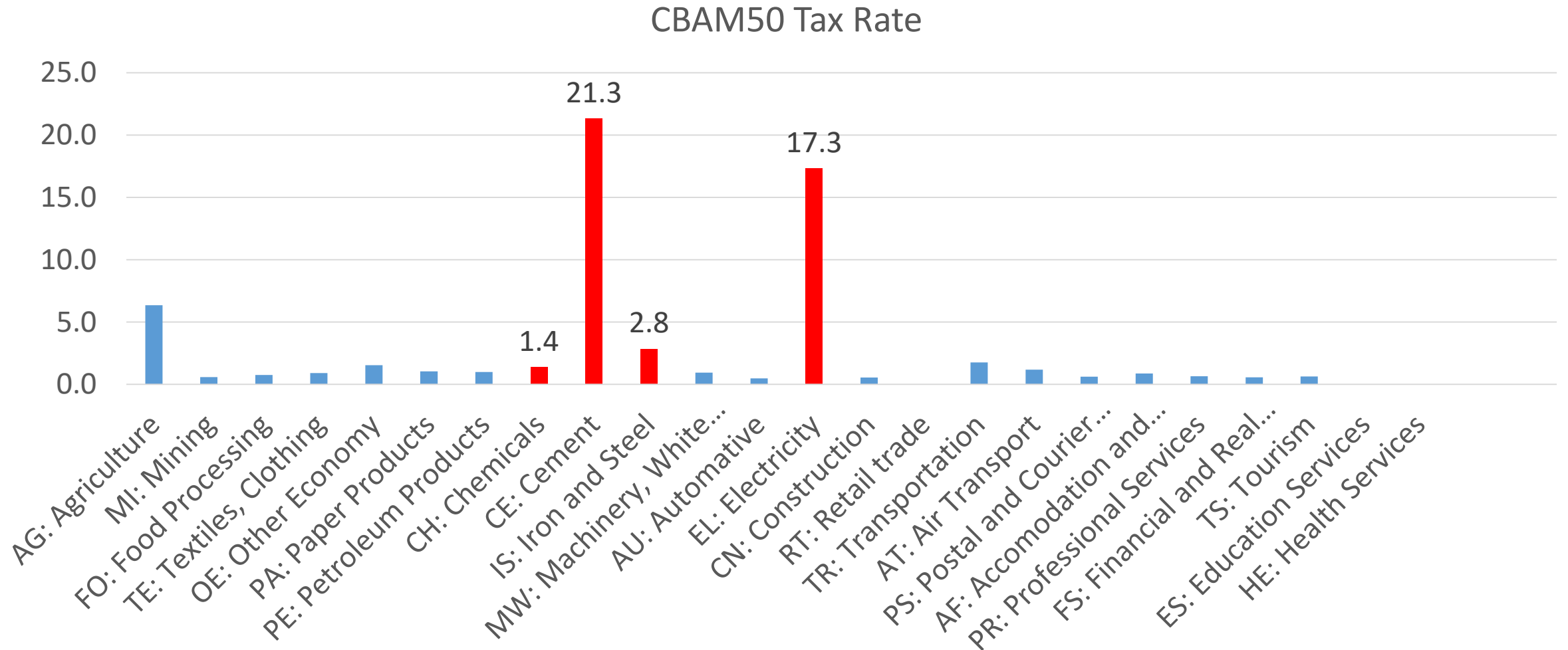
Carbon Bill of Turkish Exports to EU28 (exc. Scope 3)

CBAM50_EU28_Exports (Million Euros)



CBAM Tax Rate

- The “Carbon Bill” as a percentage of EU28 Export Revenues in 2018



CBAM Cost of Turkish Cement Producers

	Scope 1 (per ton cement)	EU ETS Benchmark	Scope 1 Above Benchmark	Scope 2	CBAM50 (S1+S2, Euros per ton cement)
Plant 1	0.802	0.693	0.109	0.049	7.9
Plant 2	0.838	0.693	0.145	0.069	10.7
Plant 3	0.851	0.693	0.158	0.065	11.1

AB SINIRDA KARBON UYARLAMA MEKANİZMASININ TÜRKİYE ÇİMENTO VE SERAMİK ÜRÜNLERİ SEKTÖRLERİNE ETKİLERİ

NİSAN 2021 Raporu

<https://serfed.com/upload/sunum/AB%20Ye%C5%9Fil%20Mutabakat%20Raporu.pdf>

What about Turkish Emission Trading System?

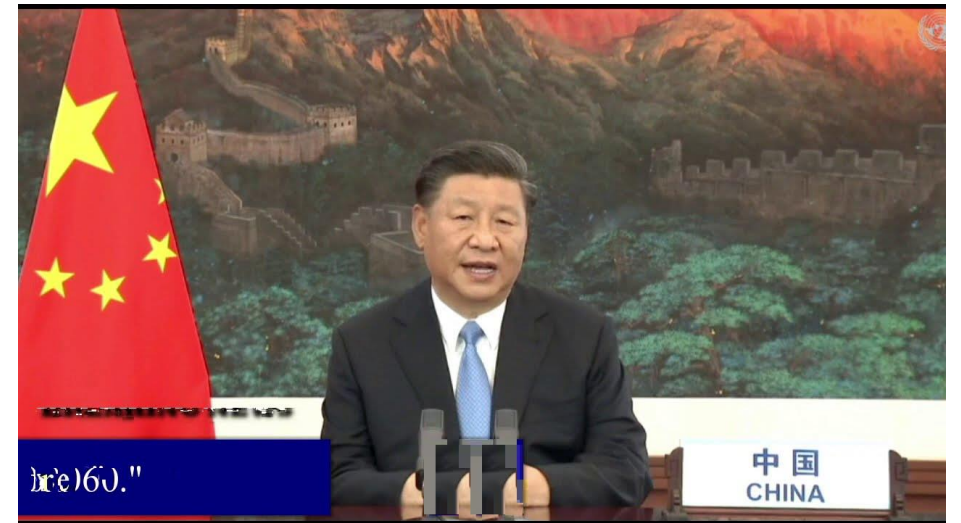
Sectors	CBAM50_Cost at the Border (Million Euro, Scope 1+2)	Turkish ETS_50 (million Euro, Sectoral Emission)
CH: Chemicals	94.2	580.8
CE: Cement	273.2	3752.5
IS: Iron-Steel	201.9	904.8
EL: Electricity	10.0	7676.9
PA: Paper	-	77.4
PE: Refinery Products	-	347.1
Total	579.3	13339.6

Employment Effects

- Sectors under risk
 - Non-metallic minerals: 281.2 thousands jobs (as of 2019)
 - Basic Metals: 203.5 thousands
 - Paper: 139,6 thousands
 - Refinery Products: 16,4 thousands
 - Electricity: 118,7 thousands
 - Chemicals: 365,5 thousands
 - **Total: 1.125 million jobs**
 - %4 of total employment
- **Number of jobs created by EU28 exports:**
 - **395 thousands**

Will Turkey adapt to the maturing “New Climate Regime”?

- EU Commission
 - Ursula von der Leyen
 - **European Green Deal (2019)**
- USA
 - Jo Biden and Democrats
 - **GND for USA and return to the Paris Agreement**
- China
 - **Xi Jinping**
 - **Carbon Neutrality by 2060 (Sep 2020)**



Concluding Remarks

- European Green Deal
 - A risk and but also an **Opportunity** for the Turkish economy
 - The cost of inaction will rapidly rise in the days to come
- Turkey needs to adapt to the New Climate Regime maturing globally
 - Revising the INDC target that reflects the true responsibility of Turkey
 - Ratifying the Paris Climate Agreement at the parliament
 - Instituting a ETS-linked carbon pricing scheme in Turkey

Thank you

- asici@itu.edu.tr