



EUROPEAN GREEN DEAL AND CARBON BORDER ADJUSTMENT MECHANISM

October 21 2022



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«European Green Deal»



European Green Deal

**First carbon-
neutral
continent
target**

**Raising the
2030 GHG
Emission
Reduction
Target (%55)**

**Review of all
policy instruments**

- **The goal of being the first Climate-Neutral continent by 2050 has made the fight against climate change the EU's top priority policy area.** The Green Deal, announced on 11 December 2019, foresees that all EU policies will be shaped around climate change in the coming years.
- **The EU has announced that it will adopt a new growth strategy that requires the transformation of its industry by 2050.**



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European Green Deal





Tackling Climate Change: Climate Law



- The European Climate Law, proposed by the European Commission on 4 March 2020, was published in July 2021.
- Political commitments to be the first climate neutral continent by 2050 have now turned into a legal commitment.
- Targets:
 - Reduction of net emissions by at least 55% by 2030 compared to 1990
 - Becoming climate-neutral by 2050
 - Revealing a commitment to negative emissions beyond 2050



Fit for 55 Package

14 July
2021

«Fit for 55» Package

- With the "Adaptation to 55" package announced within the scope of the European Commission's 2021 Work Program, the scope of the legislation to be enacted by the Commission in the field of climate and energy has been determined in order to achieve the target of reducing emissions by at least 55% by 2030.
- New legislation/revision proposals submitted on 14 July 2021 within the scope of the «Fit for 55» package:
 - **Revision of EU Emission Trade System**
 - **Proposal of Carbon Border Adjustment Mechanism**
 - Labor Sharing Regulation
 - Energy Tax Directive revision
 - Renewable Energy Directive revision
 - Energy Efficiency Directive revision
 - Land Use, Forestry and Agriculture Regulation
 - Revision of the Regulation Setting the CO2 Emission Standards for Cars and Light Trucks
 - Alternative Fuels Infrastructure Regulation revision
 - «ReFuelEU Aviation» and «FuelEU Maritime» initiatives



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«Carbon Border Adjustment Mechanism»



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EU – Carbon Border Adjustment Mechanism

Purpose: Prevention of carbon leakage; Maintaining the competitiveness of European producer sectors

Carbon pricing according to the carbon content of the goods (tons/€) in imports → financial liabilities based on measured and verified greenhouse gas emission values

- Calculation over default values in cases where healthy real data cannot be provided

Import through «EU authorized importers» with CBAM Certificate

- Financial and administrative obligations are on the importer

Countries/territories that implement the EU ETS or have an emissions trading system linked to the EU ETS are exempt from the application

- Annex-II: Norway, Iceland, Liechtenstein, Switzerland; Büsingen, Heligoland, Livigno, Ceuta, Melilla

Equivalent carbon fees paid in third countries will reduce fiscal obligations on imports

- Carbon fee: A monetary amount calculated on the greenhouse gases emitted during the production of products and paid in third countries in the form of «taxes, (duties) or emissions allowances under emissions trading systems».



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Carbon Border Adjustment Mechanism - II

Which sectors are aimed at first stage?



IRON-STEEL



ALUMINIUM



FERTILIZER



CEMENT



ELECTRIC

Industries
with high risk
of carbon
leakage

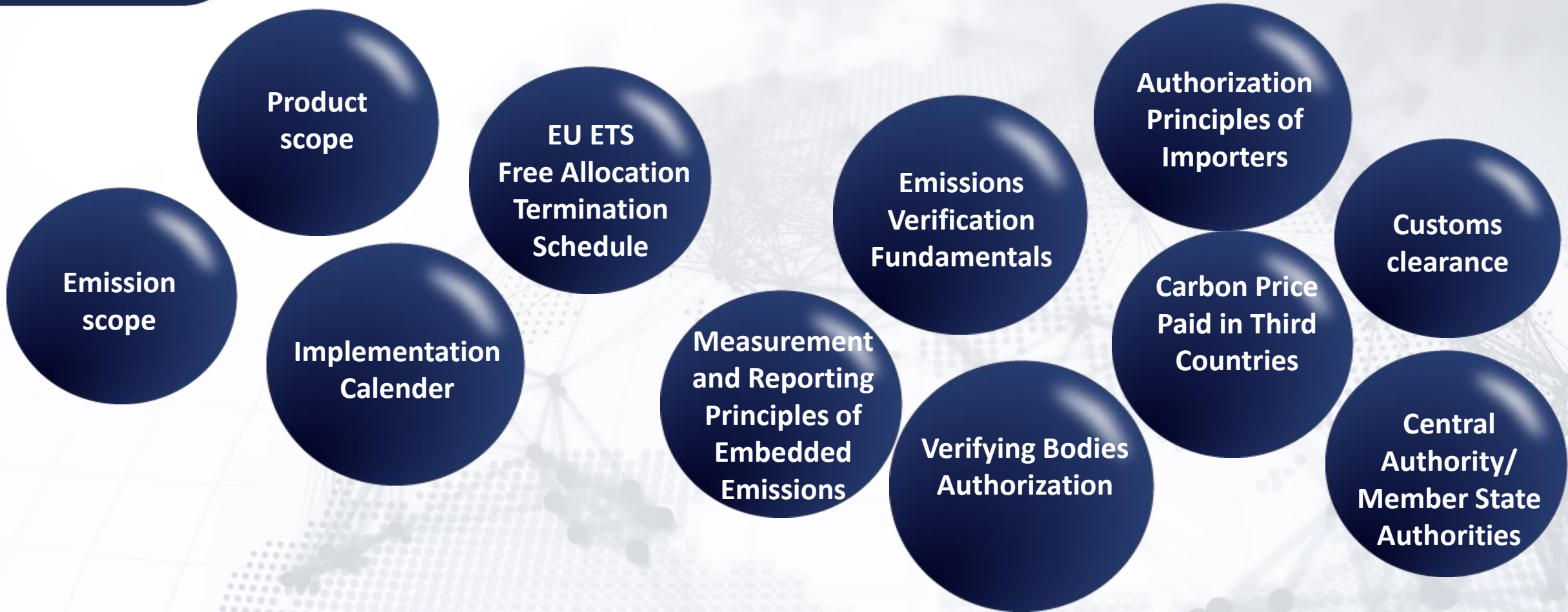
5 sectors selected in the first place from the sectors with a “high” probability of being exposed to carbon leakage

The scope of the sector may expand after the transition period between 2023-2026.

- Commission proposal on Border Carbon Regulation: 14 July 2021
- Council consensus: 15 March 2022
- Parliamentary consensus: 22 June 2022
- Trilateral negotiations were started between the Commission, Parliament and the Council on 11 July 2022, and it is aimed to finalize the Regulation by the end of this year.



Carbon Border Adjustment Mechanism – Uncertain or Matters to be regulated by Secondary Legislation





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Comparison of Commission Proposal, Council and Parliamentary Positions

	Commission Proposal	Council Position	Parliamentary Position
Sectoral Coverage (ANNEX-I of CBAM Regulation: Product CN codes and greenhouse gas coverage)	Aluminum, Cement, Iron-Steel, Fertilizer products and Electricity, whose CN codes are listed in ANNEX-I	In addition to the Commission proposal: -CN 7610; 7611; 7612; 7613; 7614; 7615 -CN 252330; -CN 7326;	In addition to the Commission proposal: -CN 252330; -Organic chemicals, hydrogen and ammonia (CN 29; 280410; 281410, 281420; -Plastics and their products (CN 39)
Emission scope: (Article 3-Definitions)	<p><u>Direct emissions:</u> Emissions from production processes that are under the direct control of the manufacturer.</p> <p><u>Indirect emissions:</u> emissions from the production of electricity consumed in the production processes of products, and emissions from heating and cooling processes.</p>	<p><u>Direct emissions:</u> Emissions released during the production phase, including emissions from production heating and cooling processes and on-site electricity generation, which are under the direct control of the manufacturer.</p> <p><u>Indirect emissions:</u> emissions resulting from the production of electricity consumed in the production processes of products, excluding electricity generated within the facility where the product is produced.</p>	<p><u>Direct emissions:</u> Emissions from production processes that are under the direct control of the manufacturer, including emissions from heating and cooling processes in the production phase.</p> <p><u>Indirect emissions:</u> greenhouse gas emissions released in the production process of electricity consumed in the production processes of products.</p>
Transition/Implementation Period	<p><u>1 January 2023-31 December 2025: Reporting Period</u></p> <ul style="list-style-type: none">- direct and indirect emissions- Carbon fees paid in 3rd country- quarterly reporting- no emissions verification requirement; <p><u>January 1, 2026-beginning of financial obligations:</u></p> <ul style="list-style-type: none">- Calculated directly on emissions,- financial liability for embedded emissions verified by accredited bodies is in place.- Default values will be used in cases where emission calculations cannot be made. <p>*The Commission will present its report on the inclusion of indirect emissions in the carbon calculation until 2025.</p>	Same transition and implementation period as commission proposal	<p><u>1 January 2023-31 December 2026: Reporting Period</u></p> <ul style="list-style-type: none">- direct and indirect emissions- Carbon fees paid in 3rd country- quarterly reporting- no emissions verification requirement; <p><u>January 1, 2027: Start of Financial Obligations</u></p> <p>Emission calculation is based on direct and indirect emissions.</p> <p>Data verified by accredited organizations</p> <p>Default values will be used in cases where emission calculations cannot be made.</p>

Comparison of Draft Commission, Council and Parliamentary Positions

	Commission Proposal	Council Position	Parliamentary Position
EU ETS-Free Allocation Termination Schedule (The update work in the ETS Legislation is also decisive for the full enforcement of the CBAM obligations)	<ul style="list-style-type: none"> • Ending free allowances by reducing 10% each year in the 2026-2035 period; • Full impact of CBAM obligations: 2035 	<ul style="list-style-type: none"> • Termination of free allowances in the 2026-2035 period by applying the following rates: • 2026: 95%; 2027: 90%; 2028: 85%; 2029: 77.5%; • 2030: 70%; 2031: 60%; 2032: 50%; 2033: 35%; • 2034: 20%; 2035: 0% • Full impact of CBAM obligations: 2035 	<ul style="list-style-type: none"> • Termination of free allowances in the 2026-2032 period by applying the following rates: • 2026: 100%; 2027: 93%; 2028: 84%; 2029: 69%; • 2030: 50%; 2031: 25%; 2032: 0% • Full impact of CBAM obligations: 2032 • Earlier full financial obligation under the accelerated discount schedule, with more free allocation flexibility in the first years.
CBAM Authority	Member State Competent Authority: Uniform transactions can be made within the framework of the experience arising from the ETS implementation since 2005; advantageous in terms of managing the administrative burden.	Member State Competent Authority	Central Authority Among EU: In practice, it creates an advantage in that there is no differentiation between the competent authorities of the member states and that the importers do not seek an authority with which they can transact more easily.
Export Subsidies	In exports to countries without carbon pricing, providing support to EU producers, such as reimbursement of carbon fees they paid in the domestic market, constitutes a violation of WTO rules.	Assigning the commission to the task of monitoring the developments regarding the carbon leakage risk and the impact on exports until 2025 and reporting whether additional measures are required.	Assigning the Commission to assess measures that will comply with WTO rules, such as free allocations to EU exporters for exports to non-carbon pricing countries by 2025, and to identify the need for possible legislative changes
Penalties	<ul style="list-style-type: none"> • €100 fine per CBAM certificate not received for embedded carbon emissions in imports; • Member states can impose administrative and penal sanctions in full compliance with the EU ETS. 	<ul style="list-style-type: none"> • €100 fine per CBAM certificate not received for embedded carbon emissions in imports; • Aggravated penal sanctions up to 3-5 times the normal penalty in case of importation without authorization; • Annulment of import authorization in cases of grave and repeated violations. 	<ul style="list-style-type: none"> • A penalty of 3 times the average CBAM certificate price of the previous year for each unobtained CBAM certificate for embedded carbon emissions in imports; • Member states may impose administrative and penal sanctions in full compliance with the EU ETS; • Suspension of the importer's CBAM account in case of repeated violations.



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Carbon Border Adjustment Mechanism

	Aluminium (CN 76) Export (Dollar)		
YEAR	EU-27	WORLD	EU27 Share %
2018	855.089.844	1.479.228.881	57,8
2019	871.319.363	1.512.526.506	57,6
2020	790.393.142	1.502.607.772	52,6
2021	2.384.738.134	3.874.888.447	61,5

	Iron-Steel (CN 72-73) Export (Dollar)		
YEAR	EU-27	WORLD	EU27 Share %
2018	5.410.365.760	14.519.544.275	37,3
2019	4.294.262.843	13.122.997.071	32,7
2020	3.710.474.415	11.763.681.937	31,5
2021	7.695.731.201	20.990.942.500	36,7

	Cement (CN 25) Export (Dollar)		
YEAR	EU-27	WORLD	EU27 Share %
2018	53.741.123	605.599.362	8,9
2019	91.165.281	921.349.297	9,9
2020	135.428.061	1.208.869.247	11,2
2021	199.023.569	1.357.056.789	14,7

	Fertilizer (CN 28-31) Export (Dollar)		
YEAR	EU-27	WORLD	EU27 Share %
2018	99.569.592	280.192.839	35,5
2019	87.300.946	345.991.547	25,2
2020	85.620.839	374.425.024	22,9
2021	150.567.745	539.096.179	27,9

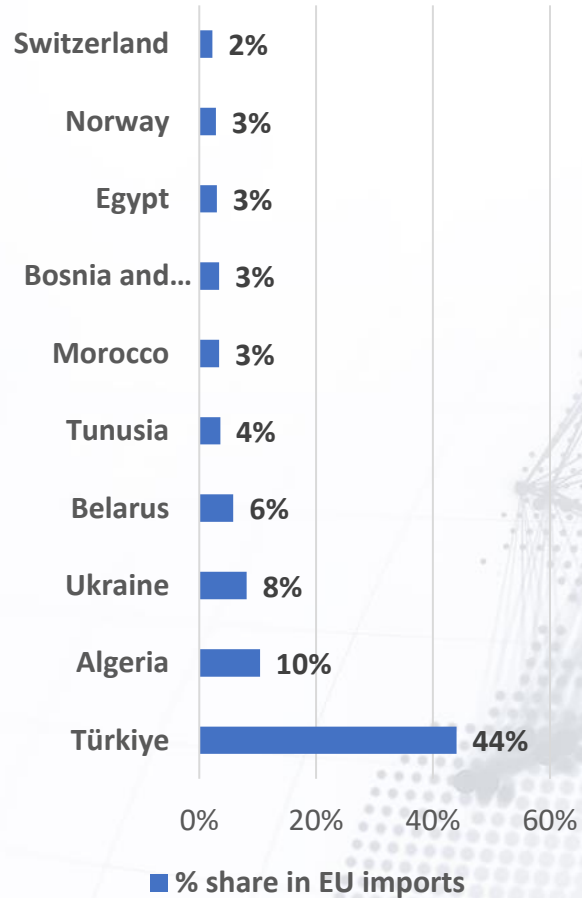
	Electric (AS 2716) Export (Dollar)		
YEAR	EU-27	WORLD	EU27 Share %
2018	98.161.751	99.621.275	98,5
2019	103.273.821	104.425.146	98,9
2020	68.918.985	81.804.129	84,2
2021	172.033.085	248.354.784	69,3

In terms of product groups that are expected to be subject to CBAM within the framework of the Commission proposal, our total exports to the EU-27 in 2021 is 10.6 billion Dollars; It constitutes 39.3% of our export, which is 27 billion dollars to the world.

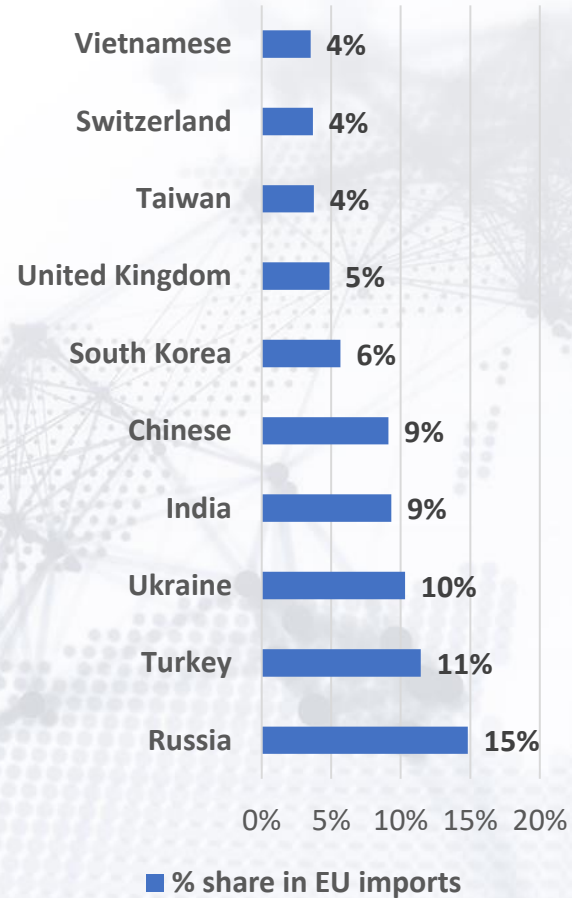


Turkey's Share in EU Imports in CBAM Sectors in 2021

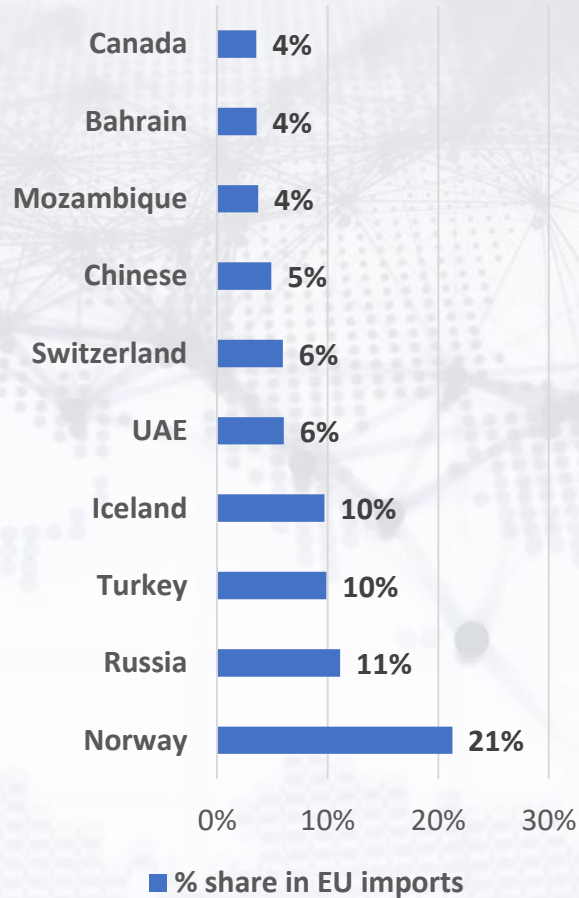
Cement



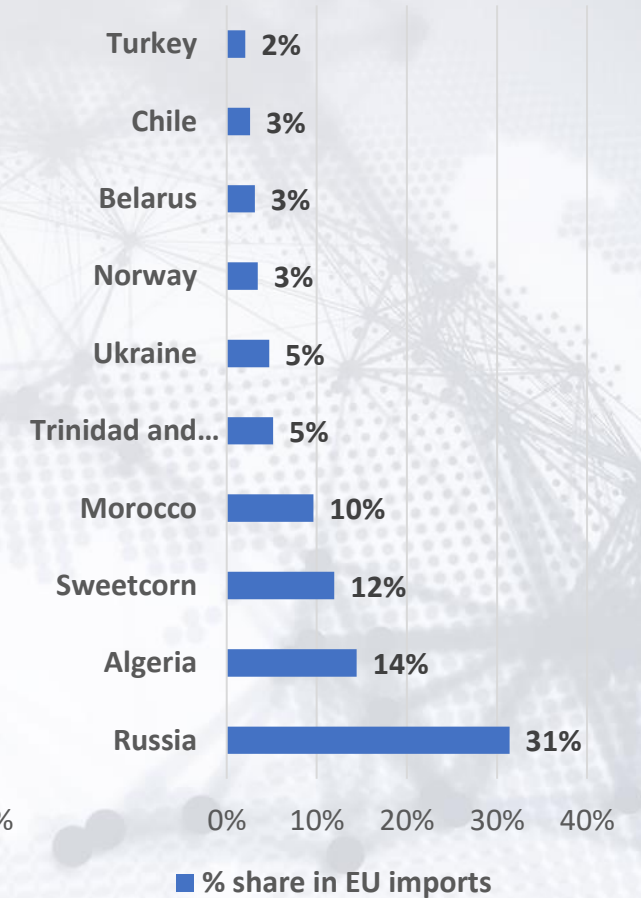
Iron-Steel



Aluminium



Fertilizer



Carbon Border Adjustment Mechanism/Carbon Pricing Studies done in our country

Impact Analysis

- Impact Assessment Project of European Union Border Carbon Regulation (EBRD&MoERACC)
- Country Climate and Development Report-CCDR (World Bank)

Results of Impact Analysis:

- Analysis with a broad product and emission coverage, such as the EBRD study, predicts a contraction in the country's GDP by between 1.9% and 2.6% by 2030, up to 3 billion Euros. The update of the study on the basis of the position of the European Parliament continues.
- The analysis made by the World Bank on the basis of the Commission's CBAM proposal reveals the prediction that the overall economic impact on the first 5 sectors and direct emissions will be limited (0.002% GDP contraction), but there will be a significant export loss on a sectoral basis.
- There is an expectation that the overall impact will decrease through increased exports of value-added products to the EU and diversification of export markets.
- The size of the impact increases significantly as the scope of the product, and especially the emission, expands.
- It is seen that the issue that will have the most economic impact is the inclusion of carbon emissions (Scope 2 emissions) originating from the electrical energy used in production into the calculation.
- The World Bank study shows that applying carbon pricing within the country and using the income to finance the green transformation of the industry can help limit the effects of CBAM.



CARBON BORDER ADJUSTMENT MECHANİSM ACTION PLAN

- **Determining our country's strategy in order to support the reduction of greenhouse gas emissions in priority sectors that may be subject to CBAM,**
- **Making impact and needs analysis of CBAM on energy and resource-intensive sectors,**
- **Determining the position of our country in transition to a carbon pricing mechanism suitable for our country,**
- **Evaluating the establishment of support mechanisms for the additional costs that the implementation of the national carbon pricing mechanism will create on the sectors,**
- **Developing the system for monitoring greenhouse gas emissions from industry in line with the needs,**
- **Carrying out studies for the realization of certification activities in parallel with the EU methodology**



CALCULATION OF EMISSIONS (Emission Report)

Determination of direct (embedded) emissions

Based on actual emissions*

Methodology: Annex-3(2&3)

Simple Goods & Compound Goods

With reference to default values**

Actual/actual emissions of imported goods

If the values cannot be determined

Methodology: Annex-3(4.1)

Calculation of emissions for imported electricity

In determining the amount of emission related to imported electricity, reference will be made to the default values within the framework of the methodology specified in Annex-3(4.2).

However, the authorized declarant always has the option of determining embedded emissions based on actual emissions (Annex-3(5))

*Actual Emissions: Emissions calculated based on primary data on the production process

**Default Value: Value calculated from secondary data to represent embedded emission in the commodity

Details on the methodology for calculating emissions will be determined by the Implementing Regulations.

(System limits of production processes, emission factors, plant specific actual emissions, default values)



VERIFICATION OF EMISSIONS (Verification Report)

Authorized declarants are obliged to ensure that the total amount of emissions subject to the CBAM declaration is verified by an accredited verifier within the framework of the verification principles set out in Annex-5.

Accreditation of Verifiers

- Persons accredited under EU Implementing Regulation 2018/2067 (EU ETS)
- Persons accredited by National Accreditation Bodies in Member States upon request and with confirmation of their capacity to fulfill the verification principles in Annex 5

Economic operators located in third countries were given the opportunity to directly register their facilities in the central database to be established by the EU; In this framework, authorized declarants will be able to use the verified emission amounts of the goods produced at the facilities registered in the database.

In this case, the obligation to ensure that the total amount of emissions is verified by an accredited verifier rests with economic operators located in third countries.



PROCESSES RELATED TO CBAM CERTIFICATES

The sale of CBAM certificates will be made by the competent authority of each member country.



CBAM certificates will be purchased by authorized declarants at the price determined by the Commission. The price of the certificates will be calculated based on the average weekly auction price of EU ETS allowances, expressed in €/tonne CO₂ emitted.



The authorized declarant is required to submit a CBAM Certificate equivalent to the verified emission content of the imports made in the previous calendar year as of May 31 of each year, and to keep the CBAM Certificate corresponding to 80% of the assumed emission content of their imports at the end of each quarter in their database accounts.



Upon the request of the authorized declarant, maximum 1/3 of the excess/increased CBAM certificates can be returned by the Authorized Authority. It is possible to transfer CBAM certificates only to the next year; any remaining certificates in the account will be revoked.



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