

EU Carbon Border Adjustment Mechanism: The Transitional Period

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In the wake of the announcement of the European Green Deal in late 2019, the EU set a goal to become the world's first carbon-neutral continent by 2050. On July 14, 2021, the European Commission endorsed the 'Fit for 55' package, a comprehensive initiative aimed at reevaluating climate, energy, land use, transportation, and taxation policies. The primary objective of this endeavor is to achieve a significant 55% reduction in greenhouse gas emissions by 2030, in comparison to the levels recorded in the base year of 1990.

The Council has announced a legislative proposal for the Carbon Border Adjustment Mechanism ("CBAM") as part of its 'Fit for 55' package.

The CBAM is a price adjustment mechanism applied to imports of designated goods into the EU, determined by the carbon emissions generated during the production processes of such goods outside the EU.

This mechanism aims to align the competitiveness of low-emission products produced within the EU, which are generally produced at a higher cost, with the imported products into the EU that have relatively higher emissions and lower production cost. Additionally, it seeks to impose taxes on products at risk of carbon leakage, which are determined based on their carbon intensity when exported to the EU.

In this respect, the regulation on the implementation of the CBAM (Regulation EU No. 2023/956) was published in the Official Gazette of the EU on May 16, 2023. Subsequently, a transitional phase of the CBAM has been effective since October 1, 2023.

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During the transition period, EU importers will not be subject to any financial obligations and will report embedded carbon emissions in imported products subject to the CBAM. It currently covers specific sectors like cement, iron and steel, aluminum, fertilizer, hydrogen, and electricity, and will gradually extend to include other sectors over time.

The full implementation of the CBAM is scheduled to commence on January 1, 2026.

CBAM's Effect on Türkiye

Türkiye is expected to face significant impacts from the CBAM due to the diverse range of products it exports to the EU. More than 40% of Türkiye's total export trade is with the EU and a substantial share of Türkiye's exports falls within the CBAM's scope. Inevitably, this will adversely affect the competitiveness of the Turkish companies in the EU market for the products manufactured in Türkiye with high embedded emissions, resulting in increased costs.

Türkiye is planning to establish its own Emissions Trading System, aiming to minimize the potential negative impacts of the CBAM. A draft law, currently open for public view, is expected to be implemented after undergoing revisions and expansions in the near future.

The Presidential Decree (No. 7597) on the approval of the "Medium-Term Program 2024-2026" prepared in coordination by the Ministry of Treasury and Finance and the Directorate of Strategy and Budget was published in the Official Gazette (Gazette No. 32301) on September 6, 2023. The Medium - Term Program 2024-2026 sets out a detailed roadmap for the CBAM, among many other areas. Within this framework, the said Program sets forth the below:

a) Under Section 8 titled "Green Transition", it has been stated that the legal infrastructure of the National Emissions Trading System will be completed and further developed in accordance with the CBAM, the transition period will be effectively implemented and the required preparations for the financial obligation phase will be made.

b) Under Section 8 titled "Green Transition", it has been stated that, within the framework of the CBAM and 2053 net zero emission target, technologies supporting the energy transition such as energy storage, hydrogen and carbon capture, utilization and storage and R&D and innovation activities for developing microgrid management and digitalization will be supported.

c) In the subsection "Green and Digital Transition" under Annex 3 titled Regulations on Priority Reform Areas, it has been stated that a law, a decree or an administrative regulation will be made in relation to Climate Change, Emissions Trading System and Compliance with the CBAM within the first quarter of 2024 and planning and application tools in relation to reducing greenhouse gas emissions and fighting against climate change will be developed in order to achieve and sustain green transition and 2053 net zero emission target.

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