

**“The European Green Deal’s Border Carbon Adjustment: Potential impacts on Turkey’s exports to the European Union”**

Summary report of online webinar

12 May 2020

**Agenda and participants (all time are in Central European Time zone)**

13:30 – 13:35	<p><b>Welcome and opening remarks</b></p> <p><b>SHURA Energy Transition Center &amp; Agora Energiewende</b></p>
13:35 – 13:45	<p><b>Keynote address</b></p> <p><b>Selahattin Hakman</b>, Chair of the Steering Committee, SHURA Energy Transition Center</p>
13:45 – 14:15	<p><b>Oliver Sartor</b> and <b>Dr. Christian Redl</b>, Agora Energiewende</p> <p>Carbon leakage protection in the context of the European Green Deal Potential impacts of a border carbon tax on electricity exports into the EU</p>
14:15 – 15:00	<p><b>Presentation by the European Commission (followed by Q&amp;A)</b></p> <p><b>Jacek-Michal Kozak</b>, DG Trade, European Commission</p> <p><b>David Boubilil</b>, Taxation and Customs Union, European Commission</p>
15:00 – 16:30	<p><b>Presentations (followed by Q&amp;A)</b></p> <p><b>Çiğdem Nas</b>, Secretary General, Economic Development Foundation</p> <p><b>Adolfo Aiello</b>, Director – Energy &amp; Climate, European Steel Association</p> <p><b>Fatih Özkadı</b>, Chair of the Environment and Climate Change Working Group, TÜSİAD</p>
16:30 – 16:45	<p><b>Wrap-up by SHURA Energy Transition Center and Agora Energiewende</b></p>

## 1. Background

The European Green Deal that was presented by the European Commission in December 2019 aims to make the continent as the first carbon-neutral by the end of mid-century. As part of this strategy, a border carbon adjustment is being considered, which would increase the cost of carbon-intensive goods imported to the European Union (EU). This will reverse the carbon leakage debate from Europe's border to countries that export goods to the EU. Commodities with a high share in energy costs that source its energy demand from fossil fuels will be impacted the most.

While the Commission has provided first indications as to scope of the proposed instrument, the Commission is still in an early stage of its impact assessment and will still need to clarify many details. It is therefore necessary to understand the extent to which the introduction of such a border carbon adjustment scheme would impact various sectors and goods.

The manufacturing industry remains a backbone of Turkey's economy. The sector's value-added stood at 30% of Turkey gross domestic product in 2018. The country's manufacturing industry produces a variety of goods, ranging from high-value added products to bulk-materials such as steel and plastics. Currently, Turkey's iron and steel, as well as cement production are among the world's top ten and its glass, ceramics and plastics industries rank in the top five of the EU in terms of trade. Maintaining these relative positions puts a potential burden on Turkey's manufacturers to remain cost competitive, with the increasing share of low-cost production from other emerging and developing countries in the total global manufacturing industry output. One factor that impacts cost competitiveness is energy costs which could represent a high share of material production costs.

Climate policies, such as carbon pricing, can increase the energy costs of manufacturers making them less competitive relative to regions with less ambitious climate policies. The spectre of relocation of industries to countries with more lenient policy frameworks, often referred to as carbon leakage, has thus often served as a major deterrent to ambitious climate policy in industry in EU policy discussions. As a result, in the past carbon emitting EU industries that are subject to high trade intensity have been awarded free allocation for a large share of their emissions in the Emission Trading System. This exemption has largely sheltered the manufacturing industry of the EU from carbon pricing, unlike its other carbon emitting peers such as the power sector and even given advantages to certain exporting industries. However, the EU's new debate on border carbon adjustment is calling this system into question and would potentially address competitiveness concerns by charging imported products.

### **Overarching Objectives**

To enable deep-dive discussions with public sector officials, think tanks and private sector partners from Turkey and the EU for:

- » Providing an overview of the current debate on the introduction of a border carbon adjustment at the EU's borders.
- » Discussing the potential impacts of such a system on trade between Turkey and the EU

The event was attended by more than 110 participants from various countries and backgrounds to follow the presentations and speeches of nine speakers.

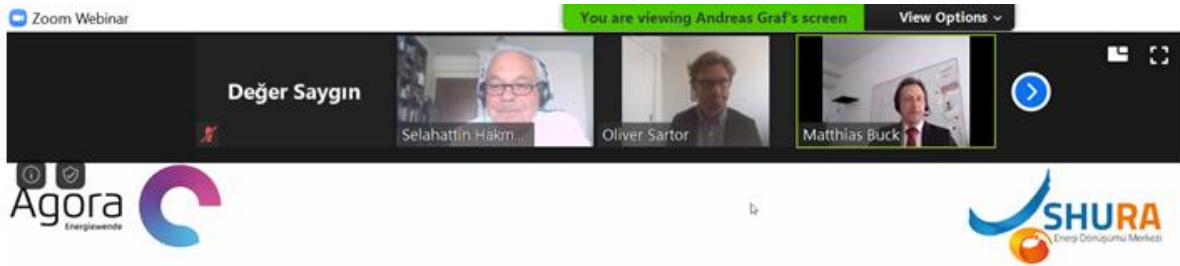
Presentations are available at the SHURA and Agora Energiewende webpages.

## 2. Summary

### Opening session

Agora Energiewende's Andreas Graf, opened the meeting, outlining the format and the technical aspects of such a virtual event.

**Matthias Buck, Head of European Energy Policy**, provided some introductory remarks to set the scene for the webinar. Buck outlined that the European Green Deal (EGD) is the core piece of the EC President as a new strategy for growth, innovation and modernisation of the EU economy that has the central objective of putting EU's economy on a pathway to go climate-neutral by 2050. Buck emphasised that in the face of COVID-19 and economic effects of the lockdown, the EC is currently working on a plan for how to accelerate climate action in Europe to be released by September 2020. By June 2021, will further propose a range of new legislative proposals to turn this higher ambition into reality. In this context, a border carbon adjustment is being discussed to compensate for the potential difference in carbon emissions between the EU's trade-exposed energy intensive industry and non-EU industries which are not transforming at the same speed. Buck mentioned that the challenges it could potentially create for the trading partners need to be addressed. He thus highlighted that the webinar co-organised by the SHURA Energy Transition Center and the Agora Energiewende is very timely as the border carbon adjustment is at early stage of planning.



### **Keynote address**

**Selahattin Hakman, Chair of the Steering Committee,**  
SHURA Energy Transition Center

### Keynote address

**Selahattin Hakman, Chair of the Steering Committee, SHURA Energy Transition Center** has highlighted the crucial role of continuing the progress in Turkey's energy transition to reduce its current account deficit. So far, the progress in renewables focused mainly on the electricity supply where renewable energy share reached 44% by end of 2019. Beyond the electricity supply which only represents a mere share of 20% in total final energy demand, energy demand of end-use sectors of industry, buildings and transport are mainly supplied by fossil fuels. In particular in the manufacturing industry the share of renewables is only at around 2%. Hakman mentioned that the sector is of core importance for Turkey and the country's regional competitiveness, for instance with the EU, as more than half of all Turkey's exports are with the EU. Notably, steel, plastics, textile, ceramics and partly cement exports cover a large share of the total with the EU, and these sectors are also heavily reliant on fossil fuels and not fully decarbonised electricity supply, therefore would

be exposed to a potential border carbon adjustment. Hakman highlighted that the border carbon adjustment is just one tool that could impede Turkey's trade with the EU and there is a need for Turkey to find ways to tackle obstacles. Options are plenty as many countries demonstrate where stakeholders but also government are re-evaluating the plants and adjustment opportunities. Hakman added that once the COVID-19 crisis is under control, the most beneficial stimulation package against the pandemic and for economy/industries of Turkey would be supporting renewables, energy efficiency and widespread electrification options, focusing on a more resilient and sustainable economy. Hakman concluded his remarks by pointing out that while the border carbon adjustment is yet to be designed and defined, Turkey has its own challenges and priorities and therefore the border carbon adjustment should support Turkey in its own way and not stop it at the start. A roadmap is urgently needed for Turkey's goods that are exported from Turkey to the EU to support the efforts of both sides.

### Setting the scene

**Oliver Sartor, Senior Industry Associate, Agora Energiewende** started by pointing out that the border carbon adjustment discussion emerged in January 2020 due to the EC's effort to increase its climate ambition by 2030. Sartor added that there are several sectors which are energy-intensive and exposed to significant international trade competition. Lime/plaster, cement, coke products, fertilisers, basic iron/steel, refinery products have the highest CO<sub>2</sub> cost as a share of their gross value added. These are commodities that are easily traded across EU borders. There is a carbon leakage risk if the EU increases carbon prices and as a result if a share of their production relocates to countries with less strict climate policies. Sartor mentioned that there is a need for sectoral policies with specific targets. While with the anticipated much higher CO<sub>2</sub> prices gross value added of these products in the upstream will increase, further down the value chain, the CO<sub>2</sub> emission costs have a lower share of the total product cost. Sartor highlighted that while the border carbon adjustment is being currently developed by the EC, details are unknown and could include:

- Inclusion of only selected energy-intensive sectors
- Level playing field between imports/exported products (WTO-compatibility)
- Pricing will consider risk of double CO<sub>2</sub> charge
- Free emission allowance will be phased out
- For exporters, it will be important depending on their CO<sub>2</sub> intensity
- Allow importer non-EU emission trading scheme (ETS) countries to buy allowances
- Gradual phase-in is expected until 2030

Sartor added that the border carbon adjustment would introduce a degree of competition between EU and non-EU products based on CO<sub>2</sub> performance. Regarding the case of Turkey there are several issues that emerge since Turkey and the European Union has Customs Union agreement which raises questions whether products covered under Customs Union will not go through customs control and if Turkey would be joining the EU ETS. Potentially impacted sectors in Turkey would be ceramics, glass, paper, cement, N-fertilisers, electrical energy, and in the medium-term it will be steel and non-ferrous metals. Sartor concluded that limiting the adverse effects of a border carbon adjustment will require Turkey to improve its CO<sub>2</sub> efficiency in these sectors to match the EU best practices.



## Where did the proposal for an EU Border Carbon Adjustment (« BCAs ») come from?

- BCAs proposed by new European Commission as part of a broader set of proposals known as the « European Green Deal » (Jan 2020).
- In the Green Deal, the Commission proposes that the EU should significantly increase its current climate mitigation ambition, in order to be more aligned with Paris Climate Agreement.
  - From -40% to between **-50 or -55% by 2030** (vs 1990 levels)
  - From -80% to **domestic climate neutrality by 2050**
- This can be done in many high emitting sectors of the economy without worrying about trade or competitiveness.
- However, some specific sectors are energy intensive AND exposed to significant international trade competition => « **Energy-intensive trade-exposed industries** ».
- **Problem: if the EU increases carbon prices/regulation, what if a part of this production prefers to relocate to countries with less strict climate policies?**

**Christian Redl, Senior Associate European Energy Cooperation, Agora Energiewende** started his presentation by highlighting that the electricity sector is key in the context of decarbonising the economy and that it also plays a key role for the manufacturing industry. In the EU power mix, wind and PV are on the rise and coal is declining with the increasing prices of the EU ETS. This makes a case for further renewable energy deployment, but also increase the carbon leakage risk into the EU through imports due to increasing interconnectedness. ETS prices are around 20 Euro per tonne of CO<sub>2</sub> and they are expected to rise to 50 Euro per tonne by 2030. Redl added that in California a Cap and Trade system was introduced as border carbon adjustment in 2011 and it remains as the first and only so far. It has resulted in the decrease of carbon intensive energy imports. Redl mentioned that the outlook of the EU's power system is large growth on renewables to reach a share of at least 57% by 2030 (26% wind and 11% solar, rest hydro, biomass and others). Redl added that the border carbon adjustment was particularly likely for the power sector. If the EU would introduce a border carbon adjustment it would need to be before 2030, otherwise desired effects materialise too late. It will impact non-EU fossil-based power generators as it is gradually phased in and eventually there would no longer be a business case for investors if they rely on power exports. Redl concluded that after a gradual phase in at one point border carbon adjustment could fully reflect the EU ETS certificate prices, around 50 Euro per tonne by 2030.



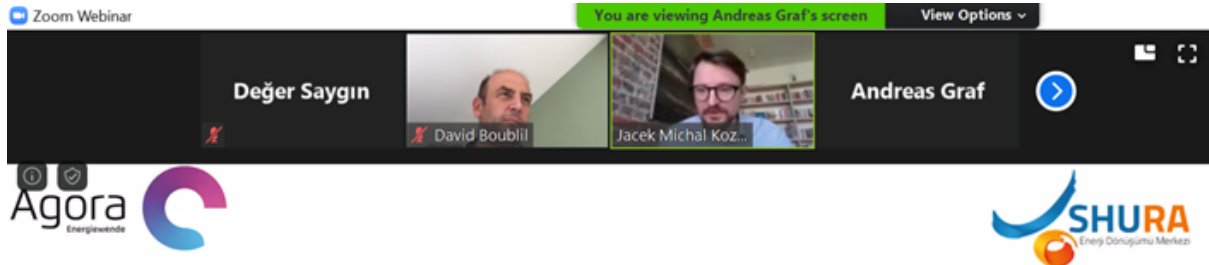


Jacek-Michal Kozak, DG Trade, European Commission started his speech by highlighting Turkey is one of the closest partners of the EU and that the discussions are built on positive agenda. Kozak provided insights into the EGD that it is designed in line with the World Trade Organisation and trade rules of the EU. Kozak added that climate ambitions need to increase and this will likely lead to a difference in the level of ambition in climate policy between the EU and most of its trading partners. WTO compatibility means that the design of the measure needs to strike balance between complex benchmarks and ensuring fairness by addressing country specific circumstances, but also considering technological progress. WTO compatibility implies that:

- Rational should be fighting climate change
- Aggregated effect of all measures should not lead to discrimination
- Border carbon adjustment needs to take into account the climate policies of individual trading countries
- Administrative issues should ensure basic simplicity

**David Boubllil, Taxation and Customs Union, European Commission** started by pointing out border carbon adjustment is a possibility and not a certainty. The ETS is the cornerstone of the border carbon adjustment and whatever measure proposed will work in conjunction with the ETS. Provided that non-EU countries don't raise their climate ambitions, there's a risk of carbon leakage. Boubllil added that the border carbon adjustment is not an instrument to protect the EU from international competition but to ensure environmental integrity and effectiveness of EU industries whilst several issues need to be assessed about the adjustment. On March 4<sup>th</sup>, an inception impact assessment was published about which steps to be taken before a measure is proposed. Some remarks have been received to the assessment including several related to the WTO and which sectors to be included/excluded. It is an open public consultation process that will run for 12 weeks how to design a border carbon adjustment as a tax part of the ETS and how it will take into account the carbon emission of imported products. An assessment on the economic and environmental impacts of

measures and legal analyses is underway. A proposal on the carbon adjustment could be expected by mid-2021 with the following services at the European Commission working on the topic: DG TRADE, DG TAX AND CUSTOMS, DG CLIMA.



## Presentation by the European Commission

**Jacek-Michal Kozak**, DG Trade  
European Commission

**David Boubliil**, Taxation and Customs Union  
European Commission

**Çiğdem Nas, Secretary General, Economic Development Foundation**, mentioned that the border carbon adjustment could be seen as an opportunity, but currently there is ambiguity concerning what its targets are and what it could imply since it is unknown which sectors it covers and its terms. Nas added that preparation will be needed given Turkey is an industry hub and emissions are rising. The share of energy sector in Turkey's total greenhouse gas emissions has increased significantly. Share of industrial processes has declined between 1990 and 2017 and power sector as well. Large potential of renewables in Turkey to decarbonise the energy sector. Border carbon adjustment will have a cost to the manufacturing industry. Customs Union is a crucial tool between Turkey and the EU and its modernisation cannot be taken independently from the border carbon adjustment. Nas added that Turkey's manufacturing industry is highly emission intensive and protectionism in trade could emerge after COVID which requires additional attention. So more information and dialogue between the EU and Turkey are needed since border carbon adjustment should be analysed in a country perspective and not just a sectoral or company concern. Nas concluded that the EGD will bring new requirements to companies exporting to the EU, and it will be difficult for the industry to manage these added requirements without the presence of any incentives.





## ***Contribution to Agora Energiewende-SHURA Energy Transition Center Webinar:***

### **Potential Impact of Border Carbon Adjustment on Turkish Industry**

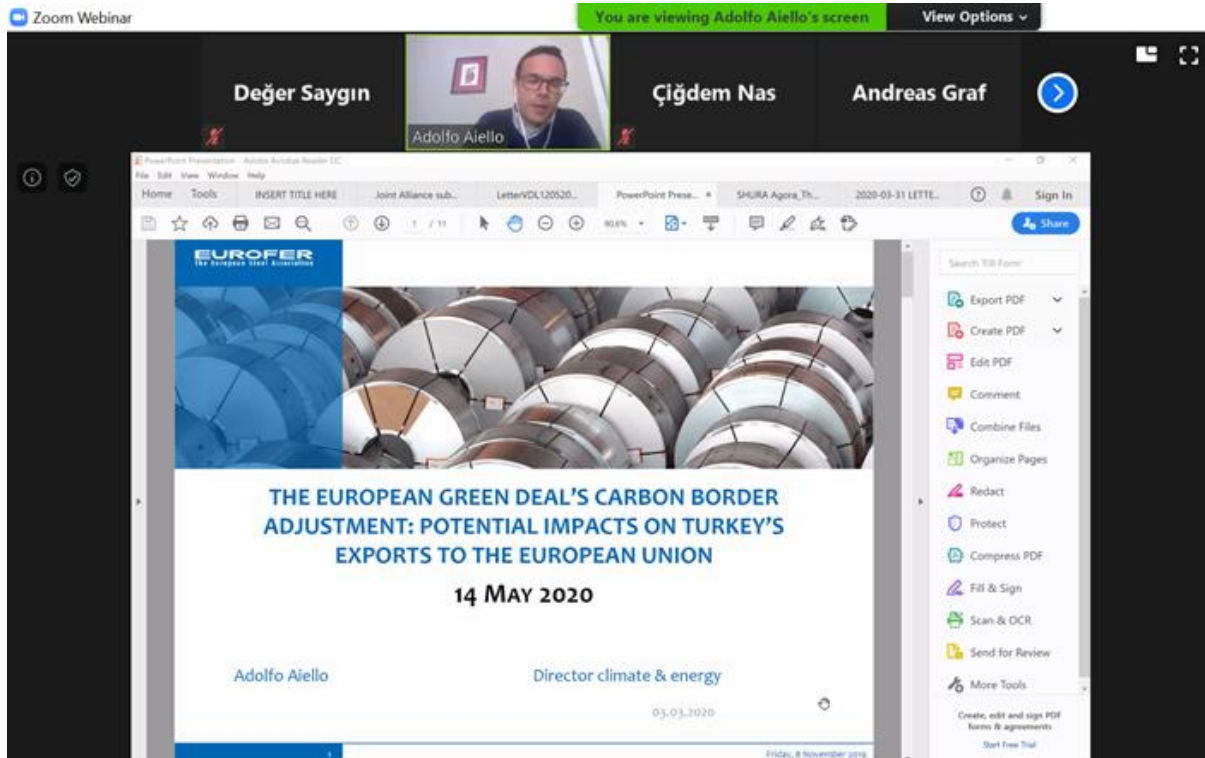
**Assoc. Prof. Cigdem Nas, Economic  
Development Foundation IKV**

**14.05.2020**

**Adolfo Aiello, Director – Energy & Climate, European Steel Association** started his presentation by mentioning that the overall EU climate strategy is a leading example as the EU tries to foster climate neutrality by 2050. The EU is likely to increase its higher climate targets by 2030, which will effect it's NDC. Avoiding carbon leakage is essential for environmental integrity and social acceptance. Aiello mentioned that steel has high trade and emission intensity, so it will be impacted the most from climate policy. Border carbon adjustment is part of a comprehensive package of the EGD in fostering transition to climate neutrality to 2050 and it is not part of an industrial competitiveness but an issue of climate integrity. Aiello continued his presentation by providing some facts: the EU steel finished product consumption is the same for the past 13 years, but steel output went down by 14%. Imported steel from third countries increased by 15%. Share of scrap generated in the EU and exported to third countries increased by 95%. EU's steel industry is working on all different areas to decarbonise the steel industry. Aiello highlighted the need for an overarching policy framework that should be enabled and the transition is particularly challenging. The steel sector in Europe should go into a technological revolution in a decade. If there is demand for steel with global action EU industry can contribute to the transition. Development of transition technologies requires research and development (R&D), time for commercialisation, financing and environmental policies. 1 tonne of steel emits on average around 2 tonnes CO<sub>2</sub>. At 50 Euro/tonne CO<sub>2</sub> price, the additional costs are Euro 100/tonne which would have a huge impact on price and competitiveness and as Turkey is a large exporter of steel to the EU there could be impact. Aiello concluded that border carbon adjustment:

- Is seen as a new policy until there is a global carbon market
- Can be a starting point for a structural full value chain carbon accounting
- Can start with steel finished and semi-finished products as well as highly steel intensive products (e.g. tubes, fasteners and wire drawings) and extended gradually to other users
- Needs to address compliance and abatement costs
- Needs to address issues like source shifting and absorption risks

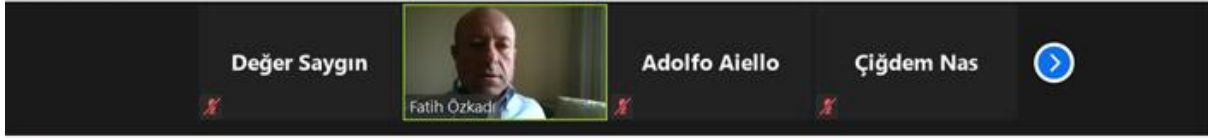
- Includes “agreements of equivalence” with countries with equivalent mechanism



**Fatih Özkadı, Chair of the Environment and Climate Change Working Group, TÜSİAD** highlighted that the EU is the first trading partner of Turkey where out of a total 180 billion USD exports of Turkey to all countries, 83 bln USD goes to the EU. Turkey is EU’s fifth largest trading partner in both import and exports. Özkadı added that there are several uncertainties about the border carbon adjustment: Sectoral scope, Type of policy instrument (custom duty tax, extension of the EU ETS), Evaluation methodology of carbon content and carbon pricing. The border carbon adjustment could provide risks to competitiveness: decisions that don’t comply with the WTO rules and third countries will result in carbon leakage; legal uncertainties; analysis of bilateral agreements will be needed. Özkadı also added that the border carbon adjustment could provide opportunities for greater competitiveness: it can stimulate new innovative business models (e.g. solar roofs), products and services; create opportunities to enhance regulations and leverage the efforts on climate; create new market opportunities. In this context, modernisation customs union is the most effective tool at hand. Özkadı mentioned that there will be potential impacts on production costs of steel, cement, glass. Also automotive and durable goods sectors could be impacted (a quarter of Turkey’s exports). Clarification is thus needed on the methodology or the calculation of the carbon content, and also how the value chain of the products will be assessed. There will also be impacts on finance as there are no well-proven models for access to the finance for domestic firms, and also it is yet unclear if Turkey will have access the funding in scope of Green Deal Investment Plan and Innovation Fund proposed by the EU. Özkadı highlighted the importance of considering “Common but differentiated responsibilities and respective capabilities” and the need for a necessary transition time for preparation. Climate policy needs to drive the trade policy. Financing needed as implementation of both public and private investments are extremely critical to achieve targets. It will be critical for third countries to access to EU funds in order to get aligned with the goals. Özkadı concluded that

new analyses are needed to understand the potential ways of decarbonising industrial energy demand

Zoom Webinar



A presentation slide with a white background and a blue vertical bar on the left. The title is "Carbon Border Adjustment Mechanism" in large blue font, followed by "Potential Impacts on Turkey's Exports to EU" in a slightly smaller blue font. Below the title, the presenter's name "Fatih Özkadı" and the date "14.05.2020" are listed. On the right side, there is a blue-tinted image of a large, ornate building. The logo for "TUSIAD" (Turkish Industry &amp; Business Association) is in the top right corner.

### Wrap-up

**Oliver Sartor and Selahattin Hakman** have wrapped up the webinar discussions by drawing on the following conclusions:

- Border carbon adjustment idea is climate policy not meant for protecting the industrial competitiveness of the EU industry players. The aim is to foster transition to climate neutrality to 2050. However, in the short-term there is great uncertainty around the border carbon adjustment. A border carbon adjustment proposal is not expected until mid-2021.
- In the medium-term there will be a great push on the side of industry to decarbonise and the process will need to be multilateral. So the actual question is not the border carbon adjustment, but rather how it will be decarbonised and how policies need to be coordinated. Turkey needs to prepare itself for the potential risks of the border carbon adjustment. Therefore, there is a need for a roadmap for Turkey to do that and how EU can help to do this in a realistic and fair way given EU is the first trading partner of Turkey.
- WTO rules are of crucial importance. The customs union between Turkey and the EU and the impacts on the border carbon adjustment need to be better understood
- Dialogue between the EU and Turkey is needed while developing the border carbon adjustment in order to minimize uncertainties for the Turkish manufacturing industry.