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EUROPEAN UNION'S GREEN DEAL AND ITS IMPACTS ON TURKEY



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In December 2019, Ursula von der Leyen announced European Union's ("EU") Green Deal, which outlines EU's ambitious roadmap to achieve climate change targets over the next 30 years. The draft EU Climate Law ("**Climate Law**"), which forms the legal basis of this roadmap, was presented by the EU Commission ("**Commission**") on March 4, 2020. On 21 April 2021, the EU Council and the EU Parliament reached a provisional agreement on the Climate Law. It will enter into force following its publication in the EU Official Gazette. Climate Law is a legal text which is called "the law of laws" and constitutes legal basis and main framework of all regulations related to climate change that will take place in the next 30 years.

EU's Green Deal

Green Deal aims to prevent climate change and to leave sufficient resources for future generations. It is also an enormous transition project that envisages the ambitious transformation of the EU economy on the axis of this climate change goal. As, Bill Gates stated in an interview with the BBC "***If you look in the history of the physical economy, we've never made a transition like we're talking about doing in the next 30 years.***" This change refers to a global economic transformation as well, which is being pioneered by the EU, Turkey's most important economic business partner. Without doubt, a transformation of this magnitude will not only have impacts on EU economy but also will affect Europe's stakeholders and business partners including Turkey.

All stakeholders and business partners of EU will be immediately and directly affected by the Green Deal. The effects of the Green Deal will both create opportunities and threats. Understanding what Green Deal aims and what enablers are planned to be used to achieve this ultimate aim is the first and most important step into adapting Turkey to green transformation.

The ultimate target of the Green Deal is to ensure that EU becomes a "carbon neutral" (zero emission) continent by 2050. Emission can be briefly explained as wastes released and discharged into the atmosphere and earth in solid, liquid and gas forms. Articles 1 and 2 of the Climate Law provide for the reduction of emissions in the EU gradually and irreversibly until 2050, and the achievement of the targets regulated in the Paris Agreement. Article 2 of the Climate Law regulates the reduction of emissions in the EU by 50-55% by 2030 in comparison to the emission levels of EU in 1990. In accordance with this target, Article 2 of the Climate Law, provides that the Commission will make an assessment by 30 June 2021, as to which pieces of legislation will need to be amended in EU to achieve the reduction of emissions by 55% until 2030; the so called "Fit for 55%" initiative.

The rocky way to achieve this ultimate target will require a number of regulations that will impact and regulate all sectors from food to logistics, tourism to construction, industry to finance, and thereby make the EU economy not only a carbon free economy but also a more competitive economy which has minimum dependence on the resources outside the EU market.

Impacts of Green Deal on Turkish Companies

EU is Turkey's most important trade partner, making 50% of Turkey's total exports. In addition, Turkey receives the most foreign investment from EU, and EU is Turkey's biggest and most important source of investment. Turkey is EU's 5th largest trade partner and an important export market.¹

Green Deal will set forth regulations that will not only impact the companies within EU borders, but also all economic and trade partners trading with EU. As a matter of fact, EU clearly stated this goal in its Green Deal as follows:

"As long as many international partners do not share the same ambition as the EU, there is a risk of carbon leakage, either because production is transferred from the EU to other countries with lower ambition for emission reduction, or because EU products are replaced by more carbon-intensive imports.

If this risk materialises, there will be no reduction in global emissions, and this will frustrate the efforts of the EU and its industries to meet the global climate objectives of the Paris Agreement. Should differences in levels of ambition worldwide persist, as the EU increases its climate ambition, the Commission will propose a carbon border adjustment mechanism, for selected sectors, to reduce the risk of carbon leakage. This would ensure that the price of imports reflect more accurately their carbon content. This measure will be designed to comply with World Trade Organization rules and other international obligations of the EU. It would be an alternative to the measures that address the risk of carbon leakage in the EU's Emissions Trading System."²

Within the amendment package of the Commission's 2021 work program, the so called "Fit for 55%", there are various initiatives including a proposal for a Carbon Border Adjustment Mechanism. There are four different carbon regulation mechanisms evaluated within this context, and the Commission is expected to determine which of these alternatives will be chosen by the end of June 2021.

While this transformation is happening at the borders of Turkey, how will Turkey be affected? Considering all the policies and enablers of the Green Deal including circular economy to just adjustment mechanism, sustainable finance action plan to Carbon Border Adjustment Mechanism, one can easily predict that Turkish economy and trade with EU will be affected in a great deal of ways:

- Companies that export raw materials, intermediate products or final products to the EU may be subject to some form of carbon tax for the products they export pursuant to a carbon border adjustment mechanism to be introduced by the Commission by 2023;
- Financial institutions and development banks will opt for or will be required to provide financing for sustainable activities within the framework of the sustainable finance action plan, limiting non-sustainable or carbon intensive activities from accessing to finance;
- Companies that are not considered sustainable or carbon-intensive activities will not attract investments from EU, as the investors and investment funds will be increasingly required to invest in green or sustainable activities either by way of regulations or by way of stakeholder activism;

¹ EU Green Deal, a presentation by Fatih Özkadı and Canan E. Tavukçu at KAGIDER's meeting on 31 March 2021.

² https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf

- EU-based companies, which will be able to receive incentives under the “just adjustment mechanism” will be able to complete their green transformation before their Turkish competitors with easier reach to financial resources and incentives, and increase their competitive power. If Turkish government fail to provide similar incentive packages Turkish companies will increasingly lose their competitive power in multiple ways i.e. carbon tax, limited access to finance, limited ability to attract investors etc.;
- Turkish companies, which are in the supply chain of the EU companies, will be required by their EU customers to adopt their activities to sustainable and green businesses as Green Deal will set forth regulations that will require companies operating in the EU to align their supply chains with Green Deal. Carbon footprint of the products will be assessed by considering the carbon footprint of all materials used for its production and its transportation;
- Subsidiaries of EU-owned companies in Turkey will be required to align their businesses with Green Deal.

Ministry of Environment and Urbanization, Ministry of Commerce and other relevant governmental agencies in Turkey are following up and working on the developments in EU in respect of Green Deal and are expected to propose a roadmap for Turkey within 2021.

Conclusion

Regardless of how and when Turkish government responds to these developments, Turkish companies of any size trading with EU will immediately be affected from the regulations and transformation brought by Green Deal. Whether or not these affects, and threats could be turned into opportunities is up to increasing our awareness and integrating sustainability and green transformation into the strategies and risk management of the companies as soon as possible.

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