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

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Abstract:

In December 2019, the EU announced the European Green Deal (EGD) whose ultimate target is to create a climate-neutral continent by 2050. With the EGD, greenhouse gases (GHGs) reduction targets become more ambitious and the EU industry will be reorganized around the circular economy principles. Accordingly, the EU Emission Trading System (ETS) will be revised to keep economic growth and employment strong against possible losses in competitiveness due to potential increases in the price of carbon under ETS, leading to the problem of "carbon leakage". Carbon Border Adjustment (CBA) is one of the alternative mechanisms proposed to tackle the carbon leakage problem. CBA is an import fee levied by the carbon-taxing region (in this case, the EU) on goods manufactured in non-carbon-taxing countries (in this case, Turkey). The purpose of this paper is to provide a first-order estimate of the potential sectoral impacts of a CBA on the Turkish economy by employing the Input-Output methodology. Our results suggest that the CBA may bring a carbon bill of 1.1-1.8 billion euros to the Turkish exporters in the EU market. The revision of the INDC target and the ratification of the Paris Climate Agreement at the parliament are two steps that can be taken immediately. Speeding up the ongoing preparatory process of instituting an emission trading system in Turkey (preferably linked to EU ETS), will help minimize economic losses.

Keywords: European Green Deal; Carbon Border Adjustment; Turkey; input-output methodology

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