CARBON MARKET WATCH

Why a weak Turkish ETS fails both the climate and Turkish exporters

May 2026

Executive summary

Turkey is advancing the development of a national Emissions Trading System (ETS) as part of its broader climate commitments under the Paris Agreement, at a time when carbon pricing is expanding globally, and the EU Carbon Border Adjustment Mechanism (CBAM) is set to impose a carbon cost on exports to the EU from 2026. As a major trading partner of the EU, the effectiveness of the Turkish ETS will be critical not only for reducing emissions but also shielding Turkish industry from CBAM costs and strengthening Turkey's position in a decarbonising global economy.

This report assesses the draft regulation of the Turkish ETS against the experience from the EU ETS. It focuses on key design features that determine whether the Turkish ETS can deliver emission reductions effectively and fairly - including cap-setting, auctioning and free allocation, the use of offsets, flexibility mechanisms, revenue use, governance and transparency - with a view to evaluating whether the system can align with the Paris Agreement, respect the polluter pays principle and protect Turkish industry from CBAM costs.

A central weakness of the proposed Turkish ETS design is its reliance on an intensity-based cap, which does not ensure emissions decline over time nor provide predictability. In addition, widespread free allocation and substantial use of offsets (from a still vague domestic crediting scheme) dilute incentives to reduce emissions and weaken the overall effectiveness and credibility of the system. These issues are reinforced by limited transparency and a highly political and centralised governance framework, raising concerns about accountability and predictability.

Taken together, these features mean the Turkish ETS is unlikely to generate a meaningful carbon price signal, limiting its ability to both drive emissions reductions in line with the Paris Agreement objectives and to reduce CBAM cost for Turkish exporters to the EU.

For Turkey's economy to reap the benefits of strong trade relations, while strengthening its climate policies, supporting cleaner production processes and ultimately the decarbonisation of its economy, the upcoming Turkish ETS implementing regulations should prioritise:

- Setting a clear declining cap on absolute emissions in line with Turkey's climate goal, to guarantee a climate outcome and give long-term visibility to (public and private) stakeholders.
- Phase out all offsetting and focusing instead on direct emission reductions. Especially projects with permanence risks (such as nature-based projects) or lack of additionality (e.g. renewable energy projects) will raise environmental integrity concerns.
- Shifting from free allocation toward auctioning emission allowances to create a real and clear carbon price signal and retain revenues domestically to reinvest in climate and support communities affected by climate change.
- Strengthening transparency and oversight to reinforce the credibility of the system.

Introduction

Turkey's first Climate Law, published in July 2025, establishes the legal basis for a national Emissions Trading System (ETS) at a time when carbon pricing is gaining momentum worldwide. This initiative builds on Turkey's ratification of the Paris Agreement in 2021 and several years of policy preparation with a view to alignment with the European Green Deal. In particular, "the Green Deal Action Plan of Turkey" assesses the implications of the EU Carbon Border Adjustment Mechanism (CBAM) and calls for the development of an appropriate domestic carbon pricing instrument in light of Turkey's close trade relationship with the EU.

As CBAM enters into force from 2026, Turkish exports to the EU in high polluting sectors such as cement, steel, iron, aluminium, fertilisers, electricity and hydrogen will gradually encounter a carbon cost. Currently, more than two-fifths of CBAM-covered products exported by Turkey are destined for the EU, with iron and steel and electricity representing the most exposed sectors.

Under the CBAM regulation (art 9), importers can claim a reduction in the number of CBAM certificates they have to surrender should a carbon price be "effectively paid" in the country of origin. The detailed methodology for calculating this deduction is expected in an implementing act in the first half of 2026. From 2027 onwards, the Commission may also publish default carbon prices for third countries. From a national economic perspective, it is far preferable to apply carbon costs internally, where revenues can be reinvested into domestic decarbonisation efforts rather than paying them at the EU border.

This report provides a comparative analysis of the Turkish ETS proposal and the EU ETS, focusing on **key design features that shape how Emissions Trading Systems function** in practice.

System overview

Turkish ETS and EU ETS

	Turkish ETS proposal	EU ETS1 (ETS2 is left out of the comparison)
Implementation timeline	Pilot phase 2026–2027 Phase I 2028–2030 Phase II 2031–2035	Multi-phase implementation since the system commenced operation in 2005 Pilot phase 2005-2007Currently in Phase IV (2021–2030)
Scope	Installation-based system covering power and energy-intensive industry (cement, iron & steel, aluminium, fertilisers, electricity, hydrogen)	Installation-based system covering power, broad range of manufacturing industries (from steel and cement, to manufacture of leather clothes and sugar), aviation, maritime transport
Share of emissions covered	~48% of total greenhouse gas (GHG) emissions (2020 MRV data)	~45% of EU GHG emissions
Installation threshold	≥50,000 tCO_2e/year	Generally ≥20 MW thermal input Other capacity threshold include: steel production > 2.5t/h; cement clinker >500t/day or >50 for other furnaces; glass >20t/day; ceramic >75t/day; bulk organic chemicals >100t/day; hydrogen >5t/day
Opt-in and opt-out mechanisms	Not specified	**Opt in:** Member state may include additional activities or greenhouse gases (including smaller plants), subject to Commission approval **Opt-Out:** Small installation exclusion: Member states may exclude installations emitting less than 25,000 tonnes CO2e per year (provided combustion activities are below 35 MW thermal input) Ultra-small exclusion: Member states may exclude installations emitting less than 2,500 tonnes CO2e per year

Cap-setting approach

	Turkish ETS proposal	EU ETS
Type of cap	Intensity-based cap determined ex post based on activity levels and benchmarks	Absolute, economy-wide cap
Decline over time	No explicit tightening pathway specified	Linear Reduction Factor (LRF) reduces the cap annually: set at 4.3% per year from 2024 to 2027, increasing to 4.4% per year from 2028 onwards. Regularly revised, but has always been increased to adapt to more ambitious EU decarbonisation targets.

In an ETS, the cap sets an overall limit on the total volume of greenhouse gas (GHG) emissions that polluters covered by the system are collectively allowed to emit. Importantly, the cap must decrease over time to tighten supply in order to incentivise investment in decarbonisation. This also ensures that the system will increase its alignment with Paris Agreement targets while providing a clear pathway to stay within the remaining carbon budget. The trajectory of the cap has a massive impact on the environmental effectiveness of the carbon pricing system and the behaviour of the companies governed by it: a declining cap ensures that emissions fall over time and gives companies predictability.

While the Turkish ETS draft implementing regulation states that the cap will be determined using an emissions intensity-based approach, there is yet no clarity on how this cap will be set in practice. It is not specified whether the intensity target will be defined at the economy-wide, sectoral or installation level, nor which output metric will be used. Each option has implications for the scheme's environmental impact and economic cost, and administrative complexity.

Sectoral or installation-level caps can help ensure that all major emitters contribute to reductions, while a single economy-wide cap delegates this process to market forces. Similarly, there is no detail on how the level of the cap will be set, whether it will be linked to top performers, best available techniques (BAT) or other benchmarks. Moreover, the draft contains no provision for a progressive tightening of the intensity target over time, nor for a longer-term transition towards a declining absolute cap with inclusion of a strategic linear reduction factor. Without a clear mechanism to progressively constrain emissions, the system risks failing to deliver absolute reductions.

The experience of other jurisdictions that are aiming to implement a successful ETS shows that intensity-based systems are increasingly being reconsidered. In China, the world's largest ETS failed to deliver emissions reductions. Without an absolute cap, annual emissions covered by the Chinese ETS have continued to rise, from 4.5bn tCO2e in 2021, when the market was launched, to 5.2bn tCO2e in 2024. As a result, China has recently issued guidelines that signal a transition from an intensity-based ETS to an absolute emissions cap system. This shift reflects the growing recognition that an absolute declining cap is an essential feature for the environmental credibility and effectiveness of an ETS.

Cap setting matters not only for domestic emissions reductions but also for CBAM compliance. Under CBAM, importers may reduce the number of certificates to surrender if a carbon price has been "effectively paid" in the country of origin. Determining what counts as "effectively paid" is complex, which is why establishing clear ground rules for eligible carbon pricing systems, including cap design, will be crucial.

In this context, intensity-based Emission Trading Systems can be problematic and must not be considered as a viable option. Since emissions are capped relative to output rather than in absolute terms, the carbon price actually paid may be minimal if most emitters operate below the intensity benchmark. As a result, very little of the embedded carbon cost would qualify for CBAM crediting. Excluding intensity-based systems from CBAM crediting could be one option that simplifies compliance, but if they are to be accommodated, the effectiveness of CBAM adjustments under an intensity-based cap will depend on the stringency of the benchmark and the proportion of emissions that exceed it. In contrast, an absolute declining cap provides a transparent and predictable carbon price for all covered emissions, making CBAM recognition more straightforward and reinforcing environmental credibility.

Free allocation rules

	Turkish ETS proposal	EU ETS
Default allocation method	Free allocation during pilot; no phase-out defined (art 12 and 13)	Auctioning is the default; free allocation is temporary and exceptional (Art. 10 EU ETS Directive), though covering over 40% of total emissions and the phase-out has been delayed repeatedly
Scope of eligibility for free allocation	All covered sectors (including the power sector)	Limited to a list of sectors hypothetically exposed to carbon leakage (based on trade intensity and carbon intensity of the sector)i.e. energy intensive sectors. Power sector explicitly excluded. Starting in 2026, aviation no longer receives "unconditional" free allowances, but still receives 20 million free allowances to support sustainable fuels from 2024 to 2030
Conditionality	None specified	Conditional on performance and compliance:20% reduction of free allowances if energy efficiency audit recommendations are not implemented. The reduction doesn't apply if the payback time for investments exceeds three years or if the costs are "disproportionate". Worst performing installations (>80th percentile of emission intensity within a product benchmark) are required to develop and implement climate-neutrality plans, with non-compliance triggering 20% reduction. This doesn't apply to small sub-installations contributing less than 20% of the installation's total preliminary free allowances. These penalties are not cumulative, if an installation fails both conditions, Free allowances are reduced by only 20%
Phase-out	Not specified	Power sector: excluded since 2013 CBAM sectors (cement, aluminium, fertilisers, iron and steel, hydrogen and electricity): Gradual phase down of free allowances starting with a 2.5% reduction in 2026 and reaching 100% phased out by 2034, in parallel with full application of CBAM Non-CBAM sectors deemed at risk of carbon leakage (e.g. organic chemicals, polymer, refineries, and various industrial materials): continue to receive free allowances Non-CBAM sectors not on the carbon leakage list: Free allowances phased down from 30% to 0% by 2030.

Free allocation directly affects whether an ETS respects the polluter-pays principle and hampers decarbonisation efforts. The EU ETS has demonstrated over its years of operation that broad and unconditional free allocation delays emissions reductions, creates windfall profits and weakens the carbon price signal. EU legislation now defines free allocation as temporary, targeted and conditional, with auctioning as the default and CBAM progressively replacing free allocation as the main carbon leakage protection tool.

The Turkish draft regulation grants unconditional free allocation across all sectors, including the power sector, without linking it to carbon leakage risk, competitiveness risks, performance benchmarks, or decarbonisation obligations. This broad and unconditional free allocation system risks rewarding the most polluting installations, undercutting any incentive for climate action, locking in carbon-intensive production, and goes against the polluter pays principle guaranteed by Article 3 of the Climate Law. Once entrenched, such free allocation systems are an extremely difficult political challenge to reform as an interest group with strong vested financial interests is created. This has been shown in the EU by the EU's long and contested transition away from free allocation.

From a CBAM perspective, the draft Turkish ETS is unlikely to shield Turkish industry from CBAM costs. To calculate the reduction of certificates to surrender, the EU will take into account any rebate or other form of compensation available that would result in a reduction of the carbon price, including free allowances. With large shares of (or all) allowances allocated for free across all covered sectors, including power generation, the amount of emissions for which a carbon price is effectively paid would be zero. There's no clarity yet on the consideration of intensity-based systems vis-à-vis systems with an absolute cap: ultimately, it is essential to consider global trends, showing that absolute caps have become the norm across Emission Trading Systems.

Setting the level of Free allowances:

Benchmarking and activity level

	Turkish ETS proposal	EU ETS	Why it matters
Benchmarking method level	Sub-facilities level determined by the operator	Centralised EU-wide benchmark value (with 54 product benchmark values)	Facility-level benchmark design increases administrative complexity and costs, and risks inconsistent treatment of identical products
Calculation of the benchmark	Not specified	Performance benchmark: based on the average of the 10% most carbon-efficient installations	Setting adequate benchmarks allows for rewarding only the "best performers" with free allowances
one product = one benchmark	Lacks sufficient clarity regarding the determination of comparison approach (product based is not the preferred option)	Formal principle, but imperfectly applied in practice, with process-based fallback benchmarks (heat-, fuel-benchmarks) still broadly used.	Deviations from product benchmarks reduce transparency, comparability across the market, and allow high-carbon processes to persist
Review process	Not specified	Benchmarks updated every 5 years; annual reduction rates of 0.2–1.6% (2021-2025), increasing to 0.3%-2.5% (2026-2030)	Dynamic benchmarks are critical to reflect technological progress, increase incentives for climate action through increased scarcity over time and avoid over-allocation
Historical activity level (HAL) as a comparative tool to determine free allocation	No methodology specified	Calculated using median production of a reference period	HAL methodology affects allocation volume; poor design creates incentive to inflate production ("gaming") and leads to structural over-allocation

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	Turkish ETS proposal	EU ETS	Why it matters
Adjustment with production level	Not specified	The threshold for adjustments is set at 15% and will be assessed based on a rolling average over 2 years.	To avoid under- and over-allocation, the EU ETS requires that an installation's free allocation be adjusted if its activity level (production) increases or decreases significantly
Cap on free allocation	Not specified	The directive states that the maximum amount of free allocation must be set in a way that "respects the auctioning share set out in Article 10" (which is equivalent to 57%)	
Cross-sectoral correction factor (CSCF)	No equivalent mechanisms	Apply since 2013 if the total free allocation is in excess of the free allocation cap then the CSCF is triggered	Maintain the fixed share of emission allowances that must be paid for
Governance	Methodological inputs provided by facilities; benchmarks set by Carbon Market Board upon recommendation of the presidency- No provision regarding transparency and participation in the determination of benchmarking approaches	Benchmarks set through EU legislation following technical working groups (Commission, member states, industry, CSOs)	When operators influence benchmark design at facility level, the risk of conservative or tailored benchmarks increases. Limited transparency reduces accountability and credibility.

Benchmarking and activity levels determine the free allowance amount that a facility receives under an ETS.

The EU ETS relies on centrally defined benchmarks based on the average performance of the top 10% most efficient installations, combined with historical activity levels (installation specific production volumes) and a cross-sectoral correction factor. Centralised product benchmarks ensure that installations producing the same product face comparable carbon constraints across the market, rewarding low-carbon production routes. While this framework is often presented as best practice, in reality, its implementation remains flawed: many benchmarks are still process-based rather than product-based, and activity levels based on median production have contributed to over-allocation. These weaknesses have delayed decarbonisation in key industrial sectors despite formal safeguards such as weak installation-level conditionality and the benchmarks that could incentivise a race-to-the-top if implemented correctly.

By contrast, the Turkish draft regulation provides very limited clarity on how benchmarks will be defined or updated. It doesn't specify whether benchmarks will be based on best performers, top 5% or 10%, average, or other criteria, and doesn't clearly set out transparency and oversight arrangements. Allowing benchmarks to be developed at facility level, using methodologies proposed by operators themselves, creates risks of inconsistency and abuse. Since methodological choices directly determine the volume of free allocation, operators have a structural incentive to favour conservative approaches that maximise allowances. A process-based or facility-driven approach also raises uncertainty on how comparable benchmarks will be across facilities producing the same product. The lack of clear rules for calculating activity levels and the absence of a cross-sectoral correction factor further increase the risk of over-allocation to the most polluting installation(s).

In the EU ETS, benchmark setting is centrally coordinated and involves multiple actors. The EU ETS Directive and detailed implementing legislation defines the legal framework and benchmark rules. Member state authorities are responsible for industry data collection. The process is accompanied with opportunities for expert group input, including industry stakeholders and civil society organisations (CSOs). Even within this structured system, benchmarking remains highly prone to pressure from incumbent industries, which has often resulted in relatively conservative values. In this context, the absence of multi-stakeholder oversight (particularly CSOs) in the Turkish proposal increases the risk of overly generous benchmark design.

The benchmark design will be another key feature to consider when assessing CBAM crediting. For CBAM purposes, the EU needs to understand how many emissions were already priced and at what rate. While sector or product-level benchmarks with publicly observable rates in legislation or regulation can help, facility-specific benchmarks for the same products can make this assessment more complex, especially if the information is not publicly available. Without transparent and comparable benchmark methodologies and free allocation levels across products, it becomes challenging to determine how much of the reported emissions were actually subject to a carbon cost.

Flexibility/price control mechanisms

	Turkish ETS proposal	EU ETS
Banking	Allowed. The banking period is not set yet, and risks being open between the end of the pilot phase and phase 1	Allowed, though not between end of pilot phase and phase 1
Borrowing	Allowed	Not allowed
Compensation year	Foreseen	Not allowed
Market Stability Reserve (MSR)	Foreseen	Operational since 2019
Price controls	Foreseen min/max price ranges	No price corridor for ETS1, but there is a MSR to avoid excessive price fluctuations

The Turkish draft regulation includes similar elements to the EU ETS. It foresees the establishment of a Market Stability Reserve (Article 19). But it also authorises the Carbon Market Board to set minimum and maximum carbon price ranges (Article 21). While a price corridor can, in principle, enhance price predictability, its setting and governance require careful scrutiny. In the Turkish case, price limits are combined with broad free allocation, meaning the corridor would primarily affect secondary market transactions between participants, potentially distorting efficient allocation.

At the same time, granting the Board discretion to effectively determine the carbon price exposes the system to political changes, which may affect longer term confidence in the stability of the framework. It creates an opportunity to undermine the system as soon as it begins to provide a meaningful price signal. Ultimately, moving toward more auctioning, if the price range is narrow and the Board adjusts it to retain control over the carbon price, the system would be closer to a carbon tax than to an ETS. These instruments however provide flexibility to manage price risks, suggesting that a gradual shift toward greater auctioning can be designed in a way that also maintains price stability.

However, the draft regulation also allows for banking and borrowing of allowances. Banking allows covered entities to save up unused allowances for future use or sale, while borrowing allows them to postpone buying allowances or reducing emissions by borrowing allowances they would expect to receive for free in future periods. In a system built on free allocation and without an explicit total emissions cap, banking will undermine price predictability and, worst, amplify surplus accumulation, ultimately rewarding polluters and limiting the environmental effectiveness of the system.

Borrowing is even more problematic as it allows operators to emit today and promise to pay later, effectively postponing both the carbon cost and the effort to decarbonise. It also raises important commitment and credibility problems, as future compliance obligations risk being weakened or renegotiated. On top of that, the draft regulation introduces the concept of compensation years, allowing covered entities that fail to meet their surrender obligation to fulfil it the next year. Such flexibilities undermine the compliance obligation and weaken the credibility of the system as a whole.

Offsets and credits

	Turkish ETS proposal	EU ETS
Use of offsets	Facilities can meet up to 10% of their compliance obligation using domestic offsets	Prohibited since 2021
Quantitative limits	Flat 10% limit at facility level with no phase-down foreseen	Not applicable
Type of credit	Domestic project-based credits ("Turquoise Credits") generated under the Turkish Carbon Offsetting System (TR KDS)	Not applicable
Qualitative limits	Additionality ("original contribution") and double-counting provisions, but are weak and lack info	Not applicable
Governance	Centralised	Not applicable

Allowing offsets within an ETS weakens the carbon price signal by enabling compliance without reducing emissions at source. Offsets delay structural change, lock in carbon-intensive production, and rely on crediting systems where additionality, permanence and baselines are difficult to verify.

The EU ETS offers a clear warning: the use of offsets in early phases led to massive oversupply of allowances, collapsing carbon prices and severely weakening incentives to decarbonise. As a result, the EU completely phased out the use of offsets for ETS compliance after 2020.

Under Article 25, the Turkish ETS allows facilities to meet up to 10% of their obligation with domestic "Turquoise Credits". This share is high, unrestricted by sector or abatement difficulty, and not scheduled to decline. Turquoise credits are generated under the Turkish Carbon Offsetting System (TR KDS), which covers activities outside the ETS. While the framework includes some safeguards, such as "original contribution" (additionality) and provisions to avoid double-counting, these remain weak. The original contribution definition lacks common-use criteria to prevent practices or technologies that are already widely used from being eligible for carbon credit revenue. Provisions on double-counting are also limited.

The lack of clarity on the types of eligible projects is a critical issue to determine environmental integrity. It provides no clarity on which project types are eligible, including whether nature-based solutions or industrial carbon removals are allowed. In particular, the exclusion of projects that also generate Renewable Energy Source Guarantee Certificate (YEK-G certificates) just to avoid double-counting strongly suggests that renewable energy projects may be eligible under the TR KDS, raising serious concerns about additionality, as in general, such projects are already economically viable without carbon finance.

On top of that, the current framework is very weak at guaranteeing the environmental integrity of the credits. It sets only minimal quality criteria, for example, requiring projects to contribute to at least three Sustainable Development Goals - which does not constitute a robust safeguard. Crucially, the framework contains no provisions addressing permanence risks. Governance and oversight arrangements remain opaque, with key decisions concentrated at the level of the Presidency, with limited transparency on methodologies, approval processes and scrutiny.

Looking ahead, the upcoming EU ETS revision, expected in Q3 2026, will (unfortunately) reopen discussions on carbon removals in the ETS. However, this is likely to be constrained by strict quality and quantity criteria determining volumes and eligible project types. These criteria would most likely exclude the vast majority of the voluntary carbon market (no international projects, or nature-based or renewable energy projects) to avoid repeating past mistakes. If so, this makes the Turkish approach, as currently designed, much less effective in terms of climate ambition and environmental integrity than the EU's approach.

From a CBAM perspective, the use of offsets further complicates the assessment of the "effective carbon price paid". If compliance can be met through credits rather than purchasing allowances, the actual carbon cost borne by installations is reduced. It remains unclear whether, and under what conditions, such credits would be recognised in the calculation of the effective price paid for CBAM compliance. In any case, recognition would likely require meeting the EU's standards and quality criteria.

Revenue generation and use

	Turkish ETS proposal	EU ETS	Why it matters
Revenue generation	Limited revenue expected without auctioning	Significant revenue from auctioning (€ 38.8 billion in 2024)	Determines whether ETS generates revenue that can be used for investing in climate action
Revenue earmarking	No clear earmarking; 50% transferred to special revenue account (Law No. 7552)	100% is earmarked for climate and energy spending: however, the list of eligible activities is very broad. While in the past reporting by Member States has been opaque, now spending reports are publicly available and consolidated by the European Commission. There is also no clawback clause in case of misspending.	Affects public support and effectiveness

Beyond its emission reduction potential, one of the major advantages of an ETS is its ability to generate revenue that can be reinvested in climate action. If allowances are largely or fully allocated for free, this opportunity is missed. The spending of revenues should be both targeted and transparent, so that people can clearly see the benefits rather than watch the money disappear into general budgets. Spending should favour the most impactful investment, able to deliver environmental and social co-benefits: primary spending avenues include renewable energy systems and infrastructure, energy savings, climate adaptation, tackling energy poverty, and public mobility. This revenue should add to, not replace, existing climate budgets, and investments must be additional and sustainable.

Transferring ETS revenues to the general budget, which is envisaged in the draft regulation risks undermining public confidence in the system and reducing the social benefits of carbon pricing. The EU ETS offers a cautionary example. In its early phases, member states had broad discretion over revenue use, and significant shares were absorbed into general budgets rather than invested in climate action. Later reforms required first half and then latterly all of the revenue to go to climate and energy spending, although the list of eligible activities has remained broad, and reporting by member states has been inconsistent and often opaque.

Between 2013 and 2021, less than 60% of the €88.5 billion raised went to genuine climate investment, with some member states even funding fossil fuel projects. Such misuse undermines effectiveness and trust in the system and delays needed investments for the clean transition, risking locking in polluting infrastructure.

Governance, transparency, and accountability

	Turkish ETS proposal	EU ETS
Decision-making body	Highly centralised; key design choices taken by the Carbon Market Board upon proposal of the Presidency (Arts. 6, 11, 13) Directorate of Climate Change: develops the regulatory framework; manages Monitoring, Reporting and Verification (MRV); operates the registry; integrates domestic offsets	Shared between EU institutions; extensive use of delegated and implementing acts subject to the scrutiny of political processes
Stakeholder participation	No formal role for Parliament, civil society or independent experts specified	Formal consultation processes; involvement of member states, industry and civil society through technical working groups
Public access to data	No guarantees regarding public and civil society access to data in the transaction registration system and other information within the scope of the ETS. The mere publication of the national allocation plan in the Official Gazette is insufficient.	Public access to allocation rules, benchmark values, registry data, including allocated allowances, verified emissions and compliance information

CBAM implications

As mentioned in the Introduction, under the EU Carbon Border Adjustment Mechanism importers can claim a reduction in the number of certificates they have to surrender should a carbon price be "effectively paid" in the country of origin. From a strictly analytical perspective, the current design features of the Turkish ETS, including broad free allocation, offset use and an intensity-based cap, are unlikely to result in a decreased CBAM fee, as they make it difficult for the system to generate a meaningful carbon price.

However, how this will ultimately be assessed remains uncertain. The concept of a carbon price "effectively paid" will need to be operationalised in the European Commission's forthcoming implementing act, and its interpretation will determine how different system designs are treated in practice. For example, it remains unclear how free allocation will be treated in practice and whether it will be considered compensation.

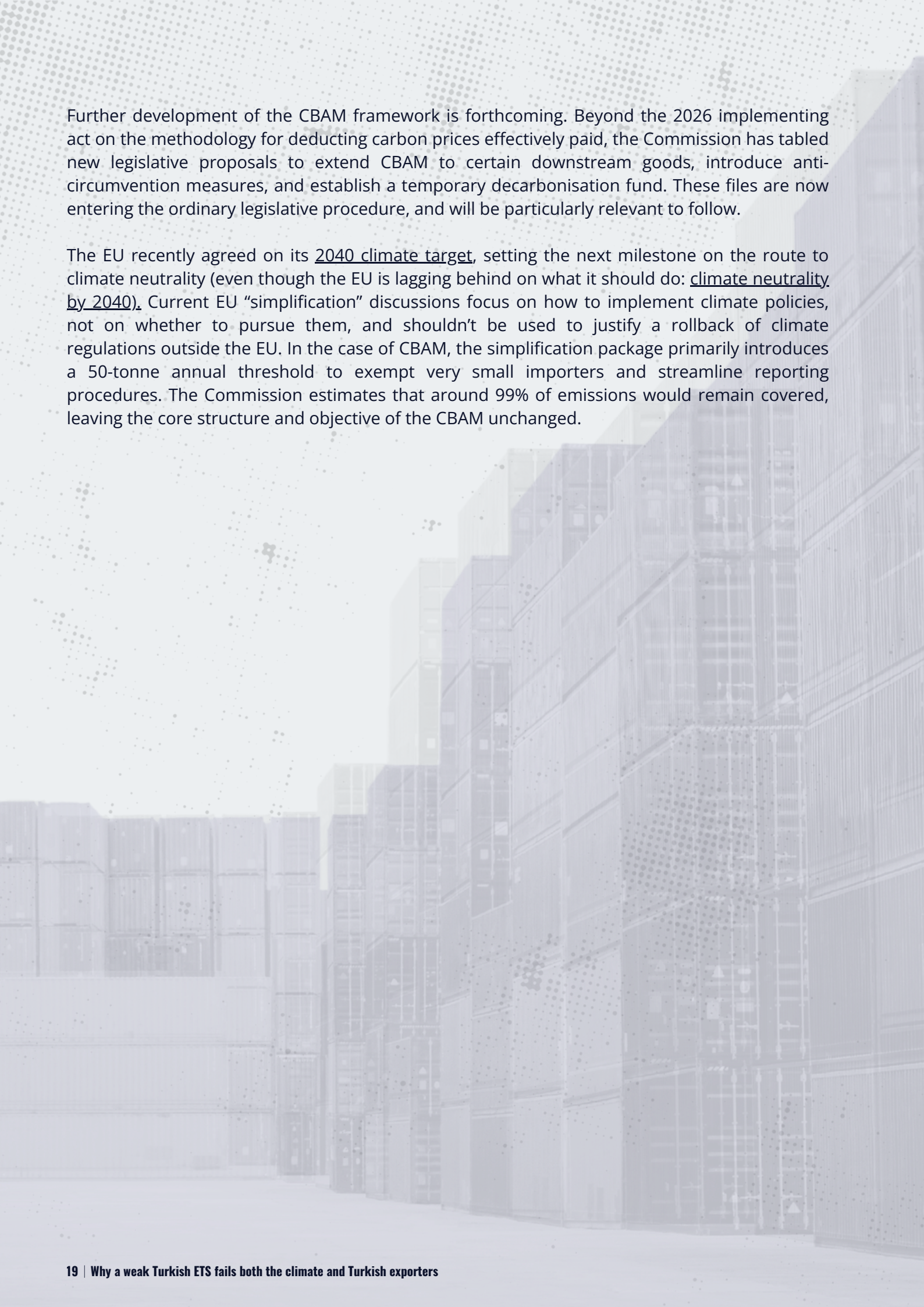
This makes it essential to establish clear ground rules for recognising foreign carbon pricing systems. Yet this is not straightforward. Questions such as how implicit carbon costs (e.g. regulatory standards or subsidies) should be counted, or how to treat systems that rely heavily on offsets or use intensity-based caps, remain contested. From a purely analytical standpoint, it could be argued that a system with one of the key elements of an ETS (an absolute and decreasing cap, the ability to generate a price signal, a focus on direct emission reduction rather than offsets) that is significantly weaker than the EU ETS should simply be excluded from eligibility for CBAM deductions. In practice, however, the assessment will take place in a broader political context. Given the depth of EU–Turkey trade relations, it is unlikely that recognition will depend on a single design feature alone. Ultimately, the key test will be whether the Turkish ETS can demonstrate that it generates a significant, transparent and quantifiable carbon cost.

Early data from the transitional phase underscores what is at stake. Turkey is among the top exporters of CBAM-covered goods to the EU. In the first reporting window (1–6 January 2026), 1.65 million tonnes were declared, 98% of which were iron and steel. Independent modelling by Sandbag estimates that, in the absence of a domestic carbon pricing scheme, total CBAM fees for Turkish exporters would reach €1.655 billion per year, equivalent to almost 10% of the value of all traded goods. Introducing domestic carbon pricing would significantly reduce these costs, and, crucially, would allow Turkey to retain carbon pricing revenues domestically rather than transferring them to the EU through CBAM payments.

These revenues should be used to fund Turkey's own climate action, supporting zero-carbon investment across its economy, helping communities most affected during the energy transition and advancing the country's climate targets. If the Turkish ETS resulted in a moderate carbon price equivalent to 25% of the EUA price, CBAM fees would fall to €1.241 billion per year, or 7.4% of the value of all traded goods. With a stronger domestic price signal equivalent to 75% of the EUA price, CBAM fees would drop further to €414 million per year, or 2.5% of the value of all traded goods.

Further development of the CBAM framework is forthcoming. Beyond the 2026 implementing act on the methodology for deducting carbon prices effectively paid, the Commission has tabled new legislative proposals to extend CBAM to certain downstream goods, introduce anti-circumvention measures, and establish a temporary decarbonisation fund. These files are now entering the ordinary legislative procedure, and will be particularly relevant to follow.

The EU recently agreed on its 2040 climate target, setting the next milestone on the route to climate neutrality (even though the EU is lagging behind on what it should do: climate neutrality by 2040). Current EU "simplification" discussions focus on how to implement climate policies, not on whether to pursue them, and shouldn't be used to justify a rollback of climate regulations outside the EU. In the case of CBAM, the simplification package primarily introduces a 50-tonne annual threshold to exempt very small importers and streamline reporting procedures. The Commission estimates that around 99% of emissions would remain covered, leaving the core structure and objective of the CBAM unchanged.



Paris Agreement Alignment

Since the Turkish ETS is currently in the design phase and no official emissions cap or sectoral targets have yet been defined, the potential alignment of the system with the Paris Agreement was assessed indirectly. The analysis uses national emissions pathways and estimates the share of emissions that would likely fall under the ETS. That said, the Turkish ETS is highly unlikely to be Paris Agreement aligned, unless significant extra climate ambition is added on top of the latest Turkish Nationally Determined Contributions (NDC).

The Turkish ETS is expected to cover the power generation sector and energy-intensive industries (cement, iron & steel, aluminium, fertilisers, electricity, hydrogen). A 2022 Climate Transparency report estimated 30% of Turkish energy-related emissions originate from power generation, and 25.3% of total emissions originate from direct industrial emissions. When applying these estimations to historical emissions data, power and industry emissions account for 48% of total Turkish emissions.

Future emissions trajectories were obtained from projections produced by Climate Action Tracker, which has analysed Turkey's most recent NDC against the 2021 edition to determine whether current policies are becoming more compatible with the Paris Agreement. This explains the divergence of the Paris Agreement trajectory from the current policy scenarios that include updates from the latest NDC. Figure 1 shows the three projected scenarios:

- Current policies – minimum impact
- Current policies – maximum impact
- Paris Agreement compatible (1.5°C pathway)

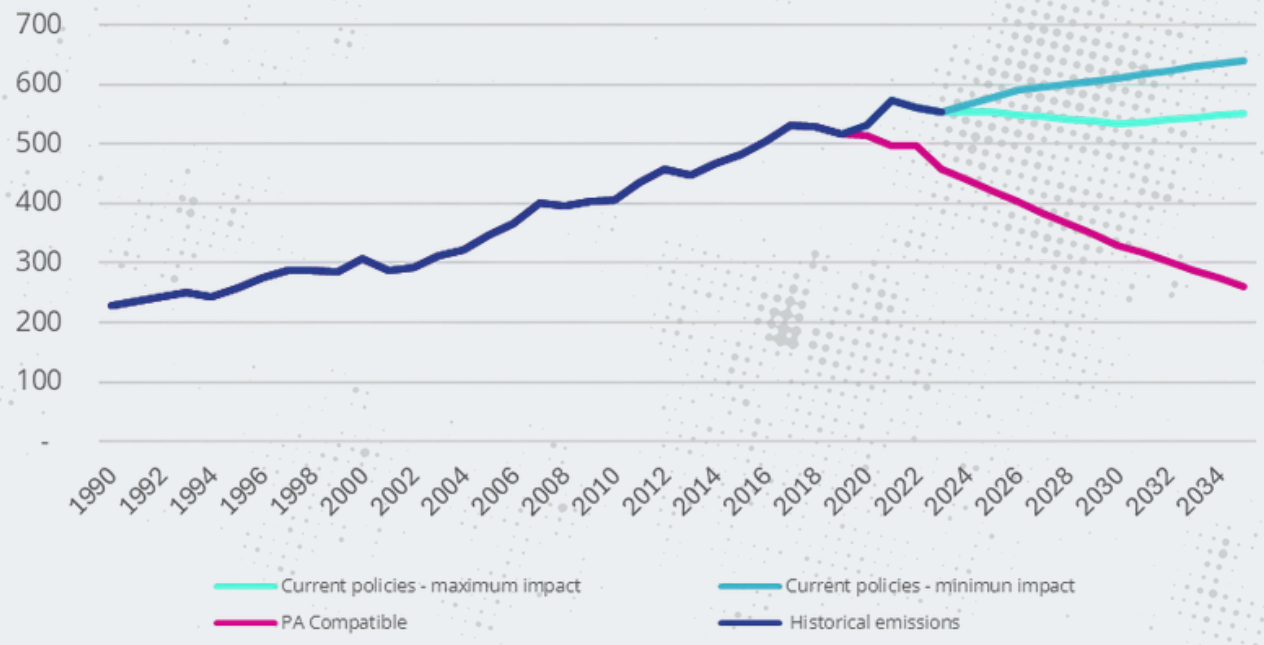


Figure 1. Total Turkish emissions trajectories for three different scenarios (in $MtCO_2e$)

Emissions Estimation for ETS Sectors

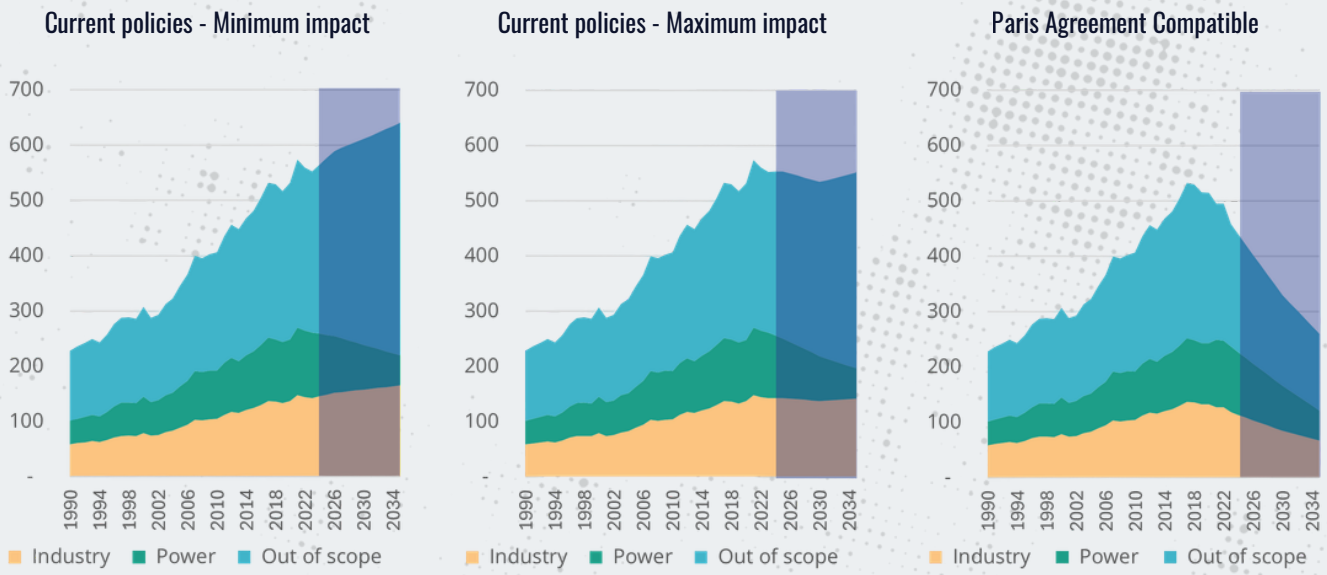
To estimate the trajectory of emissions from the power and industry sectors, a set of simplifying assumptions was applied, as detailed below.

Turkey's electricity generation is projected to reach approximately 510 TWh by 2035, increasing from 243 TWh in 2024 (Ember, 2025). According to the targets outlined in the National Energy Plan (2022), 95.92 TWh of this generation is expected to come from fossil fuel sources, with the remainder supplied by renewable and nuclear energy.

To estimate emissions from the power sector, the fossil generation was disaggregated by fuel type. In 2024, coal accounted for approximately 35% of fossil-based electricity generation (IEA, 2025). For the purpose of this analysis, this share is assumed to remain constant through 2035, as the National Energy Plan anticipates an increase in coal installed capacity, suggesting continued reliance on both fuels.

Emission factors were assumed constant over time, with Turkish 2024 values applied for coal- and gas-fired generation. Based on these assumptions, total power sector emissions in 2035 are estimated to be approximately 55 MtCO2, reflecting a decrease compared to recent levels, but also highlighting the continued dependence on fossil fuels in the power sector. The trajectories of all three scenarios used a linear regression to reach that estimation.

For the industry sector, in absence of detailed projections on activity levels or emissions intensity improvement plans, a constant emissions share of 25.3% was applied for the emission trajectories. Figure 2 presents the three projected emissions pathways for ETS sectors.



Source: Climate Action Tracker, UNFCCC, Climate Transparency, Carbon Market Watch's calculations

The results indicate significant differences between policy scenarios and a Paris Agreement-compatible trajectory. Even under the maximum policy effort scenario, which reflects the full implementation of currently announced policies and measures outlined in the Turkish NDC, emissions from ETS-covered sectors would reach approximately 197 $MtCO_2e$ in 2035. This remains substantially above the level estimated to be compatible with a 1.5°C Paris Agreement pathway (123 $MtCO_2e$), indicating a significant alignment gap.

In the absence of an absolute cap, alignment with a Paris Agreement-compatible emissions trajectory would depend on sustained and rapid reductions in emissions intensity that outpace growth in industrial production. Total emissions from ETS covered sectors will probably remain significantly above levels consistent with a 1.5°C pathway relative to the current ETS proposal.

Consequently, its ability to guarantee emissions reductions consistent with the Paris Agreement is reliant on regulators setting a cap that decreases in line with Paris commitments, and complemented by legislation setting trajectories for non-ETS sectors.

Conclusion

Turkey's decision to establish a national ETS is an important indication of the nation's positive approach towards meaningful climate action. However, as currently designed, the system risks falling short of achieving both of its core objectives to deliver emission reductions and shield Turkish industry from CBAM costs.

Many essential elements are still missing to make the Turkish ETS fully operational. As set out in the draft implementing regulation, several key operational details and methodological rules remain undefined, including those for benchmark setting, activity levels, cap setting, and more. Without these, it's doubtful the system will function as required in practice and whether it can deliver a meaningful carbon price signal.

Moreover, several core design choices undermine the environmental effectiveness of the Turkish ETS:

- An intensity-based cap that does not guarantee absolute emissions reductions.
- Broad, unconditional free allocation, that will both weaken the polluter-pays principle and the carbon price signal. It also risks windfall profits, especially in the power sector where renewable energy options are already outcompeting fossil fuel based energy.
- Significant use of offsets, delaying real decarbonisation and raising integrity concerns.
- Opaque and highly centralised governance, with limited oversight.
- No clear provisions on auctioning or revenue use, missing a key opportunity to support the transition.

Taken together, these design choices mean Turkish exporters are likely to remain exposed to EU CBAM costs. If the domestic system does not generate a real carbon price, the adjustment will simply be paid at the EU border instead. This would leave industries exposed while missing the opportunity to collect and reinvest carbon revenues in the Turkish economy.

CARBON MARKET WATCH

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