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# Carbon Markets in Türkiye

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## General Information (Historical Development)

Türkiye is attempting to combat negative impacts of climate change and reduce greenhouse gas emissions. It became a party to the Kyoto Protocol and to the Paris Climate Agreement in 2009 and 2021 respectively, announcing its net zero emissions by 2053 target shortly after. On 13 May 2023, the National Carbon Crediting Programme Protocol was signed by the Climate Change Directorate of the Ministry of Environment, Urbanisation and Climate Change and the Turkish Standards Institute to create national standards and methodologies for emissions reduction, registration of carbon crediting projects, and certification of carbon credits. The Protocol's purpose is to offset greenhouse gas emissions by applicable industry sectors within the scope of an emission trading system and to realise voluntary emission reduction targets. The 12th Development Plan (2024-2028), under the heading of "Protection of the Environment", includes measures to reduce greenhouse gas emissions and implement climate change adaptation measures within the framework of the Paris Climate Agreement and Türkiye's National Contribution Declaration. In the Medium-Term Programme (2024-2026), the greenhouse gas emission reduction target is underlined under the title "Green Transformation".

Türkiye has significant ambition in this space. Signalling its intentions, The Energy Market Regulatory Authority ("**EMRA**") has prepared a Draft Regulation on the Operation of Carbon Markets ("**Draft Regulation**"). This sets out principles and procedures for the establishment and operation of carbon markets to encourage the reduction of greenhouse gas emissions under the emissions trading system. It was

published for public comment on 13 November 2023.

## Draft Regulation

The Draft Regulation defines the Emissions Trading System ("**ETS**") and the provisions regarding its operation. It defines concepts such as carbon markets, primary and secondary carbon markets, operators and allowances. Accordingly, ETS is a national and/or international market-based mechanism that sets an upper limit on greenhouse gas emissions and limits (or encourages the limitation of) greenhouse gas emissions via utilisation of buying and selling allowances. An allowance is a dematerialised and transferable permit that represents the right to emit greenhouse gases equivalent to one tonne of carbon dioxide over a specified period of time.

Enerji Piyasaları İşletme A.Ş. ("Market Operator") is responsible for operation of the carbon markets. Primary carbon markets refer to the market organized and operated by the Market Operator where transactions are conducted through the tender method to ensure the distribution of allowances among participants. Secondary carbon markets refer to the spot carbon market and the physically delivered forward carbon market organised and operated by the Market Operator where allowances are traded through the continuous trading method. Article 5 of the Draft Regulation sets out the responsibilities of the Market Operator. Operators within the scope of the ETS are required to register with the Transaction Registry System ("**IKS**") in order to operate in the markets. The IKS is an electronic data system in which the issuance, holding, transfer, cancellation and redemption of allowances are undertaken and monitored in accounts on the basis of the beneficiary.

The primary carbon market is regulated by Articles 11 to 17 of the Draft Regulation. Allowances are determined annually and tendered. The minimum tender bid size is one lot which corresponds to 500 allowances; one allowance corresponds to one tonne of carbon dioxide and the equivalent in greenhouse gas emissions. The Market Operator will act as the sole seller and market participants will only be able to submit buy-side bids.

The secondary carbon market is regulated under Articles 18 to 25 of the Draft Regulation. In spot carbon markets, contracts are opened for trading by the Market Operator and Market participants may submit buy and/or sell offers. A sell offer up to the sum of allowances in the IKS and allowances purchased in the spot carbon market in the same session is allowed. The minimum size of a buy or sell offer is one lot (where one lot is equal to 1000 allowances).

Transactions in the primary and secondary carbon markets are conducted through the Emissions Trading Market Management System.

The Draft Regulation also regulates financial features of the carbon markets. Article 29 requires market participants to provide collateral to ensure cash flows in the event of a failure to perform their obligations, and to ensure that creditors are secured in the event that market participants fail to make payments on time.

## Launch of the Carbon Market Development Project

The Türkiye Carbon Market Development Project (“**Carbon Market Project**”), which is included in the World Bank’s Implementation Programme and is the first of its type, was officially launched

on 30 April 2024. Its objective is to contribute to the achievement of net zero emissions by 2053 and to the use of carbon markets in line with climate objectives. It also aims to establish a national ETS thereby forming a strong link with the Draft Regulation. With regard to voluntary carbon markets, the Carbon Market Project aims to contribute to the establishment of national carbon crediting and offsetting systems, the acquisition of carbon credits, and creation of a carbon markets strategy. It is anticipated that implementation of the Carbon Market Project will accelerate the Draft Regulation’s entry into force.

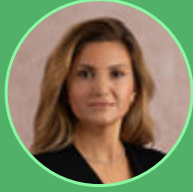
## Conclusion

The finalisation and entry into force of the Draft Regulation and the active operation of carbon markets will be an important tool in Türkiye’s fight against climate change and the reduction of greenhouse gas emissions.

**GenTemizer** is a Turkish law firm based in Istanbul, Türkiye. We advise various businesses in relation to their investments, M&A, competition law/antitrust, project financing and construction projects as well as on operational and dispute resolution matters in the context of the Turkish regulatory framework. We have also advised investors in relation to government sponsored privatisation projects.

We are listed in *Legal 500*, *IFLR1000* and *Chambers and Partners* as one of the leading law firms in Türkiye. Each of our partners have also been recognised as one of the leading lawyers in Türkiye. We understand and can meet the demanding requirements and innovative, responsive thinking required for an investment transaction in Türkiye.

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