



## The Introduction of Türkiye's First Climate Law and National Emissions Trading System

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As the importance of legal and economic instruments in combating the global climate crisis continues to grow, Türkiye enacted its first legislative regulation in this field in 2025. In this article, we examine the background, content, and potential implications for Türkiye of the Climate Law and the draft regulation on the Emissions Trading System.

### Türkiye's Alignment with Emerging Carbon Regulations

The announcement of the European Green Deal in 2019 [1], marked a turning point in climate policy for Türkiye, a country with strong trade ties to the European Union ("EU"). In response, Türkiye placed a comprehensive climate policy, including carbon pricing instruments, on its agenda, aiming both to align with global climate commitments and to safeguard the competitiveness of its export sectors in the EU market.

The declaration issued by the Ministry of Environment, Urbanization and Climate Change ("Ministry") following the 2021 Climate Change Summit was the first step in this respect. [2] This declaration set forth Türkiye's goals to enact a Climate Law and to establish a national Emissions Trading System ("ETS"). Subsequently, the Green Deal Action Plan [3] was prepared. In the same year, Türkiye ratified the Paris Agreement and announced its target of achieving net-zero emissions by 2053. [4]

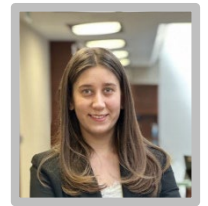
Additionally, within the scope of programs conducted under the World Bank's Partnership for Carbon Market Readiness [5], analyses were carried out identifying ETS as the most suitable carbon pricing mechanism for Türkiye. These analyses also explored how the ETS could be integrated into the Turkish market. Among the regulatory recommendations were the establishment of an independent legal framework for the ETS and the alignment of the carbon market's functioning with that of the energy market.[6]



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As a result of all these preparatory efforts, the Climate Law, initially published in draft form in 2022, was revised twice before being adopted by the Grand National Assembly of Türkiye, and entered into force as of 9 July 2025.

## Climate Law and ETS Draft Regulation

### Key Provisions of the Climate Law

The Climate Law is structured around two main pillars: (i) the reduction of greenhouse gas emissions and (ii) climate adaptation efforts. The monitoring and coordination of these efforts will be conducted by the newly established Climate Change Directorate ("Directorate") affiliated with the Ministry.

The Climate Law establishes a range of planning instruments, such as climate strategies and action plans, provincial-level local coordination boards, and sectoral vulnerability and risk analyses. It also sets out three categories of implementation instruments: financial, technological, and capacity-building. This article focuses on the ETS, which is among the financial instruments.

### Emissions Trading System (ETS)

Under the Climate Law, the ETS, established by the Directorate, operates on the principle of capping total emissions in line with the net-zero target and incentivising reductions through the allocation and trading of allowances. The key components of the ETS are set out in the Draft Regulation on the Turkish Emissions Trading System ("Draft Regulation"), which was released for public consultation on 22 July 2025.

#### Scope of the ETS and Emission Permit Requirement

Facilities engaged in the activities listed in the annex to the Draft Regulation that directly generate greenhouse gas emissions, or in other technically related activities that may affect emissions and pollution, fall within the scope of the ETS if they (i) have annual emissions between 50,000 and 500,000 tonnes of CO<sub>2</sub> (eq.) (Category B), or (ii) exceed 500,000 tonnes of CO<sub>2</sub> (eq.) annually (Category C). Operators of such facilities must obtain an emission permit from the Directorate to carry out or continue activities that produce greenhouse gas emissions. Each permit is valid for five years.

#### Allowance, Delivery Obligation, and the ETS Market

The system operates on a market-based model that sets a cap on total emissions and allocates carbon allowances to facilities within that limit. The ETS market is operated by Enerji Piyasaları İşletme Anonim Şirketi (EPIAŞ – Turkish energy market operator). Allowances are made available in the primary market through auctions conducted via the Transaction Registry System and/or distributed free of charge by the Directorate upon application from eligible operators. Each allowance remains valid from the date of issuance until the end of the relevant implementation period.

Operators covered by the ETS must surrender, annually, allowances equivalent to their verified greenhouse gas emissions, using the Transaction Registry System on a facility-specific basis. Facilities with an allowance deficit, may use additional reserve allowances if they meet certain criteria. In addition, allowance trading may take place on the secondary market, which operates through continuous trading mechanisms.

The ETS will also incorporate market stability and flexibility mechanisms for allowances, including a market stability reserve, banking (carrying over unused allowances to subsequent years within the same implementation period), and borrowing (using future-year allowances within the same implementation period).

## Offsetting and Carbon Credits

Operators covered by the ETS may fulfill their allowance surrender obligations by using carbon credits generated through emission reduction or removal activities, including efforts to enhance carbon sinks. Such credits may only be obtained from projects developed within Türkiye and may not exceed 10% of the total surrender obligation. The Directorate will establish a national carbon crediting and offsetting system, under which projects generating carbon credits will be recorded in a centralised registry. In this context, the Draft Regulation on Carbon Crediting and Offsetting prepared by the Directorate, was released for public consultation on 1 August 2025.

## The Market-Based Operation of the ETS: An Illustrative Example

As also mentioned in the preamble of the Climate Law, the system aims to reduce the economic burden of combating climate change by offering operators lower-cost options through trading, instead of relying solely on costly investments. For example, Companies A and B each have annual greenhouse gas emissions of 100,000 tons of CO<sub>2</sub> equivalent and are allocated 95,000 tons of allowances for the implementation period. Both therefore face a shortfall of 5,000 tons, which they can cover through one of three options: reducing their emissions, purchasing additional allowances from the market, or using a limited amount of carbon credits.

For Company A, the cost of reducing emissions is 10 TRY per ton, while the market price for allowances is 20 TRY. Accordingly, Company A prefers to meet its obligation by reducing emissions and even generating revenue by selling its surplus allowances resulting from a 10,000-ton reduction. In contrast, Company B faces a reduction cost of 30 TRY per ton, making purchasing allowances from the market more economical. However, if market supply is insufficient or prices rise, Company B may meet up to 10% of its obligation using carbon credits from projects developed within Türkiye. This mechanism enables both companies to fulfill their obligations through the most cost-effective and suitable means. [7]

## International Integration and Alignment with the EU Market

The Draft Regulation envisions that the ETS to be established in Türkiye can be integrated with other countries' ETS through mutual recognition and inter-system electronic linkage. This way, emission allowances allocated to an operator in Türkiye could, in the future, also be valid in foreign systems such as the EU ETS. Similarly, allowances obtained from a foreign system could be used within Türkiye. The inter-system electronic linkage will enable cross-border trading of allowances by harmonizing the databases of different carbon markets. Such integration is expected to accelerate Türkiye's incorporation into international carbon pricing mechanisms.

This provision is particularly critical in light of the European Union's Carbon Border Adjustment Mechanism ("CBAM"), which is set to be implemented in 2026 and concerns Türkiye as one of the largest trading partners of the EU. As is known, under CBAM, imported goods are subject to a carbon price equivalent to that applied to similar products produced within the EU market under the EU ETS, thereby ensuring a level playing field in carbon pricing. For this purpose, exporters must obtain CBAM certificates reflecting the carbon content of their exported goods. However, if the exporting country has its own carbon pricing system, payments made under that system are deducted from the CBAM obligations.

By establishing an ETS and implementing carbon pricing, Türkiye aims to retain the carbon costs paid by Turkish exporters within the country, thereby providing both a cost advantage and generating financial resources to support the green transition.

## **Pilot Phase**

The ETS will commence with a pilot phase covering greenhouse gas emissions for 2026 and 2027 from Category B and C facilities conducting specific activities as defined in the Draft Regulation. Operators of these facilities will receive 100% free allowances based on benchmarking, which can only be used to meet obligations during the pilot phase. The pilot period will conclude on 30 April 2029, after which the system will transition into its first implementation phase.

## **Administrative Sanctions**

Facilities that violate ETS regulations may be subject to administrative sanctions imposed by the Directorate. These sanctions include the emission permit revocation, invalidation of allowances, and administrative fines. During the pilot phase, administrative fines will be applied with an 80% discount ratio.

## **Compliance Period**

Operators covered by the ETS must obtain an emission permit from the Directorate within three years at the latest from the entry into force of the Climate Law on 9 July 2025, to continue activities that directly cause greenhouse gas emissions. This period may be extended by up to two years at the Directorate's discretion.

## **Final Remarks**

The ETS aims to reduce the environmental impact in sectors with high greenhouse gas emissions while simultaneously creating a new financial market dynamic. In particular, ETS seeks to integrate with international systems and carbon markets, such as the EU ETS, to provide cost advantages to exporting sectors and to retain carbon costs domestically, thereby generating financial resources for the green transition. While the Draft Regulation sets out the basic implementation principles, many critical details are reserved for secondary legislation to be issued in the future.

The fact that implementation will depend on these secondary regulations means uncertainties regarding the system's impacts will persist for some time. Evaluations of the ETS vary in this context: there are positive views emphasizing the necessity of carbon pricing for sustainability in trade with the EU and its potential to incentivize the private sector's green transition; conversely, criticisms highlight the risk of increased financial burdens on industry, exacerbation of social inequalities, and a move away from nature-based solutions. Therefore, the ultimate effects of the ETS on Türkiye's economy and ecosystem will depend on designing the entire process transparently, predictably, and with due consideration of its social dimensions.