European Economic
and Social Committee

REPORT

Green Economy

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1 Conclusions

1.1 There is a global consensus around the Paris Agreement as the basis to act urgently to address the climate crisis. All parties must act on implementation and reduce their emissions, while steadily setting their economies on track for carbon neutrality. The latest IPCC reports have been extremely clear and consistent in their findings; the bulk of impactful actions will need to be happening in the next decade if we are to have any chance to stabilise global temperature increase in the scenarios outlined in the Paris Agreement and avoid catastrophic developments.

1.2 Turkeys' ratification of the Paris Agreement is most welcome and offers the prospect of co-operation with the EU on implementation with both parties now operating under the same framework. Following ratification Turkey will have the opportunity to develop a governance structure for the long term, based on predictable trajectories and carbon budgeting. This will include an updated ambitious NDC embracing the "ambition ratcheting" principle under the Paris Agreement. This is also an opportunity to work together to develop key data for business and other actors to ensure accessibility, certainty and transparency on this journey.

1.3 The energy sector emerges as the key starting point for a shift towards a green economy and a move to a cleaner energy system creates tremendous opportunities for growth and employment in the sectors impacted but also those relying on electrification to reduce their emissions. A wider global trend for investment in that direction has been confirmed recently by the pledges made at COP26 and it is clear that a shift away from a fossil fuel based economy is in the general interest of humanity. As this is no easy task, the European Union stands prepared to work with its partners and neighbours to ensure this transition happens in a cost-effective manner, leaving no one behind, as the principle of a 'Just Transition' has been a fundamental principle guiding the EU's own difficult journey on this pathway.

1.4. A policy ecosystem aiming to reduce emissions and transform the economy comprises of several policy tools, such as emissions standards, sustainable products standards, targets as well as financial instruments which can help new technologies replace carbon intensive ones; in that sense, a combination of revenues raised from carbon pricing, green finance incentives with clear definitions in line with the latest science available on the emissions intensity of each economic activity, such as green bonds alongside additional safeguards on sustainable investment can be utilised to reach these goals;

1.5. The European Union understands the complexity of the climate challenge requires all global actors to contribute towards the ambitious goals of the Paris Agreement. We welcome the ambitious plans presented by countries around the world and those emerging from COP26 such as the International Methane Pledge. Co-operation with our close neighbours can yield important results in pursuing the transition towards a green economy. While important trade-offs will have to be made, it is clear that collaboration at the regional level can steer positive results and leverage lessons learned towards a more efficient, effective and just transition. We hope this approach can define our future co-operation with Turkey.

2 Recommendations

2.1 The EU and Turkey must jointly embrace the rapid move away from fossil fuels and in particular the rapid phasing out of coal. This is in keeping with movements internationally and by investors, as recently endorsed at COP26 on an unprecedented scale. Mechanisms and support clearly need to be developed for those who are most heavily reliant on carbon intensive economic activities.

2.3 A carbon market utilising an Emissions Trading System provides the greatest benefits for carbon budgeting and has much to recommend itself to Turkey as it begins to implement the Paris Agreement. An ETS emissions cap gives a clear predictable trajectory for businesses and generates critical revenue for climate measures. These would include innovation and the modernisation of existing installations while also assisting the most impacted to adjust. Additionally, by following this route, Turkey would be less impacted by the introduction of the proposed Carbon Border Adjustment Mechanism, due to start its trial phase in 2023.

2.4 The circular economy must be our shared approach to what we consume and how we deal with the waste our consumption generates. We need to move towards the elimination of the concept of waste, by reducing it and recycling as much of it as we can. The EU has developed some good practices in this regard, but we need to ensure all states and regions deal with their own waste and cease importing and exporting it but rather seek to deal with end-of-lifecycle emissions in the most sustainable way possible, especially by implementing strategies to avoid incineration. A Green Economy presupposes changing the linear production model towards a circular one and this will require new eco-design rules as well as recycling current waste.

2.4 Clean transport for business and consumers has huge potential for emissions reductions and for lowering overall pollution in urban areas and needs to be incentivised by subsidies and investment in charging facilities, smarter grids and improved battery storage.

2.5 The move to a climate friendly economy must be seen in our built environment with new buildings not creating more emissions and retrofitting schemes as a priority. Both energy efficiency and carbon efficiency are important principles which can guide public and private investments in this sector.

2.6 A "just transition" must be a guiding principle in implementing the Paris Agreement so the most exposed do not suffer and to ensure public support and action in the move towards a less carbon intensive economy.

2.7 Innovation must be central in meeting the climate challenge particularly in the next 10 years. Some approaches to this are present in the EU and this is an opportunity for public private and academic partnership to be extended to Turkey.

2.8 On green finance clear criteria must be developed looking at the contribution of each economic activity to climate change, following the most up to date science. Robustness and validity of standards is a critical risk management tool when it comes to guiding and securing the long-term viability of investments. There is a real risk that in the absence of honest standards and criteria around what constitutes a green investment or a green bond there will be lock-in and loss of capital.

2.9 The EIB, the EU and Turkey need to work together to enhance the opportunities for green investment and finance in Turkey and on joint initiatives. Additionally, the green bonds initiative and market development the EU is looking to create at the moment could bring benefits for Turkey.

2.10 There must be the utmost transparency in all environmental and climate measures to ensure public trust and provide clarity for all actors to ensure everyone understands what is being done and why. This provides clear trajectories and allows businesses and communities to plan. Data transparency around emissions is a critical tool to enable this dialogue to occur as well as being an important element in supporting investment decisions.

2.11. Prioritising biodiversity protection and environmental system conservation should be understood as the essential life condition to support not just our economy, but our very prospects for survival as a global community profoundly interlinked.

3 Introduction and Background

3.1 The 'Green Economy' concept has evolved significantly over recent years, as climate mitigation is increasingly being understood and approached as a critical risk management strategy for governments around the world, as they seek to implement the ambitious and necessary goals of the Paris Agreement.

3.2 A new understanding of the severity, speed and seriousness of climate change arose from the October 2018 IPCC special report on global warming and its more recent report on 1.5 degrees warming from August 2021. The evolution of the climate change debate around the world, as informed by the latest evidence and analysis from the Intergovernmental Panel on Climate Change reports has transformed the climate question into what is now regarded as an ongoing climate crisis or, alternatively, a climate emergency.

3.3 The European Union's commitment to the implementation of the Paris Agreement through its unequivocal ratification took place in October 2016. The European Parliament declared a climate emergency already in 2019, shortly before endorsing the EU Green Deal 5-year-long priority agenda of the European Commission. The EESC has recognised in its opinions that everyone will have to take extra steps to achieve the set goal of climate neutrality in 2050. In our opinion on the EU Climate law the Committee said an even more ambitious 2030 emission reduction target is needed globally to achieve the 1.5°C target set in the Paris Agreement.

3.4 In November 2019 the EU officially adopted its EU Green Deal Agenda for the future. It included a pledge to increase the emissions reductions target for the next decade and asked that climate change is treated as the real systemic risk that it poses needing a universal response and interlinked policies to fast forward emission cuts.

3.5. The world is already in the midst of a biodiversity crisis which has clear links to climate change. The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) has charted the dramatic picture with around one million animal and plant species are now threatened with extinction, many within decades, more than ever before in human history, however the platform says it is not too late if "transformative change" can be undertaken.

3.6 The European Union has committed reaching net-zero emissions by 2050, with a view to enshrine in law the aim of reaching "carbon neutrality by the second half of the century". This goal was translated into law through the recently adopted EU Climate Law of 2021, the largest legislative instrument to cover nearly a whole continent under a legally binding carbon neutrality target.

3.7 The ratification of the Paris Agreement by Turkey is historic and presents a great opportunity for co-operation. No doubt there will be challenges, including the need for Turkey to update its NDC in the light of the Paris Agreement ratification and setting in law governance elements to support its goals; the EU example in this regard shows that similar issues have been confronted in ways which yield way to green growth principles to be set in motion as well.

3. 8. The numerous coal phase out announcements in the EU, most of which are due to be finalised by 2030 already, have sparked the process of financing a just transition. These ambitious policies will impact on jobs and issues like health and air pollution. However with the climate emergency such choices are absolutely necessary. The EU has created separate programmes for financing a just transition in the regions affected, including by the Coal Regions in Transition platform, the EU Just Transition Fund and even through the Modernisation Fund of the EU ETS which refers to the option of using it to support reskilling across economic sectors.

3.8 Coal has been a significant factor in energy for Turkey in the past and more coal energy plants were planned until the time of the ratification of the Paris Agreement. These plans may be impacted in the light of the latest scientific reports and the international announcements and discussions which took place in the lead up to COP26, including announcements on the withdrawal of financing for new coal projects.

4 The EU Green Deal agenda – the role of Carbon Pricing

4.1 The EU Green Deal seeks to change the paradigm around what a 21st century economy prioritises and which dynamics it sets in motion to remain competitive, innovative and sustainable. At the core of the proposals is carbon pricing. Through the proposal to expand the current EU ETS to new sectors and to introduce a second emissions trading system, nearly 70% of all GHG in the European Union would be covered by a carbon market, while the application of a carbon border adjustment mechanism would extend to many relevant EU imports.

4.2 European Union Emission Trading System

4.2.1 The EU ETS was launched in 2005 as the first international cap and trade system in the world. At the moment the EU ETS covers about 45 % of EU greenhouse gas emissions. This percentage will decrease over the course of the 2020s due to the speed at which the electricity sector is currently decarbonizing as well as the projected speed of this process during the 2020s. With a large majority of countries in the EU announcing plans to phase out coal by 2030, this sector will see significant annual decreases. There are now 65 carbon pricing schemes around the world, covering 45 national jurisdictions and 34 subnational ones.

4.2.2 The current price for allowances under the EU ETS is above 60E/t, a price level which is beginning to impact not just the electricity sector but also the other big sector under the EU ETS, heavy industry. This had been long coming since emission reductions in these sectors have stalled, mostly due to the issuance of free allowances to this sector, which cushioned the installations from the carbon price. The European Union's Court of Auditors published a report in September 2020 concluding that this method of freely allocating allowances was not effective in supporting emitting installations to reduce emissions effectively and cost-efficiently. A strong steer was given by the findings of the report to seek and explore alternative systems which support industry in the ambitious journey to innovate alongside the principles of a net-zero economy.

4.2.3 The latest revision of the EU ETS Directive, adopted in 2018, sets the total quantity of emission allowances for phase 4 (2021-2030), in line with what were the then EU emission reduction target (40 % reduction below 1990 levels by 2030). The objective of the Commission's proposal is to lower the overall emission cap even further and increase its annual rate of reduction. The current proposal looks at combining an increase in the linear reduction factor from the current 2.2% to a 4.2% as well as applying a one-off reduction in the total quantity of allowances in 2026. There will also be a phase out of free emission allowances for aviation.

4.2.5 The stream of revenues that such carbon pricing schemes generate can be recycled back to support investment in large scale demonstration projects for the low-carbon technologies of the future. The EU ETS currently has two core funds which are allocated to support the modernisation of the EU's current existing technologies as well as the demonstration and deployment of innovative research projects: the Modernisation and the Innovation Funds. In addition to these two, the creation of a second ETS will enable the EU to have a Social Climate Fund, meant to support the most vulnerable households and citizens in the face of the increasing costs of the energy transition

4.3 A new carbon market for buildings and transport

4.3.1 A key feature of the EU Green Deal legislative package launched by the European Commission in July 2021 proposes the expansion of carbon pricing to transport and buildings, through the establishment of a separate second ETS. This new system would only start in 2026 and has a higher annual reduction rate than the first ETS (over 5%). A mechanism to protect the most vulnerable households has been built into the system through the Social Climate Fund. These are yet to be approved by the European Parliament and the Council of the European Union.

4.3.2 The creation of a Social Climate Fund from the revenues generated by the new EU ETS on buildings and transport was intended to mitigate the social effects of introducing carbon pricing in the covered sectors. It will also create a system by which front loaded payments are introduced to encourage investments in low carbon technologies. The foreseen overall amount of this fund is currently at a total of 72.2 billion euros, which will be distributed between two periods as follows: 23.7 billion euros from 2025 to 2027 and 48.5 billion euros from 2028 to 2032 (in current prices).

4.3.3 The second stage is subject to availability, depending on the future EU 7-year budget ceilings (2028-2034). The amount that Member States can access has been determined taking into account gross national income (GNI) per capita, population size, the population at risk of poverty living in rural areas, CO2 emissions from fuel combustion by households and the percentage of households at risk of poverty with arrears on utility bills.

4.3.4 This approach, which can be summarised as putting a price on carbon with a view to generating funds for low-carbon technologies and for supporting citizens in the transition is one that the EU is indirectly supporting in partner countries through the introduction of a Carbon Border Adjustment Mechanism.

5 Carbon Border Adjustment Mechanism

5.1 A Carbon Border Adjustment Mechanism (CBAM) has been proposed by the European Commission to start being operational in 2023 under a trial period of 3 years to fully operational by 2026. The CBAM will, cover emissions from some of the highly emitting sectors covered by the EU ETS, in particular electricity, iron and steel, cement, fertilizers and aluminium. This measure stems from the EU's commitment to take full responsibility for the carbon footprint of its consumption originating from imports.

5.2 While a new measure, a clause for the inclusion of imports under the EU ETS has existed inside the system since Phase II of the EU ETS. The CBAM is intended by the European Union as a convergence policy, aiming to bring countries together along the way to jointly deliver the goals of the Paris Agreement. The revenues should be used to support low carbon development in the EU partner countries.

5.3 It is quite clear that while the principle of differentiated responsibilities exists, it is important to ensure that the pathways of different countries work together around the world. We need to ensure that carbon leakage from one area to the other or the development of 'carbon heavens' outside the EU is not created through its climate policies. The EU's development model is steered towards a clean and fair development model through the inclusion of environmental fairness through a CBAM.

5.4 Turkey as one of the countries with the most intense trade with the EU would also be one of the countries where the introduction of a CBAM would be most strongly felt. The CBAM could then be avoided by Turkey through the introduction of similar carbon pricing schemes. These would further enable the country to raise revenues to reinvest in innovation, especially in the energy sector, but also in additional sectors such as those targeted by the CBAM.

6. Innovation funding

6.1 The EU's Innovation Fund is a part of the EU ETS and is funded both from the pot of freely allocated allowances as well as from the auction of allowances. Currently, it is expected to provide around EUR 20 billion of support over 2020-2030, but depending on the carbon price, this amount can decrease or increase further.

6.2 The primary purpose of this fund is to support the commercial demonstration of innovative low-carbon technologies, aiming to bring to the market industrial solutions to decarbonise Europe and support its transition to climate neutrality. By investing in technologies at this stage in the R&D cycle, the fund also contributes to lowering the overall cost for such technologies in the longer run.

6.3 With the legislative package launched in 2021, the Innovation Fund will also contain a Carbon Contracts Difference mechanism, through the Innovation Fund, to support investments which currently are not considered financially viable but which would be so under a higher carbon price scenario.

6.4 An interesting new element of the new proposals is that green hydrogen, as a low carbon technology, can be considered under free allocation under the EU ETS - this is a new approach of using free allocation to support emerging innovation low-carbon solutions to enter the market.

6.5 The Modernisation Fund is a dedicated fund under the EU ETS, financed by auctioning allowances from the current EU ETS. The current directive foresees auctioning 2% of the total amount of allowances for the period 2021-2030 and allocating the revenue only to member states with a GDP that is 60% below the EU average. The criteria for allocating projects which qualify for the fund has been decided upon together with the European Investment Bank.

6.6 As it stands, none of the fund can go towards activities which would in any way enhance the economic outlook of a power plant operating solid fossil fuels. Some of the fund can be used to support reskilling in both ETS sectors as well as non-ETS sectors (such as automotive).

6.7 The current ETS revision proposal is to increase the Modernisation Fund from 2026 by auctioning an additional 2.5% of the total amount of allowances between 2026 and 2030 and allocate that revenue to member states with a GDP that is 65% below the EU average.

7 Ensuring a Just Transition

7.1 The Just Transition Fund (JTF) represents a major instrument to contribute to the ambitious target of carbon neutrality by 2050, and is a core pillar of the EU Green Deal. Given previous concerns expressed by several stakeholders, including the European Economic and Social Committee, that the investment envisaged for the just transition does not live up to the European Commission's ambitions, additional resources have been mobilised. The Committee recommended more precise specifications of the JTF financial framework.

8 The Climate Action Regulation implementing the Paris Agreement (CARPA)

8.1 The Commission proposal for a revision of the other carbon budget in the EU, known previously as the Effort Sharing Regulation was published on 14 July 2021, as part of the EU Green Deal package. The Regulation (EU) 2018/842 (Climate Action Regulation implementing the Paris Agreement) establishes annual, binding greenhouse gas emissions targets from 2020 to 2030 for each Member State for sectors not covered in the EU emissions trading system (ETS).

8.2 These sectors have traditionally included buildings, agriculture, waste management, small industry and transport, and account for around 55% of EU emissions. In light of the higher overall target for 2030, the national targets, which are assigned following a calculation based on GDP/capita as compared to the EU average have needed to be increased to deliver an overall additional 10% increase in the overall target. Countries with the lowest previous targets (Romania and Bulgaria) have had the highest increases in their nationally attributed targets.

8.3 The principles for attributing the relative effort to each Member State remain the same as before, i.e. by setting national targets based on GDP per capita, with adjustments made to take national circumstances and cost efficiency into account. The CARPA would continue to cover the road transport and building sectors, in parallel with their inclusion in a new emissions trading scheme.

8.4 The Commission also proposes a new voluntary reserve, the additional reserve, to help Member States reaching their individual targets, allowing them to use non-used net removals generated in the period 2026-2030, subject to the condition that the Union 55% emission reduction target is reached in 2030, as required by the European Climate Law.

9 Transport

9.1 The transport sector is responsible for nearly a third of the EU's total GHG emissions as well as for much of the air pollution present in European cities which affect the life quality of its citizens. The EU Green Deal has therefore prioritised revisions with regards to emissions from road transport and maritime sector, while also introducing legislative initiatives meant to advance innovation in transport sectors, such as aviation.

9.2 In regard to road transport, as part of the EU Green Deal package introduced in the summer, the EU has introduced a phase out date for the sale of new cars and vans that generate carbon emissions in 2035. This signals the end of the internal combustion engine in its current design. In addition standards such as grams of carbon per kilometre will be strengthened until 2030, for example those for vans currently at 147 g/KM will be reduced by 50% by 2030, and will have to be cut to 0 by 2035

9.3 With regards to maritime transport, the European Commission has proposed extending the EU ETS to cover emissions from this sector, with a phase-in period from 2023 until 2026. As it stands trips inside the EU would be fully covered and those with only one leg in the EU would be covered in proportion of 50% although the details of the final agreement are still to be agreed. A new initiative called Maritime EU has been introduced to support innovation in this sector and some of the revenues raised will be linked to the Innovation Fund, meaning that projects in this sector could be eligible to receive R&D funding through this scheme.

10 A Circular Economy

10.1 Under the Green Deal a new Circular Economy Action Plan presents new initiatives along the entire life cycle of products in order to modernise and transform our economy while protecting the environment. It is driven by the ambition to make sustainable products that last and to enable our citizens to take full part in the circular economy and benefit from the positive change that it brings about.

10.2 Measures that will be introduced under the new action plan aim to, make sustainable products the norm in the EU, empower consumers and public buyers, focus on the sectors that use most resources and where the potential for circularity is high. These include; electronics and ICT, batteries and vehicles, packaging, plastics, textiles, construction and buildings, food, water and nutrients. The aim is to ensure less waste, make circularity work for people, regions and cities, and lead global efforts on circular economy.

10.3 One important way through which the EU hopes to achieve its goals with regards to the Circular Economy Action plan is by utilizing standards. Therefore, it is updating the EcoDesign Regulation from 2019 through the introduction of a Sustainable Products Standards initiative, which will revise standards and eliminate the presence of harmful chemicals in relevant products.

10.4 In July 2021, the European Union has also introduced a ban on single use plastics, with a view to minimizing the plastic litter that ends up in the marine environments in a percentage of more than 80%.

10.5 Turkey faces a number of challenges in this area and has had to ban plastic waste imports particularly from the UK recently. It also seems to be the case that such a ban does not apply to all plastics according to campaigners. Recycling rates remain quite low in Turkey so this appears to be an obvious area for co-operation

11 Additional Green Finance

11.1 The level of economic change needed to meet our climate targets requires huge financial investment particularly to ensure that the process benefits all parts of society and supports the citizens and regions most exposed to the costs of decarbonisation. To guide the investment and capital to the most sustainable options across the various economic sectors a sustainable taxonomy (list) is being developed, with the help of a dedicated platform of experts working over several years on this categorisation exercise.

11.2 In July 2020, a regulation defining the key objectives driving the sustainable taxonomy was published, these are,

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosystems

11.3 In order to determine the contribution of each economic activity to meeting the objectives above and establish a common language based on objective criteria, the European Commission, together with a platform of expert and delegated staff from the Member States has been developing technical screening criteria, some of which have already been agreed upon through delegated acts.

11.4 The European Green Deal Investment Plan, also known as the Sustainable Europe Investment Plan, aims to contribute to financing a sustainable transition, while supporting the regions and communities most exposed to its impact. By combining legislative and non-legislative initiatives, the plan addresses three aspects;

1. mobilising funding worth at least €1 trillion from the EU budget and other public and private sources over the next decade
2. putting sustainability at the heart of investment decisions across all sectors; and
3. providing support to public administrations and project promoters to create a robust pipeline of sustainable projects.

11.5 The investment plan published in January 2020, which complements other initiatives expected under the European Green Deal, aims to make available and leverage the funding necessary for the transition up to 2030, by seeking to put sustainability at the heart of investment and expenditure both in the public and private sectors. Like the European Green Deal itself, its investment plan is based on a mix of legislative and non-legislative initiatives.

11.6 It is also envisaged that The European Investment Bank will become central to green finance in the EU and beyond. It first outlined its plans late last year, as it committed to stop financing fossil fuel projects by 2021. MEPs voted to approve the broader roadmaps through to 2025 and 2030, which are designed to ensure that the body becomes the bloc's 'Climate Bank'.

11.7 According to the EIB, the Bank is on track to aligning its existing financing activities with the Paris Agreement by the end of 2020. The new roadmap will ensure that this alignment continues in the coming years.

11.8 It commits the bank to spending €1trn on projects with a specific climate or biodiversity aim by 2030 and to allocating funding through a "do no harm" principle. Sectors set to receive additional funding include renewable energy generation, flexible electricity infrastructure, electric vehicles, nature conservation and restoration and energy efficiency. On the latter, the EU's 'green renovation wave' plans target retrofits in 35 million buildings within a decade.

11.9 The EIB will not be able to allocate any funding to new or existing oil, coal or gas under the plan, as of 2022. It will also ban funding for airport expansions – both in terms of new airports, and of adding new capacity at existing airports. Over the last three years, €4 billion was invested in airports by the EIB.

11.10 Relevant EIB projects in the past in Turkey would include a new glass fibre production facility at Balikesir equipped with new technology, resulting in a more efficient and effective glass fibre production with an improved environmental footprint through less energy intensive and reduced emissions and the construction of three wind-power plants (Uluborlu, Kizilcaterzi and Karova) for a total capacity of 106MW.

11.11 The European Commission has recently invited all interested parties to comment on the proposed revision of the 2014 Guidelines on State aid for environmental protection and energy ("Energy and Environmental State aid guidelines" or "EEAG"). To cater for the increased importance of climate protection, the revised guidelines will go under the name of Climate, Energy and Environmental State aid guidelines ("CEEAG"). The proposed Guidelines also include compatibility rules for flagship areas like clean mobility infrastructure and biodiversity, as well as resource efficiency to support the transition towards a circular economy.