

EXECUTIVE SUMMARY

In December 2019, the European Commission published the European Green Deal (EGD), which aims to make Europe climate neutral by 2050 and to make the EU economy sustainable by decoupling economic growth from resource use. A comprehensive policy design was envisaged at the EGD, in addition to sectoral approaches, such as construction, agriculture and energy. Strategies that support sectoral goals are presented in different policy areas, such as the zero-pollution action plan, the biodiversity strategy, and climate. While the EGD positions sustainable development goals at the heart of its policy design and action process, the main motivation of its economic policies is sustainability and the well-being of the population.

This transformation will begin in Europe, however, it is impossible for Europe to achieve these goals alone. An important channel that ensures the implementation of this transformation on an international platform is the Carbon Border Adjustment Mechanism (CBAM), which is one of the tools of the Climate Action Plan and is scheduled to be implemented no later than 2023. This mechanism aims to reduce the risk of carbon leakage resulting from shifting EU production to countries with looser climate standards, especially in the Energy Intensive Trade Open (EITO) sectors. The existence of carbon leakage contradicts the overall purpose of the EGD, as well as the objectives of the Paris Agreement. Although the details of this new mechanism and which sectors it will cover are not yet clear, it is considered likely that the CBAM will be in the form of an international expansion of the Emissions Trading System (ETS), one of the EU's main tools for combating climate change.

Within this arrangement, it is the exporters who operate mainly in the carbon-intensive sectors that are expected to be affected most through the cost channel.

In addition to the CBAM, the impact of the EGD on the Turkish economy is expected to be realized through the circular economy. The Circular Economy Action Plan presented within the scope of the EGD aims to produce climate neutral and circular products, and the sustainable product policy, part of the implementation of the Circular Economy Action Plan, aims to plan the circular design of all products produced, especially those in resource-intensive sectors such as textiles, construction, plastics and electronics (European Commission, 2020a). Being an important strategy within the scope of resource efficiency, the circular economy aims to reduce the use of raw materials and energy to control waste formation and to minimize energy loss.

The EU is Turkey's largest export market and import provider, accounting for 42 percent and 32 percent of its exports and imports in 2019, respectively. Given Turkey's strong international ties with Europe, it is important for Turkish businesses to be aware of the policies that will be implemented by Europe within the scope of the EGD. In this transformation, small and medium-sized enterprises (SMEs) that account for half of the total turnover and 72.4 percent of employment in Turkey play an important role. In addition, 37 percent of Turkey's exports originates come from SMEs (TURKSTAT, 2020b).

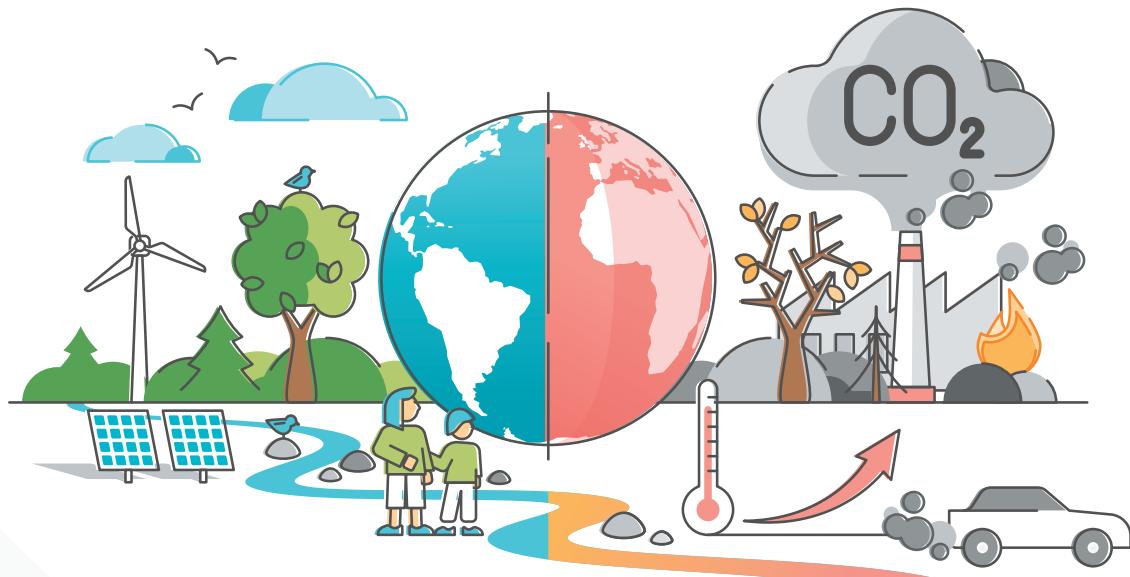
Since the EGD is considered to be an important part of the strategies implemented within the scope of the United Nations Agenda 2030 and sustainable development goals, this transformation is also considered to be the catalyst for "green growth", which

aims to harmonize economic growth with environmental factors. Green growth is defined by the United Nations Environment Programme (UNEP) as a growth model that will offer businesses new opportunities, promote social equality and social well-being, and also aim to reduce environmental risks and ecological shortages.² From this perspective, SMEs play an important role in limiting environmental impacts when the expected transformation is designed as a growth strategy that is compatible with climate goals and which supports Turkey's economic development and growth. In particular, within the Circular Economy Action Plan, which forms an important part of the change that begins with the EGD, SMEs have the potential to be the catalyst for this transformation by adopting the necessary practices in the transition to a low-carbon economy. In addition to these roles, SMEs hold the position of being the driving force in creating both employment and added value by taking advantage of the opportunities offered by the green transformation thanks to their innovative capacities and motivations.

TÜRKONFED, which brought up the concept of the "Middle Income Trap" in 2012, underlined the need to move forward with high technology, high productivity and high value-added production and exports within the scope of its exit strategy away from this trap. In this context, it is important that the EGD is considered an opportunity rather than an obstacle for developing countries. Due to their large share of total production and employment, SMEs play a key role in this change. For this reason, it is important that the EGD is established as a growth strategy and that the necessary policies are designed in line with a final goal aiming for high technology, high productivity and high value-added considering the current vulnerabilities of the SMEs.

The main findings of the study are summarized below:

- » Turkey recorded the highest greenhouse gas increase among all of the OECD countries for the period covering 2010-2018. However, while the capacity increase in renewable energy production is positive, there is no significant increase in the share of renewable energy in the total energy supply in parallel with the increase of total energy needs.



² After the concept of green growth emerged as the main theme at the 2012 Rio + 20 Conference on Sustainable Development, it is often presented as a solution to problems related to climate change (Hickel and Kallis, 2019).

Looking forward, as part of the climate battle, it is important to reduce coals' share in the composition of the energy supply and to end the practice of fossil fuel incentives, which are still utilized in many EU countries.

» When we look at air pollution indicators, it can be seen that, in particular, the mean population exposure to particulate matter (PM2.5) is well above the OECD average and the calculated welfare cost for these deaths is high. In terms of municipal waste management, Turkey is well below the OECD average. Urban waste storage areas, which are no longer in practice in many European countries, are widely used in Turkey and approximately 90 percent of urban waste is disposed of through landfill.

» Resource efficiency aims to use resources in a sustainable way by minimizing their effects on the environment and by producing more output with less input. In Turkey, total domestic material consumption increased by 8 percent in 2011-2017, while in OECD countries a declining trend (7 percent) was seen during the same period. Material efficiency, defined as gross domestic product per domestic material consumption, was recorded as being below the OECD average during the period 2011-2017. On the other hand, its growth rate has been positive during this time, implying an improvement.

» The share of environmental taxes in GDP is above the OECD average, however, the impact of these taxes on the performance of existing environmental indicators is limited.

» Taxes to be exposed with the CBAM may be an important cost element in the coming period, especially for large-scale companies. In parallel to lower exports to sales ratios (in comparison to large companies) prevailing in SMEs the cost impact, which is expected to occur with CBAM, may be limited.

» Research and development (R&D) expenditures related to the environment have a small share in total R&D expenditures compared to other OECD countries. This situation is an obstacle to eco-innovation.

» The effects of CBAM were evaluated in two dimensions: 1) EU export density calculated on a sectoral and scale basis (EU exports/total turnover); 2) The tax rate implied by ETS calculated at the sectoral level. As a result:

- For micro and small businesses, the effects of CBAM are limited due to their low export density to the EU.

- CBAM is likely to influence procurement decisions across the value chains of manufacturers operating on a large and medium scale. As a result, micro and small businesses that are suppliers of larger companies are likely to be affected indirectly by the CBAM.

- In the early stages of CBAM, medium and large enterprises operating in the basic metal sector are considered "relatively risky". It is expected that, under the projection that CBAM will cover all sectors when it matures, medium sized companies in agriculture, mining, and food sectors as well as large scale companies operating in coke and agriculture sectors will be also affected.

» The opportunities that SMEs face during the transition to the green economy are listed as a cost advantage gained through resource efficiency, opportunities to access new markets, and eco-innovation. According to the Flash Eurobarometer Survey (2018)

- 12 percent of Turkish SMEs consider resource efficiency actions to be a factor that "significantly" reduces the cost of production, and 32 percent consider it a factor that partially reduces the cost of production.

- The proportion of SMEs selling green products in Turkey is well below the EU average and ranks last among the countries in the sample.
 - Turkish SMEs need financial incentives and consultancy within the scope of creating and expanding the range of green products and services.
- » The most important obstacles that SMEs face in the transition to the green economy are uncertainty (demand, return, regulation), lack of financial resources, lack of awareness, and lack of a skilled workforce.
- It was observed that 40 percent of Turkish SMEs made no investments in improving resource efficiency, while 29 percent devoted less than 5 percent of their turnover to resource efficiency.
 - The percentage of SMEs that say that the resource efficiency actions have “increased significantly” their production costs is well above that of other EU countries. This situation demonstrates the need for SME guidance on the positive effects of resource efficiency on production costs.
 - Complexity of administrative or legal procedures, the cost of environmental actions on resource efficiency, lack of environmental expertise, lack of demand, and lack of knowledge regarding choosing the right resource efficiency actions are the most common challenges faced by SMEs.
- » Although Turkey has signed the Paris Agreement, it has not ratified it due to uncertainty regarding its status. On the other hand, although Turkey is not a party to the Paris Agreement, it has submitted its “Intended Nationally Determined Contribution” (INDC) declaration to the United Nations Framework

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Convention on Climate Change (UNFCCC) Secretariat in 2015 as a reduction from an increase of up to 21 percent. Turkey's INDC has been categorized as “critically inadequate”, as it is not compatible with keeping warming below 2°C (Climate Action Tracker, 2018). This poses a risk to Turkey's access to climate finance resources in the coming period.

» Targets for SMEs and green growth are presented in environmental policy documents; however, it can be observed that the policies for their implementation in SMEs are more limited. Small and Medium Enterprises Development Organization (KOSGEB) is the main implementation body, but progress must be made in coordinating related activities within the scope of green growth. Incentives and regulations that accelerate this process are as important as the policies planned for the transition of SMEs to the green economy. Considering the current vulnerabilities of SMEs, it is necessary to adapt to this process with a complementary approach to climate, environment, and employment policies.