

# BETWEEN CHALLENGES AND OPPORTUNITIES: THE IMPACTS OF THE EU CBAM IN TÜRKIYE

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## Executive Summary

Since January 1, 2026, the European Union (EU) has levied a carbon price on imports of selected products to the EU known as the Carbon Border Adjustment Mechanism (CBAM). Despite initial concerns from Turkish producers, the effects of the EU CBAM on the Turkish economy are limited and could even benefit Türkiye's steel and manufacturing exporters. Furthermore, the EU CBAM has triggered a notable increase in Türkiye's climate ambitions, which culminated with the adoption of a Climate Law in 2025 and the planned rollout of a Turkish Emissions Trading System (ETS). Nonetheless, the EU CBAM and the future Turkish ETS raise legitimate concerns for the workers in upstream, emissions-intensive sectors affected by decarbonization. This policy brief leverages a New Quantitative Trade Model combined with household-level consumption and occupational data to quantify these effects and formulate policy recommendations. We show that the negative economic consequences of the EU CBAM can be dampened by accelerating the decarbonization of Türkiye's industry and by increasing the mobility of workers to cleaner sectors. The introduction of a Turkish ETS will generate fiscal revenues, which can be used to compensate the workers most affected by the climate policy.



## Introduction

As part of an initiative to strengthen its climate policies, in 2026, the European Union (EU) started requiring emissions certificates on the imports of basic materials. This so-called Carbon Border Adjustment Mechanism (CBAM) primarily aims at leveling the playing field in the EU market by extending the EU carbon price to foreign exporters to the EU market.<sup>1</sup> Therefore, even before its implementation, the EU CBAM attracted significant attention from the EU's trade partners, which raised concerns about the possible negative effects on their economies. These concerns were particularly strong in Türkiye, since the EU is the largest export market for Turkish firms.<sup>2</sup> In response, the Turkish government ratified the Paris Agreements in 2021<sup>3</sup> and adopted its first climate law in 2025, which establishes a national Turkish Emission Trading System (ETS).<sup>4</sup>

This policy brief discusses the impacts of the EU CBAM and the future Turkish ETS on the Turkish economy and provides policy recommendations to reduce their distributional impacts. The analysis in this study exploits a New Quantitative Trade model that simulates the evolution of production prices, wages, and trade flows in a multi-sector, multi-country General Equilibrium setting.<sup>5</sup> This model evaluates how industries in different sectors and consumers across the globe will adapt their production, consumption, and trade patterns in response to the adoption of the EU CBAM and the future Turkish ETS. Given that impacts on households are a major concern when implementing climate policies,<sup>6</sup> we further combine the changes in price and wages from this model with household-level consumption and occupational data<sup>7</sup> to elucidate how these policies affect Turkish households across income level and occupational sector.

The first section discusses the key channels through which the EU CBAM will impact the Turkish economy and evaluates the expected impacts on firms and households. The second section discusses the implementation of the future Turkish ETS in response to the EU CBAM. The third and final section discusses the broader implications of the EU CBAM for Türkiye's climate strategy.

## The Impact of the EU CBAM on the Turkish Economy

With a 41% export share, the EU is Türkiye's largest trade partner.<sup>8</sup> The EU CBAM has thus given rise to intense public and political discourse in Türkiye. While early assessments evaluated that the EU CBAM would impose substantial economic burdens on Türkiye,<sup>9</sup> we find that the negative impacts of the EU CBAM on Türkiye are modest in size and concentrated in a few energy-intensive sectors.

### THE IMPACT OF THE EU CBAM ON TURKISH FIRMS

The EU CBAM will impact Türkiye through direct and indirect channels. The most direct effect will be the carbon price adjustment on Turkish exports of iron and steel, aluminum, fertilizers, electricity, cement, and hydrogen to the EU. This direct exposure channel has attracted most of the early attention on the CBAM in Türkiye, in particular in the steel sector, since Türkiye was the largest steel exporter to the EU in 2024. However, it is crucial to remember that the EU CBAM will be phased in as a substitute to the free emissions allowances currently granted to emissions-intensive sectors in the EU ETS. Practically speaking, this means that the carbon price that Turkish steel exporters

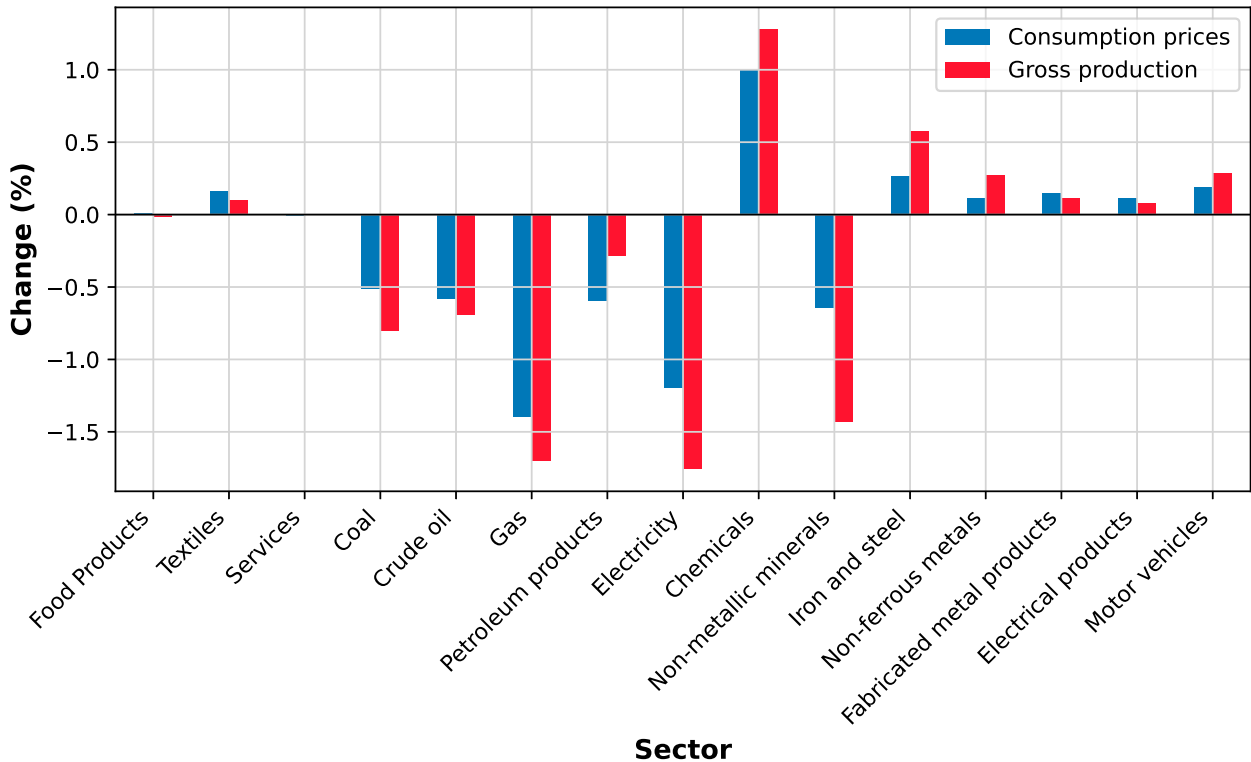


will face on the EU market will also apply to all other steel producers competing in the EU market. The producers that will benefit from the EU CBAM will be those with lower emissions intensities, no matter if they are located in the EU, in Türkiye, or in any other country exporting to the EU.<sup>10</sup>

In our quantitative analysis, we find that Turkish firms producing iron and steel effectively benefit from the implementation of the EU CBAM in the short term (see Figure 1): Turkish steel exports

are characterized by the large share of recycled steel, which emits substantially fewer emissions than other production routes.<sup>11</sup> This implies that, in the short run, the EU CBAM will increase the competitiveness of Turkish producers in the EU market. Still, because the EU CBAM will strongly favor producers of recycled steel, it is expected that the pressure on the scrap steel market—the principal input for recycled steel—will increase globally.

**Figure 1** – Impact of the EU CBAM on the consumption price and total output of a selection of sectors in the Turkish economy. The results are shown assuming no labor mobility.





The other sectors directly covered by the EU CBAM (non-metallic minerals, chemicals, and non-ferrous metals) face impacts that differ significantly across industries. We find an increase in the output for the chemicals sector, driven by relative competitiveness gains in the EU, Turkish, and global markets. On the contrary, we find moderate losses in the non-metallic minerals sector due to the reduced demand for emissions-intensive products in the EU. We also find relatively large indirect effects driven by changes in energy prices. The EU CBAM will extend the scope of the EU ETS and accelerate the decarbonization of the EU's economy. This will reduce the EU's demand of fossil fuels and the global price of oil, gas, and coal. In turn, the Turkish economy will benefit from slightly lower energy prices (−0.5% for petroleum products, −1% for electricity prices). Our model also exhibits slight gains in Turkish manufacturing sectors (fabricated metal products, electrical products, motor vehicles). These are related to the reduction of the EU's competitiveness because of the increased energy and emissions-intensive input prices.

This analysis highlights that the impacts of the EU CBAM are small, ranging from a 1.7% reduction in gas and electricity prices and a 1.3% increase in iron and steel production, and heterogeneous across sectors. The sectors in which Türkiye's producers are relatively cleaner than their competitors—such as iron and steel—benefit from the EU CBAM, while emissions-intensive energy sectors are negatively affected. By making Turkish exports more competitive on the EU market, supporting the decarbonization of the sectors covered by the EU CBAM appears as a first policy recommendation to respond effectively to the EU CBAM.

## DISTRIBUTIONAL EFFECTS OF THE EU CBAM

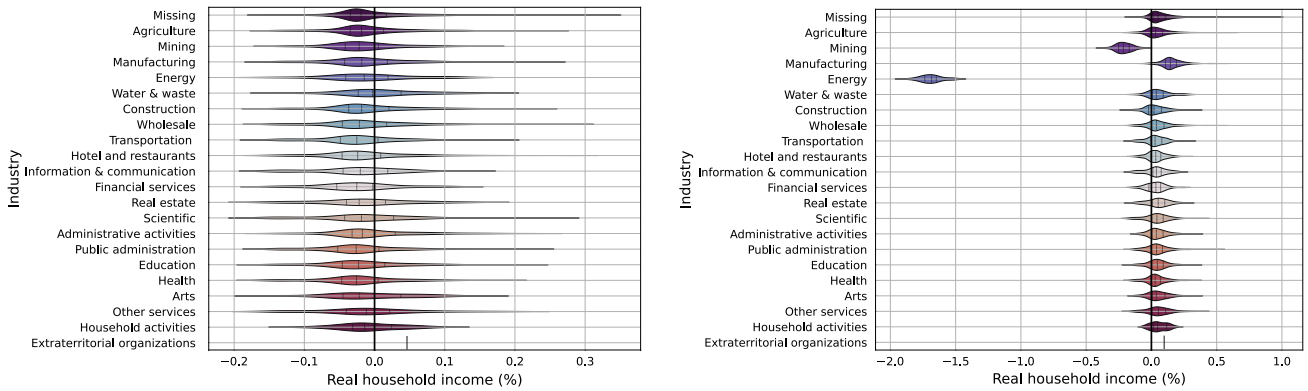
The EU CBAM affects households through two channels. First, the EU CBAM can impact the average income of households working in CBAM-exposed sectors such as steel or energy. Second, the EU CBAM affects consumption prices in Türkiye itself, with the effects at the household level depending on individual consumption patterns. Together, the income and price effects drive real income changes at the household level. In line with aggregate findings, the EU CBAM will only have a modest impact on Turkish households. Nevertheless, a closer look at the distributional impacts reveals substantial differences across industry sectors, where the effects are primarily concentrated in the upstream and emissions-intensive sectors of the Turkish economy.

## INCOME-DRIVEN EFFECTS OF THE EU CBAM

Figure 2 depicts the distributional effects on the real income of Turkish households for different labor mobility scenarios across industry sectors. The left panel illustrates the effects for a scenario in which full labor mobility is assumed between sectors, while the right panel shows the outcomes in which no sectoral labor mobility is assumed. The distinction between different labor mobility scenarios follows the idea that labor relocation between industry sectors serves as a key adaptation mechanism to cope with the negative economic shocks induced by the EU CBAM. However, switching jobs across sectors may be difficult in the short term due to mobility constraints and skill mismatches.



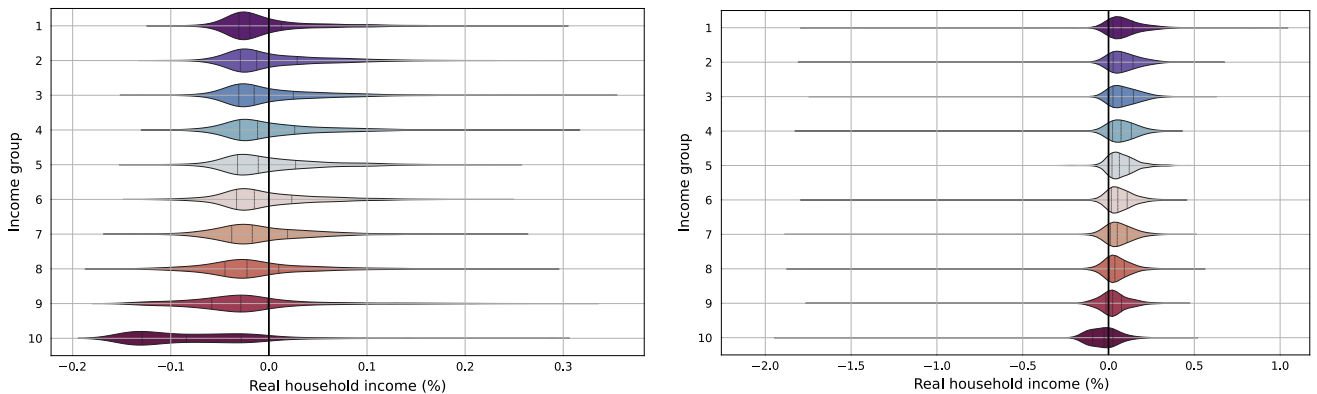
**Figure 2 –** Distributional effects of the EU CBAM by industry with sectoral labor mobility (left panel) and without sectoral labor mobility (right panel).



With full labor mobility (Figure 2, left panel), there are no substantial differences in real income losses between industries, and the average real income effects are negligible and close to zero. This is not surprising, given that these results would assume that workers affected by the EU CBAM move to other industries in order to dampen adverse impacts. The more salient case poses the scenario without labor mobility (Figure 2, right panel), where real income losses of households are concentrated in the energy and mining

sector with real income losses of almost 2%. This effect is primarily driven by the nominal income effect, whereas price changes can only partially offset the negative income loss. Interestingly, the EU CBAM provides new economic opportunities to the Turkish economy as can be seen by the small positive impact on the manufacturing sector. The reason is that the EU CBAM will coincide with an increase in effective EU ETS coverage, which will generally reduce the competitiveness of EU manufacturers.<sup>12</sup>

**Figure 3 –** Distributional effects of the EU CBAM by income with sectoral labor mobility (left panel) and without sectoral labor mobility (right panel).





The previous paragraph has highlighted sector-specific income effects as the main determinant in the variation in the distributional effects in the short term. However, due to concerns about public acceptability, policymakers often worry that policies may disproportionately burden poorer households. Figure 3 alleviates these concerns by showing the real income effects across income groups: the first income group represents here the poorest 10% of households, and the 10<sup>th</sup> income group represents the richest 10% of households. The results indicate that there are no substantial differences between income groups in the absence of labor mobility (Figure 3, right panel) as the distributional effects are mainly driven by the income losses in the energy sector, which are equally represented across income groups. With labor mobility (Figure 3, left panel), where distributional effects are purely driven by changes in consumption prices, richer households are affected more strongly due to the higher carbon intensity of their household consumption. Note, however, that with average income losses of about 0.05%, the overall effect is close to zero.

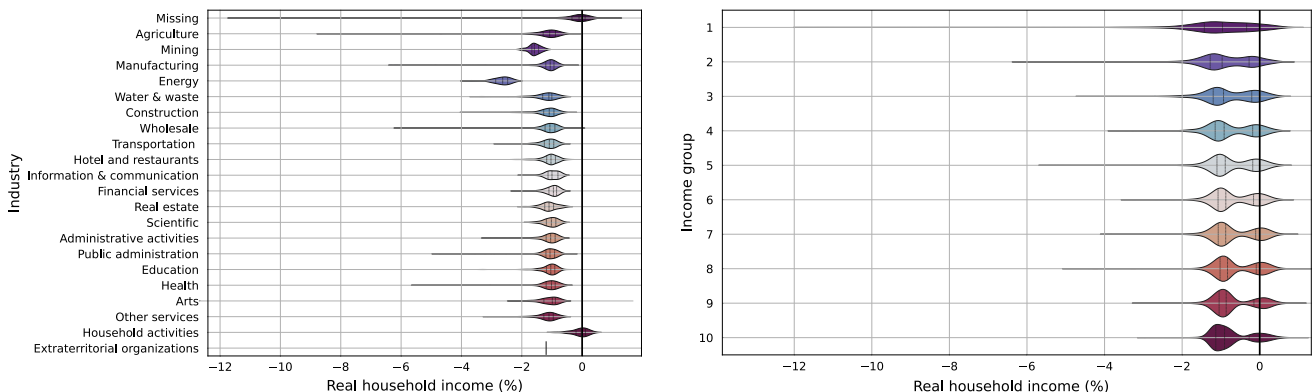
From a policy perspective, the results above offer two key insights. First, while the EU CBAM leads to concentrated negative impacts on the Turkish

energy sector, the CBAM also leads to marginal gains downstream in manufacturing sectors. Second, labor mobility is the driving force in shaping the distributional effects of the EU CBAM. To mitigate these impacts, the Turkish government should consider support policies for labor market transitions. In addition, the implementation of a Turkish ETS will simultaneously dampen the effects of the EU CBAM and generate a fiscal revenue that can be used to manage the distributional impacts of the climate policy.

### Turkish Response to the EU CBAM: Revenue Recycling Is Key

Although the EU CBAM lowers the costs of implementing a Turkish ETS due to a proportional reduction in the carbon border tariff, Figure 4 shows that absent any revenue recycling (i.e., any use of the ETS fiscal revenue), a Turkish ETS will impose higher costs on households, since not only exports to the EU but also all domestic industrial emissions will be taxed. A Turkish ETS reduces the real household income for all households irrespective of sectoral employment due to an increase in consumption prices (Figure 4, left

**Figure 4 –** Distributional effects of the Turkish ETS and EU CBAM by industry (left panel) and income (right panel). The results are shown absent of labor mobility and fiscal revenue recycling.





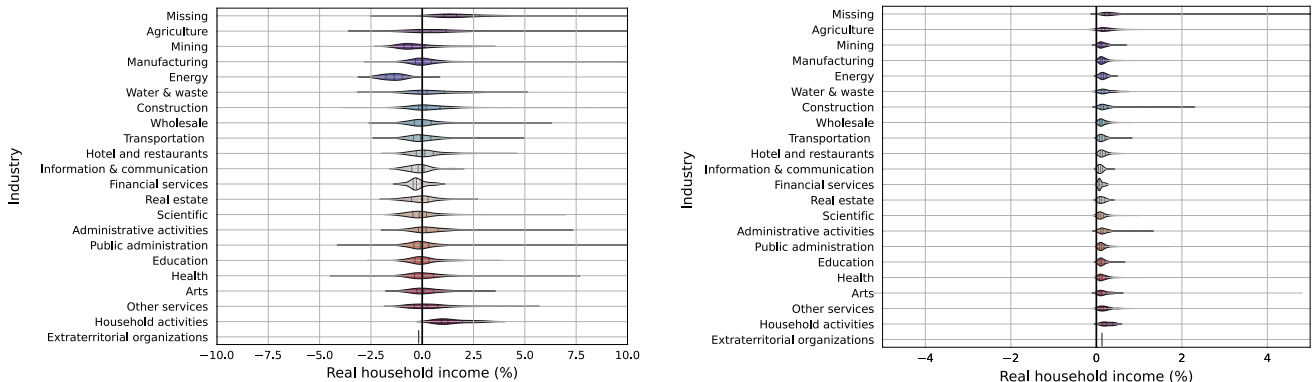
panel). Households in the manufacturing, mining, and energy sectors are most affected, because the decarbonization of the Turkish economy entails the reduction of the output of emissions-intensive sectors. In all other sectors, real income losses are more moderate. Looking at the real income losses along the income distribution (Figure 4, right panel), a weak regressive tendency is observed, where low-income households are slightly more affected.

While the Turkish ETS induces real-income losses for Turkish households based on embedded carbon emissions in domestic consumption, its key advantage lies in the fiscal space it generates for the government. By creating a complementary revenue stream, the Turkish ETS enables the design of targeted transfer schemes that mitigate adverse economic impacts on vulnerable households. The cushioning of these effects may be paramount for enhancing the credibility and public acceptability of Türkiye’s climate targets.

Figure 5 shows the real income changes of a Turkish ETS when accounting for different fiscal revenue recycling options. The left panel of Figure 5 illustrates the real income effects on

households assuming the Turkish government redistributes the revenues from the Turkish ETS in a lump-sum fashion (i.e., on an equal per capita basis). When comparing the results with those in Figure 4, it becomes evident that lump-sum transfers can partially offset the real income losses induced by a Turkish ETS. In particular, households with relatively cleaner consumption patterns are remunerated in a way that their real income is increasing (due to the relatively lower tax burden). Nevertheless, in the presence of lump-sum transfers, there is still a substantial share of households that face real income losses. The right panel of Figure 5, in turn, showcases a scenario where the Turkish government would recycle revenues in a two-step procedure. In the first step, the government compensates each household in a way that real income changes are fully offset. In other words, households with larger income losses receive higher transfers. In the second step, the government redistributes all remaining revenues in a lump-sum fashion. This two-step procedure of targeted transfers ensures that all Turkish households benefit economically from the climate policy, as can be seen in the right panel of Figure 5.

**Figure 5 –** Distributional effects of the Turkish ETS and EU CBAM by industry with lump-sum transfers (left panel) and with pareto optimal transfers (right panel). The results are shown absent of labor mobility.





Our analysis highlights the importance of the fiscal revenue of the Turkish ETS. Here, we estimate that the use of the ETS fiscal revenue to finance targeted transfers could do more than compensate the cost of the Turkish climate policy and generate economic gains for all households. However, individually targeted transfers are difficult to implement in reality as the government would require full information on income losses and consumption spending of every household in Türkiye and come with potentially high administrative costs that we overlook in this analysis. In addition, the use of fiscal revenue to compensate households competes with other uses for this fiscal revenue, such as support for industrial decarbonization or innovation, which could bring longer-term economic gains. In that regard, Turkish policymakers should carefully balance the use of the ETS fiscal revenue between providing support for the most affected households and for the decarbonization of the economy.

## A Wake-Up Call for the Turkish Climate Strategy

Despite limited impacts on the economy and households, the announcement of the EU CBAM triggered a renewed debate about Türkiye's climate strategy. Türkiye ratified the Paris Agreement in 2021, only a few months after the EU Commission announced its intention to implement the EU CBAM.<sup>13</sup> Since then, the Turkish commitment to climate mitigation has gained traction: the first Turkish climate law passed in the parliament in 2025 with plans for the implementation of a pilot ETS in 2026.<sup>14</sup> Additionally, Türkiye will host the 31<sup>st</sup> Conference of the Parties (COP) in autumn 2026.

An uninformed reading of this situation is to interpret the Turkish interest in climate policies as an opportunistic trade response to the EU CBAM. However, our analysis shows that, based on pure efficiency considerations, the EU CBAM does not provide a strong case for the implementation of the Turkish ETS. We expect the EU CBAM to have a marginal, mostly indirect effect on the Turkish economy. Still, given the central role of equity and distributional concerns, we show that the Turkish ETS can provide the government with valuable revenue-recycling leverage to shape the country's energy transition in a just and sustainable way.

The momentum of climate policies in Türkiye should also be evaluated in light of the broader international context. The EU CBAM is triggering a renewed interest in carbon pricing at the global level: beyond Türkiye, many other countries have expressed their intentions to implement or reinforce climate policies in response to the EU CBAM, notably in Brazil, India, South Korea, and Taiwan.<sup>15</sup> The adoption of an ETS in Türkiye might further reinforce this international movement toward market-based climate policies.<sup>16</sup> Furthermore, at a time of weakening multilateral institutions, the commitment to climate policies is a marker of willingness to engage in international cooperation. In that context, the increasing focus on the climate agenda strengthens the position of Türkiye as an essential player in international negotiations—whether it is for stabilizing the Middle East, hosting peace negotiations between Russia and Ukraine, or safeguarding international climate mitigation. However, the recent rise in Türkiye's climate ambitions will only be credible if it is followed by effective actions.



## Conclusion

In our analysis, we have highlighted that the EU CBAM brings challenges and opportunities to Türkiye. While some sectors in Türkiye are already relatively cleaner than their competitors and will benefit from the EU CBAM, upstream energy sectors and their employees will sustain losses. Policies that support the decarbonization of Turkish industries while enabling the transition of the workforce toward cleaner sectors of the economy are needed to increase the gains and reduce the losses caused by the EU CBAM. The introduction of the Turkish ETS will generate significant resources to face these challenges: its fiscal revenue can not only compensate the losers of the new climate policy, but it can also be used to support the decarbonization of the Turkish economy. The successful implementation of the Turkish ETS would also signal Türkiye's commitment to multilateral cooperation to trade and diplomatic partners.

Finally, Türkiye could also complement its ETS by implementing a Turkish CBAM. In addition to generating more fiscal revenues to support Turkish climate policies and level the playing field on the Turkish market, a Turkish CBAM would make climate policies more attractive to other countries in the region.<sup>17</sup> Such regional diffusion of carbon pricing would secure a market for green production beyond the Turkish and EU markets and strengthen economic integration with other countries committed to carbon pricing.

## Notes

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