

Draft Regulation on Emissions Trading System Released for Public Consultation

A) Introduction

The Climate Law No. 7552 (“**Law**”), published in the Official Gazette on July 9, 2025 and entering into force on the same date, serves as Turkey’s first comprehensive framework law providing a legal basis for national policies and strategies in the fight against climate change. The Law places the Emissions Trading System (“**ETS**”) at the core as a market-based instrument to support the achievement of the net-zero emission target.

While the Law sets out key provisions regarding the the ETS, which is defined as a “*national and/or international market-based mechanism that based on the principle of setting an upper limit on greenhouse gas emissions in line with the net-zero emission target and promotes the reduction of greenhouse gas emissions through the buying and selling of allowances,*” secondary legislation is expected to establish further procedures and principles for its implementation, including the businesses covered by the ETS, implementation timelines, allocation methodologies, compliance requirements, and the offsetting mechanism.

In this context, the Draft Regulation on the Turkish Emissions Trading System (“**Draft Regulation**”) was published for public consultation on the website of the Directorate of Climate Change (“**Directorate**”) on July 22, 2024. Stakeholders may submit their feedback on the Draft Regulation until August 4, 2024.

The Draft Regulation consolidates the provisions of the currently applicable Regulation on the Monitoring of Greenhouse Gas Emissions into a single legal framework. In addition, it introduces rules concerning monitoring, reporting, verification, and the operation of the market.

The Draft Regulation can be accessed [here](#).

B) Scope of the ETS

The Draft Regulation brings within the scope of the ETS facilities with greenhouse gas emissions exceeding a certain threshold and requires such facilities to obtain a greenhouse gas emission permit in order to continue their operations. The facilities subject to this obligation are categorized as follows:

- (a) Category B Facilities: Facilities with annual emissions, conservatively calculated based on installed capacity, exceeding 50,000 tons of CO₂ equivalent and up to 500,000 tons of CO₂ equivalent. This calculation excludes CO₂ from biomass but includes transferred CO₂.
- (b) Category C Facilities: Facilities with annual emissions, conservatively calculated based on installed capacity, exceeding 500,000 tons of CO₂ equivalent. This calculation also excludes CO₂ from biomass but includes transferred CO₂.

However, institutions, units, headquarters, or facilities affiliated with schools, universities, hospitals, and Defence Industry Organizations are excluded from the scope of the ETS, limited to the activities they perform.

C) Greenhouse Gas Emission Permit

Businesses falling within the scope of the ETS are required to obtain a greenhouse gas emission permit from the Directorate in order to carry out activities that result in greenhouse gas emissions. This permit serves as an administrative authorization confirming that the facility may continue its operations in compliance with the obligations set forth under the ETS.

The greenhouse gas emission permit will be valid for five years from the effective date. In this context, businesses must apply for the

renewal of their greenhouse gas emission permit at least six months before the expiration date of the permit and obtain a new permit before the end of the five-year period. Additionally, according to the Law, businesses that will be included within the scope of the ETS must obtain a greenhouse gas emission permit within three years from the effective date of the Law. This three-year period may be extended by up to two years, if deemed necessary, through a decision by the Carbon Market Board.

The business is required to notify the Directorate of any activities, changes in the nature or operation of the facility, "category" changes, and changes in the permit holder that may lead to an update of the greenhouse gas emission permit during its validity period. This is particularly important in structural transactions such as company mergers, splits, and asset transfers, where it is necessary to assess the status of the greenhouse gas emission permit before these transactions take place.

On the other hand, a greenhouse gas emission permit will be revoked upon the occurrence of any of the following circumstances:

- (a) The submission of intentionally false, misleading, or inaccurate information, documents, or statements is detected,
- (b) The cancellation of the facility's business operating license or its loss of effect in any other way.
- (c) The cessation of the facility's operations, even if it had previously been operating, or the technical impossibility of resuming its operations
- (d) Failure to fulfil the allocation delivery obligation pursuant to Article 14, paragraph 4, subparagraph (ç) of the Law.

However, businesses that are included within the scope of the ETS but later fall outside the

scope during the validity period of their greenhouse gas emission permit may request the cancellation of their greenhouse gas emissions. Cancellation requests within this scope will be reviewed by the Directorate within 30 days, and those deemed appropriate will have their greenhouse gas emission permits revoked.

D) Allocations and Flexibility Mechanisms

According to the definition in the Law, "allocation" refers to a transferable, fungible and electronically issued right to emit greenhouse gases equivalent to one ton of carbon dioxide for a specified period of time.

The issuance of these allocations, their market offering, and the distribution procedures and principles are regulated in the Draft Regulation. Accordingly, allocations within the ETS cap are issued in the Transaction Registration System ("**TRS**"). The issued allocations are offered to the market in the primary market and/or for free through the TRS. The implementation processes regarding the market offering of the allocations will be determined by the Energy Market Regulatory Authority via regulations.

Applications for free allocation must be submitted electronically to the Directorate within fifteen business days from the publication date of the National Allocation Plan. Free allocation applications will be reviewed by the Directorate within fifteen business days, and businesses will make the necessary corrections within five business days for applications requiring amendments. Free allocations for installations with approved applications will be transferred to the operation accounts of the installations on a site-specific basis through the TRS, in accordance with the regulations to be issued by the Energy Market Regulatory Authority. The allocations are valid from the date they are issued in the TRS until the end of the relevant application period.

Facilities subject to the ETS are required to surrender allowances equivalent to their

verified greenhouse gas emissions by the end of November each year, via the Turkish Registry System (TRS).

The Draft Regulation defines the markets in which allocation-related transactions are conducted as primary and secondary markets. Primary markets are those where allocations are distributed to market participants through auctioning, while secondary markets refer to platforms where allocations are traded following their initial distribution or sale in the primary market.

Accordingly, allocations will be offered for sale in the primary market in line with the auction schedule set and conducted by the Directorate. Market participants may also engage in the purchase and sale of allocations in secondary markets, which operate through continuous trading methods.

The Draft Regulation provides that a market stability mechanism will be established to maintain price stability. As part of this mechanism, a Market Stability Reserve will be activated based on an assessment of both the volume of allocations in circulation and prevailing allocation prices. To support this mechanism, a portion of the allocations scheduled for sale in the primary market during a given period may be withheld and transferred to the Market Stability Reserve, as determined by the Directorate.

In addition, to support market stability and provide sectors with flexibility in times of crisis, the Draft Regulation introduces mechanisms such as banking—allowing the use of allocations in subsequent years within the same application period—and borrowing—permitting the use of allocations intended for future years within the current compliance year.

E) Carbon Credit and Offsetting

The Draft Regulation defines a carbon credit as *a credit obtained as a result of the validation of greenhouse gas reduction or removal activities by independent organizations, verification, and*

certification by a standard-setting body, expressed in terms of one ton of carbon dioxide equivalent.

According to the Draft Regulation, carbon credits obtained from projects carried out within the borders of the Republic of Turkey can be used to fulfil only up to 10% of the allocation delivery obligation of the facilities under the ETS. The use of carbon credits will be governed by the regulations to be issued by the Directorate.

F) Integration with Other Emission Trading Systems

The Draft Regulation provides the basis for establishing agreements that enable the mutual recognition of allocations between the Turkish ETS and other emissions trading systems. It also allows for the creation of electronic connections between systems to facilitate cross-border allocation trading.

G) Monitoring, Reporting, and Verification of Greenhouse Gas Emissions

Activities subject to the monitoring, reporting, and verification of greenhouse gas emissions, as well as greenhouse gas emissions, are listed in Appendix-1 of the Draft Regulation under the heading “Activity Categories.” Accordingly, businesses engaged in any activity listed in Appendix-1 are also included in the scope of the Draft Regulation for other activities listed in Appendix-1, regardless of capacity. Facilities operating below the threshold values specified for the activities listed in Appendix-1 may be included in the scope of the Draft Regulation upon request.

Monitoring Greenhouse Gas Emissions:

Greenhouse gas emissions will be monitored within the framework of the principles outlined in Appendix-6 titled “Greenhouse Gas Emission Monitoring and Reporting Principles” of the Draft Regulation. Businesses will prepare a greenhouse gas emission monitoring plan and monitor their emissions in accordance with this

plan and the procedures and principles determined by the Directorate. The business must submit the monitoring plan to the Directorate for approval at least 6 months before the start date of the greenhouse gas emissions monitoring.

Reporting of Greenhouse Gas Emissions:

Businesses conducting activities listed in Appendix-1 of the Draft Regulation must submit a report to the Directorate by April 30th each year, detailing the monitored greenhouse gas emissions and activity levels for the previous year (from January 1st to December 31st), in accordance with the principles outlined in Appendix-6 and the monitoring plan approved by the Directorate. The Directorate may extend this period by up to one month if deemed necessary.

Verification of Greenhouse Gas Emissions:

Greenhouse gas emissions from businesses conducting activities listed in Appendix-1 of the Draft Regulation must be verified before being submitted to the Directorate. This verification will be carried out by independent verification organizations appointed by Central Electronic Certification Authority Assignment System (“MEDAS”).

Verification organizations will carry out their activities in accordance with the principles set out in Appendix-7 of the Draft Regulation and the procedures and principles to be published by the Directorate, with a focus on public interest and independently from both the business and the Directorate.

The business will use laboratories accredited according to the relevant standards to carry out analyses and analytical methods for

determining the calculation factors.

H) Pilot Phase

The implementation period envisaged under the Draft Regulation will commence with a pilot

phase, covering greenhouse gas emissions for the years 2026 and 2027.

Following the pilot phase, the first official implementation period will begin with emissions for the year 2028 and continue through to emissions for the year 2035.

The specific procedures and principles governing both the pilot and implementation periods will be set out in separate regulations to be issued by the Directorate.

I) Administrative Sanctions

The Draft Regulation sets out detailed administrative sanctions for non-compliance with its obligations, including administrative fines ranging from TRY 500,000 to TRY 10,000,000.

In addition to monetary penalties, non-compliant facilities may also be subject to sanctions such as operational restrictions, temporary suspension, or revocation of their emission permits.

J) Conclusion

The Draft Regulation lays down the fundamental framework for implementing the Emissions Trading System as set out under the Climate Law and introduces detailed provisions governing related obligations.

Once finalized, the Draft Regulation is expected to support the effective implementation of the system.

For further information or assistance, please feel free to contact us.



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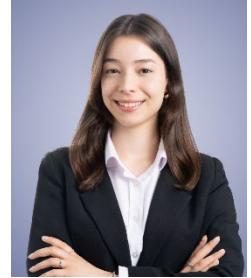
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