PARTNERSHIP FOR MARKET READINESS (PMR)
Fifth Meeting of the Partnership Assembly (PA5)
Washington, DC, March 11-13, 2013

Feedback on draft Market Readiness Proposals (MRPs): Turkey
Summary Compiled by the PMR Secretariat

Background

Turkey submitted a draft Market Readiness Proposal (MRP) to the PMR Secretariat in February 2013 and presented it for consideration to the Partnership Assembly (PA) at PA5 in March, 2013 in Washington, DC.

Resolution PA2/2011-3 endorsed a process for providing feedback on MRPs. It consists of two parts: (i) feedback from PMR Experts; and (ii) feedback from PMR Participants.

A PMR Expert Group that included Ms. Bahar Ubay Güçlüsoy (Turkey), Mr. Jürg Füssler (Switzerland), and Mr. Felix Matthiss (Germany) provided feedback on Turkey’s draft MRP, as did the PMR Secretariat and the World Bank, acting as the Delivery Partner. A compilation of the feedback was provided to Turkey on January 25, 2013. This document was used as a foundation for discussion during the expert in-country visit with Turkey’s PMR Focal Point, the Ministry of Environment and Urbanization (MoEU), which took place January 28-30, 2013.

Turkey incorporated the feedback on its draft MRP and submitted a revised version on February 25, 2013, which was circulated to all PMR Participants. Ms. Ayse Yasemin Örüçü, Senior Engineer, Ministry of Energy and Natural Resources, presented the draft MRP at PA5 in order to seek feedback from Participants and to allow all PMR Participants to view a complete proposal prior to the submission of the final version. Subsequently, Participants were invited to submit written feedback on the draft MRP.

This note contains two parts: Part A includes a summary of the feedback and comments made during Turkey’s MRP presentation at PA5 and Part B includes written comments on the MRP that were submitted by Participants following PA5. Comments in Part B are recorded in this summary as they were submitted, without further summarization. The secretariat received written feedback on Turkey’s MRP from the European Commission, United Kingdom, and Denmark.

Action

Turkey is invited to take into account the feedback included in this summary as it finalizes its MRP. It is important to note that while some of the feedback is applicable for finalizing the MRP other issues will be more relevant to the Implementation Phase.

A final MRP should be submitted to the PMR Secretariat 3 weeks prior to the PA meeting during which the Implementing Country Participant seeks a PA decision on the allocation of Implementation Funding.
Key Objectives from Turkey’s MRP:

In addition to providing an overview of climate change mitigation activities in Turkey and low carbon development policy objectives, the MRP provides (i) a detailed description of Turkey’s MRV framework regulation for facilities within the industrial and energy sectors, as well as additional MRV requirements to fulfill the data needs of an emissions trading system (ETS), and (ii) a comprehensive assessment of options to establish market based instruments, including a gap analysis of market readiness components and modeling needs.

PART A – Feedback and clarifications made during PA5

General Feedback
- The Partnership Assembly (PA) congratulated Turkey for producing a strong draft MRP that addresses key issues in establishing market based instruments. It was impressed by the development of an MRV regulation and Turkey’s work to begin implementing the emissions accounting and reporting rules and procedures. The PA also acknowledged the considerable progress Turkey has made since presenting its Organizing Framework.

Specific feedback

Executive Summary
- The PA recommended that Turkey include an Executive Summary in its MRP.

Distribution of PMR funding
- Multiple participants asked that Turkey distinguish between activities it plans to carry-out because of existing policies, initiatives, and activities that it is undertaking because of its work with the PMR. The MRP should clarify how PMR funds will be used to support programs that are additional to what Turkey expects to do anyway, especially with regards to implementing its MRV legislation.

Other sources of funding
- Participants noted that it would be helpful if the MRP can clearly describe the other sources of funding that are being made available to Turkey to conduct similar work or work that is synergetic to that of the MRP. The MRP should make clear which sources of funding are expected to cover which activities.

MRV regulation
- There was agreement that the section on Turkey’s MRV regulation was useful. Questions were raised requesting clarification on the following items:
  - What is the expectation for alignment with the MRV program for the EU-ETS?
  - What is the threshold for participation in the program?
  - Is the government communicating with companies that will be affected by the regulation and informing them of their obligations, i.e., developing monitoring plans?
  - What are the companies’ reactions to the MRV regulation?
  - What are the consequences for non-compliance?
  - How is Turkey’s MRV work under the PMR additional to what the country would have already undertaken in order to fulfill its legislative mandate?
ETS
- Participants stated that Turkey’s accession into the EU will require it to participate in the EU-ETS. Therefore, does Turkey plan to consider developing a domestic ETS prior to 2019 in preparation for EU accession?
- Page 21 of the draft MRP states: “The NCCAP and the ESP both proposed planned activities for the establishment of a carbon market mechanism(s)” – what are these “planned activities”?

Market based instruments other than an ETS
- Although the MRP briefly mentions NAMAs, it does not discuss how they fit into its overall plan. Questions were asked about whether Turkey expects to develop NAMAs. Generally, what market based instruments, other than an ETS, is Turkey considering? What would be the timing on these market-based instruments?

Ministry of Environment and Urbanization
- While Turkey’s main focal point to the PMR is the MoEU, this ministry was not represented at the meeting in Washington, DC. The MoEU is encouraged to join PA6 in Barcelona, Spain.

Voluntary ETS
- Participants requested more information about voluntary carbon market activities in Turkey. For example, it would be helpful to have more information on why buyers participate in the voluntary market.

Competitiveness
- How will Turkey address the concern of “competitiveness” raised by stakeholders?

Tax policy
- Participants asked if Turkey has evaluated the interaction between tax policy and market based instruments. For example, are there opportunities to develop taxes in a systematic fashion to increase efficiency?

Turkey’s clarifications
- Turkey responded to several items brought up during the Q&A period after its presentation. With regards to the distribution of PMR funding, Turkey is committed to avoiding “double financing” and will apply PMR funds in a manner additional to what it and other funding organizations will finance. To questions about the applicability of the MRV regulation, the threshold for the electricity sector is 20MW; for industry, the threshold depends on the capacity of the installation (the thresholds were chosen based on consultation with industry). The quality of monitoring data is an issue and training is needed for installation operators. To the point of enforcement, fines will be increased in forthcoming amendments to the Environmental Law.

Regarding the development of a domestic ETS and other, non-ETS market-based instruments, studies are being conducted now to assess ETS implementation considerations; 2019 is the target year for complete alignment with the EU. Turkey will continue with cost-benefit analyses to decide on the most appropriate market based instrument, including the possibility of joining the EU-ETS. As for NAMAs, Turkey is considering all possible options for market mechanisms, including conducting studies to assess costs and benefits, evaluating potential impacts, reviewing institutional capacity, and other matters.

Feedback on Turkey’s draft Market Readiness Proposal

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Lastly, with respect to the participation of the Ministry of Environment and Urbanization, it is the responsible agency to implement the activities in Turkey’s MRP, but because of organizational restructuring, representatives from the MoEU could not be present at this meeting (PA5 in Washington, DC). However, the MoEU is the focal point to the PMR, leading the work, and will join the PA in Barcelona for PA6.
**PART B – Written feedback on Turkey’s draft Market Readiness Proposal submitted by PMR Participants**

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<th>Feedback on Turkey’s draft Market Readiness Proposal</th>
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| European Commission | We welcome the work that has gone into preparing the draft MRP by the team responsible and to seek consensus across government. We are keen to see their good work continue. We thank the team present in Washington for the good presentation of the draft PMR. We very much hope that ministry/institution coordinating the work will also be able to attend the next PA meeting in Barcelona to take part fully in the exchange of experience which is one of the major benefits of participation in the PMR.  
We welcome work to begin the infrastructure development for establishing a domestic emissions trading system in Turkey. This is essential for Turkey because of the need to prepare for accession to the EU but also to drive down energy costs and promote new jobs and green growth in clean technology sectors, which will be important for Turkey's longer term prosperity.  
It would seem consistent with Turkey's aspiration to join the EU to move to cap and trade. Many would also argue that doing so sooner rather than later is important in terms of the signal needed to companies to invest now in low carbon solutions to avoid lock in to more polluting solutions which will increase Turkey's future carbon liability and increase future abatement costs. Turkey's neighbours in the EU will be moving ahead in this area gaining a competitive advantage.  
It is useful therefore that the MRP indicates that Turkey will transpose the EU ETS Directive by 2019. However, the MRP indicates that various market based mechanisms are under consideration and that a decision on implementation of market mechanisms will be taken by the end of 2016. The MRP could be clearer with more detailed exploration of the pathway to market based instruments. While the MRP mentions work towards EU accession in later sections, it would help to mention this upfront in Building Block 1 as part of the scene setting.  
Further discussion of which sectors will be covered by work in coming years and beyond would be helpful and the more clarity as to which sectors could be covered by different market mechanism the better. Overlapping coverage is likely to lead to confusion, to double counting and problems with access to international markets and linking in the future.  
We welcome the good work already taking place under the 2012 MRV regulation which will produce an ETS-ready MRV system, covering the same sectors, large point source emitters and adopting the same procedures and standards as for the EU ETS. The MRP needs to be clear that this work will not be duplicated instead focusing on how this will be built upon. A logical step would be to allow companies to reap the benefits from this data reporting and verification and the benefits come from engaging in carbon markets or trading.  
The PMR provides opportunities to make use of the lead in time to prepare for smoother launch of a carbon market or emissions trading system in Turkey, anticipating problems, identifying solutions, triggering practical capacity building and allowing companies to experiment with and learn about trading. In Europe, certain sectors undertook emissions trading simulations to prepare themselves for expected new legislation; others undertook |
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<td>company-wide pilots. Others in the PMR are undertaking local or regional pilots which are all important learning opportunities ahead of final decisions on implementation. Of course, having more clarity on the pathway and timing issues will help in assessing the level of financial support for Turkey’s MRP. In Cologne in 2012, it was decided (under article D) that higher levels of funding will require clear milestones and end goal, and quicker time schedules for piloting and implementation. We are very keen to see Turkey participate fully in the PMR process and to benefit from the opportunities it offers for testing and innovation of market measures for cost-effective mitigation. We urge you to develop the MRP further in terms of the planned work, timelines for the different actions and the relationship with work funded under other initiatives/ from other sources.</td>
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<td>United Kingdom</td>
<td>The UK is concerned regarding the current scope of work detailed in Turkey’s MRP and the extent to which it currently meets the minimum criteria set to receive PMR implementation funding. While Turkey’s draft MRP does an excellent job detailing the current initiatives already underway, it is less clear what components of work they are proposing which are new and additional. To improve Turkey’s draft MRP the UK suggests that Turkey more clearly delineate: what market mechanism they will support with PMR funding; what work must be undertaken to build support for this mechanism; how that work will be additional to domestic programmes already under development; and where PMR implementation funding will be directed/a breakdown proposed spending showing how funds will be allocated to accomplish this work. One approach the UK would suggest is that Turkey restructure the material they present in BB-3 so that it says less about what is already happening or has happened in Turkey on these key components for market-based mechanisms in general, but rather state upfront the mechanism/goal of the work Turkey will undertake with PMR support and then go on to provide a narrative that describes the components of work that Turkey will undertake with PMR funding to accomplish this. Page 19 states that PMR support will help Turkey achieve objectives under its NCCAP. These include: the development of the NAMA portfolio and the establishment of legal, technical and institutional arrangements for a national ETS. The UK would encourage Turkey to strength their MRP by focusing building capacity efforts on the implementation of crediting NAMAs, based on the pledges they made under the UNFCCC covering sectors including: energy; transport; industry; waste; and buildings, which would also set the ground running to implement a national ETS in the future. By focusing on NAMA development with a view to scale up NAMA crediting to an ETS, this would incorporate a phased approach to market development and meet the criteria on the implementation of a market mechanism. Regarding the UK’s concerns over the additionality of the work proposed by Turkey in their draft MRP, as a majority of the work being proposed on MRV has already been regulated, additional endeavours proposed in the draft MRP appear to be domestic requirements already and not clearly in need of PMR support to move forward; for instance the work discussed for the MRV Regulation Implementation Team, which focuses on MRV...</td>
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<td>implementation for sectors already covered by legislation, as presented on pages 74 and 75. Were PMR funds to contribute to work which expands MRV coverage to other sectors there would be a clearer case for using PMR implementation funds for this type of activity.</td>
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**Denmark**

Overall comment: Turkey is encouraged to provide information in the MRP what carbon market readiness activities are financed by other donors, especially in connection with EU accession, and what activities and a timeline for what activities Turkey will seek financing for under the PMR.

The MRP states that the National Climate Change Action Plan NCCAP doesn’t set any clear target for establishment of market based instruments for capping and trading of emissions nor identify potential pilot sectors, but there is a planned carbon market activity under the energy efficiency plan EESP, and financial center strategy (but without addressing demand for carbon products – could you please explain more clearly...) (pp.19-20).

GHG emission monitoring regulation (2012) is a welcome step (pp. 19-20).

There is a palette of non-market instruments like taxation under NCCAP – consideration of interaction with future ETS is not clear (p.21).

Sectoral strategy paper for electricity calls for an increased utilization of domestic fossil fuels – cap and trade of energy sector based on emissions contradicts this policy. Turkey is encouraged to provide more information on how to address these opposite goals? (p. 24 table 4, 29).

Data management and registry aspects seem to be lacking information. How to fix this? – for linking EC will want much more detail on registry plans, env. Integrity as well as financial security issues etc. Perhaps a more detailed reference to learning from EU ETS, harmonization with international systems etc. (they do mention it but very briefly) (linkage is mentioned several places, but the only reference to EU ETS is under section 4.2 on page 43).

Establishment of MRV systems discussed, but institutional anchoring should be outlined more clearly in the MRP.

It would be useful to include a section in the MRP that deals with supply/demand aspects.