



Identifying Turkey's Sectoral Priorities : A Proposed Approach

Amit Bando
Expert on Carbon Markets
Ankara, Turkey
23 March 2010
ambando@gmail.com



Capacity Building for Climate Change Management in Turkey Project



Agenda

- Carbon Market Trends Linked to Turkey's Sectoral Priorities
- Turkey's Sectoral Plans Suggest Project Priorities
- Carbon Project Development Needs “Enabling Environment”



Carbon Market Trends Need to be Linked to Turkey's Sectoral Priorities

- Electricity, Energy Market and Supply Security Strategy Document (May, 2009) includes 500 mini hydro-electric projects planned as part of its focus on using renewable energy sources
 - Strategy document aims to increase proportion of hydro-resources in the energy mix
 - Take full advantage of the nation's hydro-capacity of 130 billion kWh

- Sector plan could benefit by leveraging resources through, among other things
 - Defining energy products for the carbon market
 - Capital Market Board is anticipating clarity on this issue before establishing a new trading exchange
 - Modifying the energy policy to include carbon finance as a policy instrument
 - Tie the instrument to a renewable energy master plan



Carbon Market Trends Need to be Linked to Turkey's Sectoral Priorities (continued)

- Turkish government's *Country Partnership Strategy* developed with The World Bank
 - 77% of CO₂ emissions originate from the power-generation sector -- the Strategy is encouraging in its emphasis on the energy sector
 - Focuses on using a Clean Technology Fund to promote energy efficiency and clean technology initiatives

- Coordinated effort to harmonize energy and environmental initiatives should generate a steady flow of projects for the VCMs.
 - Build on chemical and steel industry initiatives to promote industrial energy efficiency through changes in motors and improvements in end-use efficiencies
 - The Clean Technology Fund does not consider the “carbon value” of projects -- this could be corrected to enhance flow of projects into VCMs



Carbon Market Trends Need to be Linked to Turkey's Sectoral Priorities (continued)

- National Afforestation Plan (2008-2012) allows for annual investments of US\$ 700 million on protection and rehabilitation of forest cover in Turkey
 - Turkey's forest cover is increasing over time
- Many MoEF (Directorate of Forestry) initiatives could be turned into carbon projects under the evolving REDD program in the post-2012 era
 - Among other options, MoEF could use a Build Own Operate (BOO) structure to “outsource” process of PDD development, monitoring and carbon management to private sector entities



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Turkey's Sectoral Plans Suggest Project Priorities

- Focus on *renewable energy development*
 - Use international standards to develop high quality VERs
 - Leverage current knowledge in private sector
 - Focus on grid-connected and non-grid connected projects
 - Renewable energy certificates (RECs) could be generated

- Focus on *methane reduction* projects
 - Livestock, landfill and coal mine projects should be the priority
 - Methane's global warming potential is very high and project carbon credits are easy to develop and monitor
 - Projects are viewed favorably -- global demand is high



Turkey's Sectoral Plans Suggest Project Priorities

- Focus on *biological carbon sequestration* projects
 - Continue to be among the most traded credit type on the market
 - With its vast forest sector, Turkey should be at the forefront of generating carbon credits in this sector
 - May be valued more highly on the OTC market for their bundled social and environmental co-benefits

- However, forest-based projects are also controversial
 - Issues such as permanence, leakage, investment risks, and accounting questions, have plagued this category of projects in VCMs
 - One explanation for their decreased market share in the OTC VCMs

- Over the next several years, the VCMs will likely become testing ground for REDD
 - Turkey is well positioned to take full advantage of this situation



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Establish an “enabling environment”

- Conduct a needs assessment to identify gaps in command-and-control regime
- Develop and strengthen standards, permit process, monitoring protocols and enforcement mechanisms
- Develop and harmonize laws, implementing regulations and institutional support
- Develop baseline data, starting with priority sectors
- Determine evaluation protocols and guidelines



Establish an “Enabling Environment” - Address Gaps in Command-and-Control Regime

- Create a positive legislative and regulatory environment - in the near term, new regulations and implementing guidelines could be put in place to:
 - Guarantee project developers ownership of the carbon rights
 - Link VERs to CERs to ensure that the two asset classes are fungible
 - Establish a reasonable time-line for the country-approval process that includes a process for timely review of sector-specific issues
- Legislation should emphasize that, without carbon financing, the nation stands to lose significant international investment flows into priority sectors



Establish an “Enabling Environment” - Address Gaps in Investment Regime and Harmonize Laws

- Develop economic and financial incentives - Clean Technology Fund could work with the Capital Market Board, Board of Investment and Chambers of Commerce to facilitate investor participation in carbon projects
- Financial assistance that the government could give to projects include:
 - Tax incentives for projects
 - Low interest loans for project development
 - Direct grants for project development
- Overseas investors could be targeted
 - Encourage FDI and government-to-government investment in carbon projects
 - Encourage multinational companies to invest in carbon projects in sectors where they have a large presence as part of their GHG portfolios
 - Provide project development technical assistance



Establish an “Enabling Environment” - Build on the Momentum Generated by the Private Sector

- Experience gained through active private sector participation in the VCMs could be used to jump-start the national carbon market strategy
- In the near term, the government could
 - Develop sector-based feed-in tariffs for renewable energy projects
 - Provide a framework for “business-as-usual” scenarios for key sectors
 - Standardize emissions factors for key processes
 - Adopt the public-private-partnership (PPP) approach to some type of project development
 - Establish a national registry to record carbon projects developed in Turkey
 - Promote awareness and increase outreach to publicize carbon assets



Turkey may not want to wait for the Global Carbon Markets to mature further

- Prepare for the future
 - Active market participation by the private sector is a reality -- facilitate it
 - Average value of Turkey's VERs is low -- increase it
 - Opportunity to benefit from the VCM is limited by lack of institutional support -- improve it



This presentation is prepared under the “Capacity Building for Climate Change Management in Turkey Project. For further information:

Capacity Building for Climate Change Management (CBCCM) in Turkey Project

UN House

Birlik Mah. 2. Cad. No:11, 06610, Çankaya – Ankara / TURKEY - Phone: +90 312 454 1169 - Fax: +90 312 496 1463

Mainly funded by State Planning Organization, the CBCCM project is executed by the Ministry of Environment and Forestry and implemented by United Nations Development Programme in Turkey.