

# Chapter 6

## Carbon Pricing in the Fight Against Climate Change: The Impact of the Carbon Border Adjustment Mechanism on Public Revenues and Revenue Redistribution

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### **ABSTRACT**

*This study focuses on the fiscal aspect of the Carbon Border Adjustment Mechanism (CBAM) introduced by the European Union (EU) and aims to examine the use of revenues from the mechanism for developed and developing countries. The CBAM aims to prevent carbon leakage and promote environmental sustainability through carbon pricing, while at the same time generating significant public revenue for the EU. The envisaged use of these revenues in strategic areas such as green transformation, sustainable infrastructure projects and similar is an important step in contributing to the EU's environmental goals. However, given the risk that underdeveloped and developing countries are disproportionately affected by CBAM, the need for effective use of these revenues in these countries becomes even more evident. In this context, the effective use of CBAM revenues in less developed and developing countries is considered as an important tool to support not only environmental sustainability but also the economic and social transformation processes of these countries.*

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## 1. INTRODUCTION

Climate change is an undisputed reality of the twenty-first century. Global greenhouse gas emissions are increasing day by day, triggering disasters such as droughts, floods, forest fires and hurricanes, resulting in thousands of deaths and millions of displaced people worldwide (Leal-Arcas et. al., 2022). The impacts of climate change are not confined to the borders of a particular country or region, but are a global threat. Therefore, it is not possible for any state to overcome this problem through its own efforts alone (Uğur, 2019; Uğur & Cengiz, 2022). Considering that the problem will not be solved on its own and its effects will know no borders, the need for a coordinated and multilateral intervention at the international level in the fight against climate change emerges (Soylu, 2022).

In this framework, the European Union (EU) has assumed a leading role in the fight against climate change on a global scale. Since the 1990s, the EU has developed various strategies for environmental sustainability and reduction of greenhouse gas emissions. One of these strategies is the European Green Deal (EGD), which guides the green transformation process to fulfill the requirements of the Paris Climate Agreement. Announced on 11 December 2019 by European Commission President Ursula von der Leyen, the EGD is defined as the EU's new growth strategy that aims to make Europe the world's first climate-neutral continent with net zero greenhouse gas emissions by 2050 (Ministry of Foreign Affairs Directorate for EU Affairs, 2024). This strategy also contributes to ensuring the unity of voice of all member states in terms of the EU's global climate change leadership, energy security, international competition and economic developments (Uğur & Efsan, 2024).

However, the reluctance of other countries to reduce carbon emissions and green transformation is complicating the EU's efforts. This creates a risk known as carbon leakage, which creates a disadvantageous picture for EU countries. This leakage manifests itself as a shift of some of the production activities of carbon-intensive industries to countries where climate policies are more flexible and imports partially replace local production (Beken & Cebeci, 2024). The fact that production techniques used in less regulated countries are often carbon-intensive undermines the European Commission's efforts to achieve climate neutrality by 2050 (Bellora & Fontagne, 2023). Accordingly, the EU announced the Carbon Border Regulation Mechanism in 2021 to prevent carbon leakage. The Border Carbon Adjustment Mechanism (CBAM) can essentially be defined as an import tax based on carbon emissions generated during the production process of goods. This mechanism requires the reporting of emissions for every product imported into the EU. Countries planning to export goods to the EU will be obliged to purchase carbon certificates corresponding to the EU's current carbon price. The carbon price will be set by the EU Emissions Trading System (ETS), not by countries, and will be aligned with the

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