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**Implications of the European Union's ESG
Agenda on Mergers and Acquisitions in
Türkiye**

Berk Ilbey Sahintürk

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Editors: Siegfried Fina and Roland Vogl

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Abstract

In an era marked by pressing global challenges, environmental, social, and governance (ESG) principles have emerged as a cornerstone of responsible corporate behavior and regulatory policy. This thesis investigates the implications of the European Union's ambitious ESG agenda for mergers and acquisitions (M&A) in Türkiye, a country with deep economic ties to the EU. It begins by tracing the evolution of ESG from a peripheral concern to a mainstream imperative driving sustainability, ethical conduct, and long-term resilience in global business, and provides a comprehensive overview of the EU's far-reaching ESG framework, underscoring the EU's leadership in shaping global ESG standards.

Building on this foundation, the analysis examines how EU-led ESG regulations extend beyond member states to affect Turkish companies that rely on the EU market. Notably, Turkish firms face both regulatory compliance pressures and market-driven expectations to align with EU standards, given the latter's broad extraterritorial reach. The study explores the effects of these evolving requirements at all stages of Turkish M&A transactions—target identification, due diligence, deal structuring, valuation, and post-merger integration—highlighting the strategic adjustments necessary for Turkish acquirers and targets alike. By demonstrating robust ESG performance and proactively embedding sustainability into transaction processes, Turkish firms can not only mitigate compliance risks but also sustain their competitiveness in a global landscape increasingly shaped by ESG considerations. The research underscores that successful navigation of EU ESG regulations is critical for Türkiye's continued integration into European markets, offering broader insights into the growing significance of ESG in cross-border M&A worldwide.

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Abbreviation List

| | |
|-------------------|--|
| CBAM | Carbon Border Adjustment Mechanism |
| CBM | Capital Markets Board |
| CSDDD/CS3D | Corporate Sustainability Due Diligence Directive |
| CSR | Corporate social responsibility |
| CSRD | Corporate Sustainability Reporting Directive |
| DD | Due diligence |
| EEC | European Economic Community |
| ESG | Environmental, social and governance |
| EU | European Union |
| FDI | Foreign direct investment |
| GDPR | General Data Protection Regulation |
| M&A | Mergers and acquisitions |
| MDGs | Millennium Development Goals |
| NFRD | Non-Financial Reporting Directive |
| POA | Banking Regulation and Supervision Agency, the Public Oversight, Accounting and Auditing Standards Authority |
| SFRD | Sustainable Finance Disclosure Regulation |
| SPA | Share Purchase Agreement |
| TCC | Turkish Commercial Code |
| TSRS | Türkiye Sustainability Reporting Standards |

Introduction

The multifaceted challenges posed by globalization have become increasingly evident in recent years, encompassing pressing issues such as climate change, the depletion of natural resources, and the growing environmental degradation caused by unsustainable industrial practices. Adding to these complexities, the COVID-19¹ pandemic has exposed significant weaknesses in global economic systems, leading to widespread financial instability, disruptions in supply chains, and heightened social inequalities. The pandemic's far-reaching effects have served as a wake-up call, highlighting the interconnectedness of economic, environmental, and social systems and the importance of fostering resilience and sustainability across all sectors. Moreover, recent geopolitical tensions, such as conflicts affecting global energy supply chains, have further exacerbated existing challenges. Energy shortages and fluctuating prices have underscored the vulnerability of traditional energy systems and the critical need for a transition to renewable and sustainable energy sources. These challenges, compounded by global economic vulnerabilities, have underscored the urgent need for collective action to address the systemic risks they pose to the planet and societies at large.

In response to these converging crises, the public sector and the financial industry have been compelled to reevaluate their roles in fostering a more sustainable future.² In recent decades, the concept of environmental, social, and governance (ESG) standards has undergone a significant transformation, evolving from a peripheral consideration to a central pillar of business and

¹ WHO, 'Naming the coronavirus disease (COVID-19) and the virus that causes it' [https://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance/naming-the-coronavirus-disease-\(covid-2019\)-and-the-virus-that-causes-it](https://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance/naming-the-coronavirus-disease-(covid-2019)-and-the-virus-that-causes-it) accessed 15 December 2024.

² Luca Spataro and others, *ESG Integration and SRI Strategies in the EU: Challenges and Opportunities for Sustainable Development* (Springer 2023).

regulatory frameworks on a global scale. ESG encompasses a range of standards and practices that organizations adopt to ensure responsible and ethical operation in areas that extend beyond mere financial performance. Environmental criteria include considerations around energy use, pollution, natural resource conservation, and climate change impact. Social criteria assess how companies manage relationships with employees, suppliers, customers, and the communities in which they operate. Governance criteria evaluate a company's leadership, audit procedures, internal controls, and shareholder rights, ensuring transparency and ethical conduct. These standards have transformed from optional best practices to core expectations for businesses and policymakers alike, as stakeholders increasingly recognize the critical importance of sustainability, ethical management, and long-term resilience.

Within this evolving landscape, ESG agenda of the European Union (EU) stands out as one of the most comprehensive and ambitious initiatives on the global stage. The EU, as a leading economic bloc and advocate for sustainable development, has placed ESG considerations at the forefront of its policy agenda, recognizing the necessity of addressing climate change, social inequality, and governance issues through proactive legislation. Key components of the EU's ESG framework include the European Green Deal, which aims to make Europe the first climate-neutral continent by 2050; the Sustainable Finance Disclosure Regulation, which mandates transparency in ESG-related risks within financial markets; the Corporate Sustainability Due Diligence Directive, requiring companies to identify and manage ESG risks throughout their supply chains; the Corporate Sustainability Reporting Directive, setting comprehensive standards for ESG disclosures; and Carbon Border Adjustment Mechanism, aiming to prevent carbon leakage by imposing a levy on imported goods from countries with less stringent carbon pricing. Together,

these policies establish the EU as a global leader in ESG governance, with a commitment to advancing sustainability and ethical business practices across its member states and beyond.

Given Türkiye's economic integration with the EU, examining the influence of the EU's ESG agenda on Turkish ESG practices is particularly relevant. Turkish companies with cross-border operations or aspirations for market entry within the EU face mounting expectations to align with EU ESG standards. These standards can significantly influence business practices, particularly in mergers and acquisitions (M&A) transactions, where ESG factors play an increasingly pivotal role in target selection, due diligence, valuation, transaction structuring, and post-merger integration.

This thesis examines the implications of the EU's newly introduced ESG principles for Turkish M&A landscape which maintains close economic links with the EU. Firstly, this study provides a comprehensive analysis of the evolution of the ESG concept, tracing its origins and development over time, and delves into the key drivers behind its growing prominence in global business practices and policymaking. In particular, it focuses on the legal frameworks and policy initiatives introduced by the EU to promote and enforce ESG principles as benchmarks for shaping sustainable business practices and guiding corporate behavior within and beyond EU borders. Subsequently, it investigates the extensive and multifaceted effects of these regulatory developments on Turkish businesses that are deeply integrated into European value chains or heavily dependent on EU markets for trade, investment, and growth opportunities, and explores how these companies are impacted by EU-driven ESG compliance requirements. Moreover, this research offers a detailed analysis of the implications of the EU's evolving ESG standards on M&A transactions in Türkiye across each stage of the process: pre-deal, deal, and post-deal. Through this comprehensive approach, this piece aims to provide insights into strategic adjustments Turkish

businesses involved in M&A transactions may undertake to align with EU ESG expectations and remain competitive in an increasingly sustainability-driven global market.

1. ESG Overview

1.1. Historical Evolution of ESG

“Are businessmen, by virtue of their strategic position and their considerable decision-making power, obligated to consider social consequences when making their private decisions? If so, do they have social responsibilities that transcend obligations to owners or stockholders?”³ With these inquiries, Bowen, who is regarded as the “Father of corporate social responsibility”,⁴ initiated the modern discourse on corporate social responsibility (CSR) in the early 1950s. According to Bowen’s point of view, corporate social responsibility is not an absolute panacea, yet it encapsulates a crucial guidance for business in future endeavors.⁵ Building upon Bowen’s foundational questions, the concept of CSR evolved over decades and paved the way for ESG’s rise.

In the following decades, CSR gained academic prominence, as scholars like Davis, Frederick, McGuire, and Walton began exploring corporate obligations beyond profit maximization in 1960s.⁶ This early era of CSR was largely characterized by philanthropic activities, such as charitable donations and community support, which were important but lacked a formalized

³ Howard R Bowen, *Social Responsibilities of the Businessman* (University of Iowa Press 2013) 4.

⁴ Archie B Carroll, 'Corporate Social Responsibility: Evolution of a Definitional Construct' (1999) 38(3) *Business & Society* 268, 3.

⁵ *Ibid.*

⁶ *Ibid.*

framework.⁷ These efforts, however, laid the foundation for more structured approaches in subsequent decades as concepts such as corporate social responsiveness and corporate social performance gained prominence, emphasizing proactive corporate strategies to address societal concerns. In 1979, Carroll categorized corporate responsibilities into economic, legal, ethical, and discretionary domains, providing businesses with a comprehensive model for balancing profitability with social accountability.⁸ By the 1980s, CSR had evolved into a more structured and theoretical field. A pivotal debate during this time was between Milton Friedman's shareholder theory and R. Edward Freeman's stakeholder theory. Friedman's influential essay argued that a corporation's primary responsibility is to maximize shareholder value, provided it operates within legal and ethical norms.⁹ In contrast, Freeman broadened corporate responsibilities to include employees, customers, and communities, laying the groundwork for integrating CSR into governance frameworks, and redefined the purpose of the corporation, emphasizing ethical governance, transparency, and social accountability as essential components of business strategy.¹⁰ The shift from the shareholder-centered to the stakeholder-centered model reflects the growing recognition that companies operate within interdependent systems and are obliged to reduce their negative impacts while at the same time making positive contributions to society. This broader understanding of corporate responsibility found further validation in the Brundtland Report, which introduced sustainable development as "meeting the needs of the present without compromising

⁷ Keith Davis, 'Can Business Afford to Ignore Social Responsibilities?' (1960) 2(3) *California Management Review* 70-76 <https://cmr.berkeley.edu/1960/05/2-3-can-business-afford-to-ignore-social-responsibilities/> accessed 15 December 2024

⁸ Archie B Carroll, 'A Three-Dimensional Conceptual Model of Corporate Performance' (1979) 4(4) *Academy of Management Review* 497-505.

⁹ Milton Friedman, 'The Social Responsibility of Business Is to Increase Its Profits' (*The New York Times Magazine*, 13 September 1970) <https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html> accessed 15 December 2024.

¹⁰ R Edward Freeman, *Strategic Management: A Stakeholder Approach* (Pitman 1984).

the ability of future generations to meet their own needs".¹¹ By emphasizing the interconnectedness of environmental, social, and economic sustainability, the report extended the stakeholder approach into a global context, offering a framework that later shaped the foundational principles of ESG. In the last decade of 20th century, CSR expanded to encompass broader themes like stakeholder theory, corporate citizenship, and sustainability. John Elkington's Triple Bottom Line framework revolutionized corporate success metrics by emphasizing "people, planet, and profit," thereby directly influencing the foundational principles of ESG.¹² Meanwhile, Wood refined corporate social performance models into actionable strategies, further integrating CSR into corporate operations.¹³ These developments reflected a growing awareness of global challenges, such as climate change and resource scarcity, and paved the way for ESG's formalization in the 2000s.

The turn of the millennium marked a critical transition from CSR as a voluntary concept to ESG as an integrated, measurable framework. The Millennium Summit in 2000 introduced the Millennium Development Goals (MDGs), establishing eight global objectives to address poverty, human rights, and sustainability.¹⁴ This summit emphasized the importance of international collaboration and set the stage for ESG's rise. In 2004, the term ESG was formally introduced in the UN Global Compact's Who Cares Wins report,¹⁵ which outlined how businesses could integrate environmental, social, and governance factors into their operations.

¹¹ World Commission on Environment and Development, *Our Common Future* (Oxford University Press 1987).

¹² John Elkington, *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* (Capstone 1997).

¹³ Donna J Wood, 'Corporate Social Performance Revisited' (1991) 16(4) *Academy of Management Review* 691–718.

¹⁴ United Nations Millennium Declaration, Resolution adopted by the General Assembly, 18 September 2000, A/RES/55/2 https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_55_2.pdf accessed 15 December 2024.

¹⁵ United Nations Global Compact, *Who Cares Wins: Connecting Financial Markets to a Changing World* (2004) <https://documents1.worldbank.org/curated/en/280911488968799581/pdf/113237-WP-WhoCaresWins-2004.pdf> accessed 15 December 2024

ESG gain traction through the introduction of the Sustainable Development Goals in 2015, replacing the MDGs with a broader framework of 17 goals and 169 measurable targets.¹⁶ That same year, the Taskforce on Climate-related Financial Disclosures was established to standardize climate-related reporting, while the Paris Agreement¹⁷ reinforced the importance of decarbonization and renewable energy adoption, and aimed to keep global temperature rise below 2°C, and if possible, 1.5°C.¹⁸

Today, ESG principles are fundamentally embedded in corporate governance, risk management, and investment strategies, significantly shaping how companies address social and environmental challenges. The ESG investment market, representing between \$30 and \$40 trillion in assets under management globally, is expected to grow to between \$35 and \$50 trillion by 2030.¹⁹ This impressive growth highlights that ESG considerations are no longer optional but central to long-term business success, shaping corporate behavior and redefining financial markets. The rising commitment to ESG is further evidenced by the growing number of corporate leaders recognizing its strategic value. According to recent reports, 71% of corporate leaders agree or strongly agree that their company is willing to invest in ESG as a source of competitive advantage, up from 60% in 2023.²⁰ This shift demonstrates that ESG is increasingly viewed as a strategic investment. Companies are now recognizing that robust ESG performance enhances brand reputation, attracts

¹⁶ United Nations General Assembly, 'Transforming Our World: The 2030 Agenda for Sustainable Development' (21 October 2015) UN Doc A/RES/70/1 <https://undocs.org/A/RES/70/1> accessed 15 December 2024.

¹⁷ Paris Agreement (adopted 22 April 2016 in Türkiye, entered into force 7 October 2021) UNTS Registration No. I-54113, For access, see <https://www.un.org/en/climatechange/paris-agreement> accessed 15 December 2024.

¹⁸ Ibid. Art. 2(1)(a).

¹⁹ Priya Parrish, 'Why ESG Assets Are Set to Keep Growing Despite Attacks on "Woke Capitalism"' (*Fortune*, 10 October 2024) <https://fortune.com/2024/10/10/why-esg-assets-grow-despite-attacks-on-woke-capitalism/> accessed 15 December 2024.

²⁰ Thomson Reuters, '2024 State of Corporate ESG: Navigating New Frontiers in Regulation and AI' (November 2024) <https://www.thomsonreuters.com/en-us/posts/wp-content/uploads/sites/20/2024/10/2024-State-of-Corporate-ESG-Report> accessed 15 December 2024

top talent, and opens up new market opportunities. Furthermore, 82% of corporate leaders anticipate that ESG's influence on corporate performance will continue to grow,²¹ reflecting the broad recognition that ESG is essential for business resilience and competitive advantage. Concurrently, on a global scale, the regulatory framework is undergoing a period of rapid evolution. This is evidenced by the introduction of ESG disclosures in a number of jurisdictions and the implementation of new regulations and standards.²² As a result, in line with the acceleration of legal frameworks, companies are increasingly inclined to effectively integrate ESG to seize sustainability opportunities, ultimately driving long-term financial prosperity.

1.2. Components of ESG

The ESG framework consists of three interconnected pillars—environmental, social, and governance—that collectively represents a set of criteria that shape corporate decision-making, stakeholder engagement, and investment outcomes.

1.2.1. Environmental

The environmental aspect of ESG focuses on how a company's operations impact the natural environment. This includes the management of carbon emissions, energy efficiency, waste reduction, water management, and conservation of biodiversity. High environmental scores reflect effective risk management and forward-thinking resource utilization, particularly in industries

²¹ Ibid.

²² David A Cifrino and McDermott Will & Emery LLP, 'The Rise of International ESG Disclosure Standards' (Harvard Law School Forum on Corporate Governance, 29 June 2023) <https://corpgov.law.harvard.edu/2023/06/29/the-rise-of-international-esg-disclosure-standards/> accessed 15 December 2024.

where environmental compliance aligns closely with financial performance.²³ By reducing the risk of environmental penalties and reputational damage, these scores help safeguard financial outcomes post-acquisition while simultaneously attracting socially responsible investments, further strengthening financial stability.²⁴

1.2.2. Social

The social component addresses how companies manage relationships with employees, suppliers, customers, and communities. It involves considerations such as human rights, labor practices, diversity and inclusion, and community engagement. A company's high social scores demonstrate its dedication to corporate social responsibility, ethical practices, and employee welfare, fostering employee satisfaction, retention, customer loyalty, and strong stakeholder relations.²⁵ These qualities are particularly valuable for acquirers, as they drive post-merger synergies, mitigate integration risks, and enhance overall performance.²⁶ Additionally, robust social practices contribute to fewer labor disputes and a more stable operational environment, ultimately strengthening financial outcomes.²⁷

1.2.3. Governance

The governance component involves evaluating the structures, policies, and practices that determine a company's decision-making processes and accountability. A high governance score is

²³ Peter M Clarkson and others, 'Revisiting the Relation Between Environmental Performance and Environmental Disclosure: An Empirical Analysis' (2008) 33 *Accounting, Organizations and Society* 303 <https://doi.org/10.1016/j.aos.2007.05.003> accessed 15 December 2024.

²⁴ *Ibid.*

²⁵ Daniel B Turban and Daniel W Greening, 'Corporate Social Performance and Organizational Attractiveness to Prospective Employees' (1997) 40 *Academy of Management Journal* 658 <https://doi.org/10.5465/257057> accessed 15 December 2024.

²⁶ *Ibid.*

²⁷ *Ibid.*

indicative of a firm's adherence to strong board practices, rigorous audit procedures, and transparency, minimizing the risks of financial inaccuracies or fraud.²⁸ For acquirers, such governance signifies effective oversight mechanisms that prevent legal or regulatory penalties, while also fostering superior decision-making processes that enhance strategic capabilities and drive financial performance in post-merger and acquisition phase.²⁹

These components collectively form the backbone of ESG, creating a holistic framework that allows companies to effectively address environmental, social, and governance challenges. By embedding these elements into business strategy, companies unlock substantial opportunities for value creation.

1.3. Measuring ESG

In order to fully realize the potential of ESG, it is essential to gauge the extent to which these components are being implemented. The utilization of ESG rating and ESG reporting represent two pivotal instruments employed for this objective.

1.3.1. ESG Rating

ESG ratings are a crucial mechanism for benchmarking a company's performance. ESG score providers such as MSCI, Sustainalytics, S&P Global, and Refinitiv Eikon using differing criteria, weightings, and data collection methods, evaluate public information, corporate disclosures, and other data sources to determine how effectively companies manage environmental, social, and governance issues. By condensing large volumes of data into a single score or rating, ESG rating

²⁸ Ruth V Aguilera and others, 'Connecting the Dots: Bringing External Corporate Governance into the Corporate Governance Puzzle' (2015) 9(1) *The Academy of Management Annals* 483 <https://doi.org/10.1080/19416520.2015.1024503> accessed 15 December 2024.

²⁹ Ibid.

providers help investors and stakeholders make more informed judgments about a company's sustainability and social impact.

Recent academic researches³⁰ has highlighted that the methodological differences of ESG rating providers contribute to inconsistencies in ESG ratings, raising questions about the reliability of these scores for assessing true sustainability performance. In order to address such lack of transparency and reliability of ESG ratings the Council and the European Parliament have reached a provisional agreement³¹ to regulate the activities of ESG rating providers, with the aim of increasing investor confidence in sustainable products and ensuring the reliability and comparability of ESG ratings. The new rules aim to strengthen the credibility and functionality of ESG ratings by mandating authorization and supervision by the European Securities and Markets Authority, coupled with strict adherence to transparency requirements concerning methodologies and information sources.³² By clarifying territorial and operational scopes, the regulation ensures compliance for both EU-based and third-country providers through mechanisms such as recognition, endorsement, or equivalence decisions, thereby creating a harmonized framework.³³ Additionally, small ESG rating providers benefit from a lighter, temporary registration regime

³⁰ Gregor Dorfleitner, Gerhard Halbritter, and Mai Nguyen, 'Measuring the Level and Risk of Corporate Responsibility: An Empirical Comparison of Different ESG Rating Approaches' (2015) *Journal of Asset Management* <https://link.springer.com/article/10.1057/jam.2015.31> accessed 15 December 2024.

Natalia Semenova and Lars G. Hassel, 'On the Validity of Environmental Performance Metrics' (2015) *Journal of Business Ethics* <https://www.jstor.org/stable/24703538> accessed 15 December 2024.

Monica Billio and others, 'Inside the ESG Ratings: (Dis)agreement and Performance' (2021) *Corporate Social Responsibility and Environmental Management* 28(5): 1426-1445 <https://econpapers.repec.org/RePEc:wly:corsem:v:28:y:2021:i:5:p:1426-1445> accessed 15 December 2024.

³¹ European Parliament, *Legislative Resolution of 24 April 2024 on the Proposal for a Regulation of the European Parliament and of the Council on the Transparency and Integrity of Environmental, Social and Governance (ESG) Rating Activities* (COM(2023)0314 – C9-0203/2023 – 2023/0177(COD)) P9_TA(2024)0347.

³² Council of the European Union, *Environmental, Social and Governance (ESG) Ratings: Council and Parliament Reach Agreement* (5 February 2024) <https://www.consilium.europa.eu/en/press/press-releases/2024/02/05/environmental-social-and-governance-esg-ratings-council-and-parliament-reach-agreement/> accessed 15 December 2024.

³³ Ibid.

designed to reduce supervisory burdens while preserving alignment with governance principles.³⁴ To address conflicts of interest, the rules emphasize the separation of business activities, permitting exceptions only under stringent conditions.³⁵ Collectively, these measures aim to enhance the reliability of ESG ratings, fostering sustainable investment decisions and ensuring robust capital market operations.

1.3.2. ESG Reporting

To complement ESG ratings, ESG reporting offers transparency by disclosing performance and strategies in a structured manner. ESG reporting is the rising awareness among investors that the performance on environmental and social factors, in addition to governance practices, can considerably influence a company's long-term resilience.³⁶ Companies often rely on established frameworks and standards to ensure consistency, comparability, and credibility in their disclosures. To guide these disclosures, multiple reporting frameworks and standards have emerged, such as the Global Reporting Initiative, the Sustainability Accounting Standards Board and, the Task Force on Climate-related Financial Disclosures. These frameworks offer structured guidelines for assessing and reporting ESG performance, thereby facilitating transparency, comparability, and credibility.³⁷

ESG reporting is an important tool for communicating an organization's performance and commitment to sustainable and responsible practices across environmental, social and governance

³⁴ Ibid.

³⁵ Ibid.

³⁶ Robert G Eccles, Mirtha D Kastrapeli, and Stephanie J Potter, 'How to Integrate ESG into Investment Decision-Making: Results of a Global Survey of Institutional Investors' (2018) 30(1) *Journal of Applied Corporate Finance* 117 <https://doi.org/10.1111/jacf.12267> accessed 15 December 2024.

³⁷ S Bose, 'Evolution of ESG Reporting Frameworks' in *Values at Work: Sustainable Investing and ESG Reporting* (Springer 2020) 13–33 https://link.springer.com/chapter/10.1007/978-3-030-55613-6_2 accessed 15 December 2024.

dimensions. By providing a comprehensive overview, it integrates key metrics and initiatives to present a cohesive narrative of the company's sustainability efforts. Environmental performance metrics, such as greenhouse gas emissions, energy use, water use, biodiversity impact and waste generation, provide stakeholders with insight into the company's environmental footprint and its strategies for minimizing environmental impacts throughout its value chain.³⁸ Social performance metrics - including diversity, equity and inclusion data, employee engagement scores, health and safety statistics and human rights due diligence - demonstrate the company's commitment to fostering inclusive workplaces, protecting workers throughout the supply chain and promoting social welfare.³⁹ Governance metrics highlight board composition, executive compensation, shareholder rights and regulatory compliance, underscoring the company's commitment to transparency, accountability and ethical business practices.⁴⁰

In conclusion, the historical progression from Bowen's early inquiries about the social responsibilities of business leaders to today's integrated ESG frameworks underscores a profound shift in corporate accountability and strategic orientation. Initially centered on philanthropic acts and basic ethical obligations, CSR evolved through stakeholder theory, sustainability principles, and the Triple Bottom Line approach, ultimately forging the conceptual and practical groundwork for ESG's emergence as a measurable, global standard. ESG, originating from these early foundations, has grown into a globally impactful framework that deeply permeates corporate decision-making through its environmental, social, and governance pillars. One of the most important factors for the ESG agenda to become such a decisive focus in the business world today

³⁸ European Commission, *Annex I to Commission Delegated Regulation (EU) 2023/2772 Supplementing Directive 2013/34/EU as Regards Sustainability Reporting Standards* (2023), published in the Official Journal of the European Union on 22 December 2023, including the corrigendum published on 18 April 2024 <https://xbrl.efrag.org/e-esrs/esrs-set1-2023.html> accessed 15 December 2024.

³⁹ Ibid.

⁴⁰ Ibid.

is that the EU has launched comprehensive and impactful initiatives in the field of sustainability. The regulatory obligations imposed by these initiatives have further strengthened the impact of ESG on a global scale, contributing to the rise of ESG elements to a position that is not only complementary but also dominant in terms of the long-term success and competitiveness of businesses.

2. The EU's ESG Agenda: Framework and Strategic Goals

Over the past two decades, the EU has emerged as a leader in developing policies aimed at integrating sustainability into every aspect of economic and social activity. This journey began with early climate commitments, such as the Kyoto Protocol,⁴¹ and evolved through ambitious strategies like the European Green Deal,⁴² positioning the EU as a global frontrunner in sustainable development. The EU's ESG agenda seeks not only to ensure the sustainability of its internal market but also to influence global practices by setting high standards in environmental stewardship, social responsibility, and corporate governance. EU's leadership in ESG reflects a broader effort to align economic policies with sustainability goals globally.⁴³

2.1. Key Policies Driving ESG Adoption

The EU's ESG framework is propelled by several key policies and initiatives designed to systematically integrate sustainability across all sectors. One of the most significant initiatives is the European Green Deal, launched in 2019, which outlines the overarching roadmap to make the

⁴¹ United Nations, 'Kyoto Protocol to the United Nations Framework Convention on Climate Change' (1998) https://unfccc.int/kyoto_protocol accessed 15 December 2024.

⁴² European Commission, 'A European Green Deal' (2019) https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en accessed 15 December 2024.

⁴³ Alain Pietrancosta and Alexis Marraud des Grottes, 'ESG Trends – What the Boards of All Companies Should Know About ESG Regulatory Trends in Europe' (1 September 2022) <http://dx.doi.org/10.2139/ssrn.4206521> accessed 15 December 2024.

EU climate-neutral by 2050 by transforming the EU into a modern, resource-efficient, and competitive economy, ensuring no net greenhouse gas emissions by mid-century.⁴⁴ The European Green Deal is structured around a series of actions, including investments in clean energy, biodiversity, circular economy practices, and pollution reduction.⁴⁵ The overarching objective is to stimulate economic growth through the adoption of green technology, the creation of sustainable industries, and the fostering of innovation, while ensuring a just transition that leaves no one behind.⁴⁶

The Sustainable Finance Disclosure Regulation enhances transparency in the financial sector, requiring financial market participants to disclose the sustainability impact of their investments, thus pushing for more responsible investment practices. The Corporate Sustainability Reporting Directive further complements these efforts by expanding the scope of sustainability reporting, requiring companies to provide more detailed ESG-related information, thereby fostering corporate accountability. The Corporate Sustainability Due Diligence Directive also plays a crucial role by imposing due diligence obligations on companies to identify and mitigate adverse environmental and human rights impacts within their value chains, thereby reinforcing corporate accountability and aligning business operations with the EU's sustainability goals. The EU Taxonomy Regulation,⁴⁷ meanwhile, provides a classification system to identify economic activities that significantly contribute to sustainability goals, thereby aligning both public and private investments with the EU's environmental objectives.

⁴⁴ European Commission (n 42).

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment [2020] OJ L 198/13 <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020R0852> accessed 15 December 2024.

By mandating disclosure of sustainability impact of financial players, the Sustainable Finance Disclosure Regulation (SFDR)⁴⁸ encourages asset managers, banks, and insurers to consider the environmental and social effects of their portfolios, ultimately aligning financial flows with the EU's sustainability objectives. Non-EU entities, such as investment firms, asset managers and financial institutions, that market their financial products or provide financial services within the EU must also comply with the requirements of the SFDR. Therefore, even non-EU companies targeting EU-based investors will have to disclose sustainability-related information as required by the SFDR. It is estimated that companies outside the EU with a combined market capitalization exceeding 3 trillion USD may be subject to the SFDR.⁴⁹

The Corporate Sustainability Reporting Directive (CSRD)⁵⁰ further complements the EU's efforts by expanding the scope of sustainability reporting, requiring companies to provide more detailed ESG-related information, thereby fostering corporate accountability. The CSRD builds on its predecessor, the Non-Financial Reporting Directive (NFRD), by extending reporting requirements to a larger number of companies, including non-listed entities. CSRD applies to entities listed on EU-regulated exchanges that satisfy at least two of the following thresholds: (i) assets amounting to 450,000 EUR or more, (ii) net turnover of 900,000 EUR or greater, or (iii) a workforce comprising 10 or more employees. Furthermore, the directive is applicable to large EU-based undertakings, irrespective of their listing status, provided they meet at least two of the following criteria: (i) assets of 25 million EUR or more, (ii) turnover exceeding 50 million EUR, or (iii) a

⁴⁸ Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector [2019] OJ L 317/1 <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019R2088> accessed 15 December 2024.

⁴⁹ Divya Mankikar, 'More than \$3T of Companies Outside the EU Could Be on the Hook for SFDR' (S&P Global, 2021) <https://www.spglobal.com/esg/insights/more-than-3t-of-companies-outside-the-eu-could-be-on-the-hook-for-europes-sustainable-finance-disclosure-regulation> accessed 15 December 2024.

⁵⁰ Directive (EU) 2022/2464 on corporate sustainability reporting [2022] OJ L 322/15 <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32022L2464> accessed 15 December 2024.

minimum of 250 employees. Together, the CSRD expected to apply to approximately 49,000 undertakings.⁵¹ Additionally, it applies to non-EU parent companies with annual EU revenues of at least 150 million EUR, if they own a large EU undertaking, an EU-listed securities, or an EU branch with at least 40 million EUR in turnover.

The Corporate Sustainability Due Diligence Directive (CSDDD or CS3D),⁵² which entered into force on 25 July 2024, also plays a crucial role by imposing due diligence obligations on companies to identify and mitigate adverse environmental and human rights impacts within their value chains, thereby reinforcing corporate accountability and aligning business operations with the EU's sustainability goals. The CSDDD aims to integrate sustainability considerations into corporate governance by requiring companies to identify risks, prevent harm, and establish complaint mechanisms. The requirements have been determined as applicable to companies within the EU in cases where the entity in question employs a minimum of 1,000 individuals and has generated a net revenue of over 450 million EUR in the previous financial year. Alternatively, the requirement may be met if the company in question serves as the ultimate parent entity of a group that satisfies these criteria, as determined by means of consolidated financial statements. Additionally, the directive will be applicable to non-EU entities that have attained a net revenue of over 450 million EUR within the territorial boundaries of the EU. Incompliance with these obligations can cause fines which can reach up to 5% of annual net global turnover. Consequently, the provisions set forth by the CSDDD are intended to oversee the actions of economic entities,

⁵¹ Pietrancosta and Marraud des Grottes (n 43).

⁵² Directive (EU) 2024/1760 on corporate due diligence obligations for sustainable supply chains [2024] OJ L 220/5 https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L_202401760 accessed 15 December 2024.

encompassing suppliers, subcontractors, and distributors on a global basis without any territorial limitations.⁵³

The EU Taxonomy Regulation,⁵⁴ meanwhile, provides a classification system to identify economic activities that significantly contribute to sustainability goals, thereby aligning both public and private investments with the EU's environmental objectives. This taxonomy establishes clear criteria for determining whether an economic activity is environmentally sustainable, focusing on six environmental objectives: i) climate change mitigation, ii) climate change adaptation, iii) sustainable use and protection of water and marine resources, iv) transition to a circular economy, v) pollution prevention and control, and vi) the protection and restoration of biodiversity and ecosystems.⁵⁵ By providing a common language for investors, companies, and policymakers, the EU taxonomy rules facilitate the redirection of capital towards activities that support the EU's green transition.⁵⁶

The EU's ESG framework, driven by these interconnected policies, aims to create a cohesive and comprehensive approach to sustainability, encouraging businesses and financial institutions to contribute to a more sustainable future while ensuring that economic growth aligns with environmental and social responsibility.

⁵³ Andrei Marcu, Michael Mehling, and Ana Ruiz, *The EU Corporate Sustainability Due Diligence Directive and Its Extraterritorial Effect: Promise and Pitfalls* (2023) 16.

⁵⁴ Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment [2020] OJ L 198/13 <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020R0852> accessed 15 December 2024.

⁵⁵ *Ibid.* Art. 9.

⁵⁶ European Commission, *EU Taxonomy for Sustainable Activities*, available at finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en accessed 15 December 2024.

2.2. Key Environmental Goals within the EU's ESG Framework

The EU's environmental ambitions are anchored in a series of clearly articulated goals, including achieving carbon neutrality by 2050⁵⁷ and increasing the share of renewable energy sources. The EU Climate Law,⁵⁸ which legally binds the targets set in the European Green Deal, establishes a robust foundation for climate action, ensuring continuity and accountability in meeting these targets. The Climate Law includes a mechanism for monitoring progress and requires regular reporting by member states, which helps maintain transparency and allows for adjustments to ensure targets such as reducing net greenhouse gas emissions by at least 55% by 2030 are met.⁵⁹

The Circular Economy Action Plan,⁶⁰ another critical component of the European Green Deal, promotes sustainable resource management by aiming to reduce waste, encourage recycling, and improve product life cycles across various industries. It targets sectors such as textiles, plastics, and electronics, and sets specific measures to reduce resource use, increase product durability, and minimize environmental impacts throughout product life cycles. The plan also emphasizes the importance of sustainable consumption, encouraging both businesses and consumers to adopt more environmentally responsible practices.

To further enhance the EU's transition to a net-zero economy, the European Commission introduced the Green Deal Industrial Plan,⁶¹ aimed at boosting the competitiveness of Europe's

⁵⁷ European Commission, '2050 Long-Term Strategy' (2020) available at ec.europa.eu/clima/eu-action/climate-strategies-targets/2050-long-term-strategy_en accessed 15 December 2024.

⁵⁸ Regulation (EU) 2021/1119 establishing the framework for achieving climate neutrality [2021] OJ L 243/1, available at climate.ec.europa.eu/eu-action/european-climate-law_en accessed 15 December 2024.

⁵⁹ European Commission, *European Climate Law*, available at climate.ec.europa.eu/eu-action/european-climate-law_en accessed 15 December 2024.

⁶⁰ European Commission, *Circular Economy Action Plan*, available at environment.ec.europa.eu/strategy/circular-economy-action-plan_en accessed 15 December 2024.

⁶¹ European Commission, *Green Deal Industrial Plan*, available at commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/green-deal-industrial-plan_en accessed 15 December 2024.

net-zero industry and expediting the shift towards climate neutrality. This plan is centered around creating a favorable environment for scaling up manufacturing capabilities of net-zero technologies and essential products. Structured around four key pillars, i) the plan focuses on simplifying regulations—through initiatives like the Net-Zero Industry Act⁶² and Critical Raw Materials Act⁶³—ii) facilitating quicker access to funding by revising state aid frameworks and leveraging EU funds, iii) enhancing workforce skills needed for net-zero technologies, and iv) promoting open trade to ensure resilient supply chains. By addressing these areas, the plan seeks to position Europe as a leader in the clean technology sector, driving innovation, job creation, and sustainable economic growth.

Furthermore, pivotal regulatory frameworks, such as the Carbon Border Adjustment Mechanism (CBAM),⁶⁴ are poised to have profound influence on the importation of goods to the EU ensuring that imported products align with the environmental standards set for those produced within the EU, thereby reducing carbon leakage and promoting global climate accountability. In order to achieve these objectives, the CBAM aims to prevent companies from relocating their production to countries with less stringent climate policies, which would undermine the EU’s climate efforts. Implemented in phases, CBAM began with a transitional phase in October 2023, requiring importers to report embedded emissions of carbon-intensive goods like cement, iron and steel, aluminum, fertilizers, electricity, and hydrogen. As of 1 January 2026, importers will be required to purchase CBAM certificates which will be priced based on the carbon emission of the imported

⁶² European Commission, *Net Zero Industry Act*, available at commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/green-deal-industrial-plan/net-zero-industry-act_en accessed 15 December 2024.

⁶³ European Commission, *Critical Raw Materials Act*, available at single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/critical-raw-materials/critical-raw-materials-act_en accessed 15 December 2024.

⁶⁴ European Commission, *Carbon Border Adjustment Mechanism (CBAM)*, available at taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#cbam-definitive-regime-from-2026 accessed 15 December 2024.

good. By imposing a carbon price on imports of certain goods, the CBAM creates an incentive for trading partners to adopt cleaner production processes, contributing to the overall reduction of global greenhouse gas emissions. By integrating these ambitious goals and regulatory mechanisms, the EU aims to lead the global fight against climate change, promote sustainable resource management, and create a resilient, green economy that benefits both the environment and society as a whole.

2.3. Key Social Goals within the EU's ESG Framework

The EU's social goals reflect its commitment to fostering equity, human rights, and improved quality of life for all. These goals encompass a broad range of initiatives aimed at ensuring fair treatment, social inclusion, and empowerment of individuals across member states. Central to this agenda is the promotion of decent work, which includes fair wages, safe working conditions, and the protection of workers' rights.⁶⁵ The European Pillar of Social Rights Action Plan⁶⁶ outlines principles such as secure and adaptable employment, fair wages, and healthy, safe, and well-adapted work environments, as well as agendas such as combating poverty and social exclusion.

Another crucial aspect of the EU's social goals is the advancement of gender equality and the elimination of discrimination in all its forms. This includes tackling gender pay gaps, enhancing female participation in leadership roles, and ensuring equal opportunities for all, regardless of gender, ethnicity, disability, or socioeconomic background. In line with these objectives, the EU

⁶⁵ European Commission, *Employment and Decent Work*, available at international-partnerships.ec.europa.eu/policies/sustainable-growth-and-jobs/employment-and-decent-work_en accessed 15 December 2024.

⁶⁶ European Commission, *European Pillar of Social Rights*, available at op.europa.eu/webpub/empl/european-pillar-of-social-rights/en/ accessed 15 December 2024.

Gender Equality Strategy 2020-2025⁶⁷ outlines actions to achieve a gender-equal Europe by addressing persistent inequalities in employment, pay, power, and protection against violence. Finally, the EU places significant emphasis on community engagement and social dialogue, encouraging cooperation between governments, employers, employees, and civil society to address social challenges collaboratively. The European Social Dialogue⁶⁸ serves as a forum for discussions, negotiations, and joint actions among these stakeholders. By prioritizing these social objectives, the EU aims to create an inclusive society where everyone has the opportunity to thrive, thereby reinforcing the social pillar of its ESG framework.

To further advance strong social efforts, the EU adopted a directive,⁶⁹ which came into force on 27 December 2022, aimed at increasing gender balance on the boards of publicly listed companies across the EU. The directive, sets an objective for listed companies to achieve at least 40% representation of the underrepresented gender among non-executive directors by 30 June 2026. Alternatively, if the company includes both executive and non-executive directors, the target is 33% for all board positions. The legislation provides transparency in board selection processes, aiming to enhance equal opportunities and ensure merit-based appointments, thus addressing gender inequality as a key aspect of social sustainability.

⁶⁷ European Commission, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions: A New Industrial Strategy for Europe* (COM(2020) 152 final) available at eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52020DC0152 accessed 15 December 2024.

⁶⁸ European Commission, *Social Policies Overview*, available at ec.europa.eu/social/main.jsp?catId=329&langId=en accessed 15 December 2024.

⁶⁹ Directive (EU) 2022/2381 on improving the gender balance among directors of listed companies and related measures [2022] OJ L 315/44, available at eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32022L2381 accessed 15 December 2024.

2.4. Key Governance Goals within the EU's ESG Framework

Governance forms the backbone of the EU's ESG agenda, focusing on transparency, anti-corruption measures, and corporate accountability. Good governance is crucial for building trust among stakeholders, ensuring ethical conduct, and creating a stable environment for sustainable economic growth. The EU's governance goals are implemented through a range of policies and directives designed to foster responsible corporate behavior and increase transparency in business practices.

One of the central components of the EU's governance goals is enhancing anti-corruption measures. The EU anti-corruption strategy aims to prevent and combat corruption both within the EU and in its external relations. The strategy emphasizes the importance of strengthening legal frameworks, enhancing enforcement, and promoting a culture of integrity within both the public and private sectors.⁷⁰ To achieve these goals, the European Commission introduced a comprehensive set of measures aimed at effectively combating corruption within the EU by a proposal for a directive in May 2023.⁷¹ In accordance with the proposed directive, entities may be liable to incur turnover-based penalties and severe criminal penalties in the event of non-compliance.

Furthermore, the EU has established various mechanisms to ensure effective stakeholder engagement, which is essential for sound corporate governance.⁷² The Shareholder Rights

⁷⁰ European Commission, *Corporate Governance Press Release* (IP/23/2516), available at ec.europa.eu/commission/presscorner/detail/en/ip_23_2516 accessed 15 December 2024.

⁷¹ European Commission, *Proposal for a Directive on Corporate Sustainability Due Diligence* (COM(2023) 234 final), available at eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52023PC0234 accessed 15 December 2024.

⁷² European Commission, *Company Law and Corporate Governance Overview*, available at commission.europa.eu/business-economy-euro/doing-business-eu/company-law-and-corporate-governance_en accessed 15 December 2024.

Directive II⁷³ aims to enhance shareholder engagement and increase transparency in EU-listed companies by allowing companies to identify shareholders through intermediaries, requiring institutional investors and asset managers to publish and disclose engagement policies, and mandating proxy advisors to reveal their codes of conduct and conflicts of interest. It also imposes obligations on intermediaries to facilitate shareholder communication and voting rights, introduces requirements for companies to establish a clear directors' remuneration policy that shareholders can vote on (binding or advisory), and mandates the public announcement and approval of material related party transactions. Collectively, these measures promote improved corporate governance, transparency, and accountability, fostering sustainable long-term shareholder engagement.

2.5. Local ESG Rules in Europe

Domestic-level implementation of ESG rules is increasingly gaining momentum across Europe, driven by a combination of governmental commitment to sustainability goals, rising public awareness, and investor pressure. Various European nations have taken significant steps to address ESG concerns by introducing national legislation that establishes strict obligations for corporate entities. These laws are part of a broader agenda to enforce corporate accountability, not just in rhetoric but through tangible legal requirements, reshaping how companies operate domestically and globally.

France, for instance, introduced the Duty of Vigilance Law⁷⁴ in 2017, making it a pioneering piece of legislation in Europe regarding corporate responsibility. This law requires large companies to

⁷³ Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement [2017] OJ L 132/1, available at eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32017L0828 accessed 15 December 2024.

⁷⁴ Law no 2017-399 of March 27, 2017, relating to the duty of vigilance of parent companies and ordering companies, available at legifrance.gouv.fr/jorf/id/JORFTEXT000034290626/ accessed 15 December 2024.

develop and effectively implement vigilance plans which must comprise a minimum of five elements: i) a mapping of the risks, which must be identified, analyzed and ranked; ii) an assessment procedure for subsidiaries, subcontractors or suppliers with whom the company has an established business relationship; iii) appropriate actions to mitigate or prevent serious risks; iv) a whistleblowing mechanism to issue alerts and obtain reports concerning such risks; and v) a system to monitor and evaluate the efficacy of these measures.⁷⁵ The law marks a significant shift towards mandatory corporate responsibility, departing from the traditional reliance on voluntary corporate social responsibility commitments. It effectively enforces corporate accountability by obliging businesses to identify risks and take preventive action, thereby setting a benchmark for responsible business practices worldwide. Germany has taken a similar proactive approach with the introduction of the Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz)⁷⁶ in 2021. The German legislation requires companies of a certain size to conduct due diligence along their entire supply chain, focusing on preventing human rights violations and environmental harm.⁷⁷ It requires that companies with their central administration, primary business location, administrative headquarters, registered office, or branch in Germany uphold human rights through the implementation of specified due diligence measures. This stipulation applies to both German and foreign enterprises with a minimum of 3,000 employees in Germany, with the threshold reducing to 1,000 employees in January 2024. As indicated in the Explanatory Memorandum on the act, the law is anticipated to affect approximately 600 companies in 2023 and approximately

⁷⁵ Pietrancosta and Marraud des Grottes (n 43).

⁷⁶ Bundesgesetz über die unternehmerischen Sorgfaltspflichten in Lieferketten (Lieferkettensorgfaltspflichtengesetz) 2021 (Germany), available at [bgbl.de/xaver/bgbl/start.xav?startbk=Bundesanzeiger_BGBI&jumpTo=bgbl121s2959.pdf#bgbl%2F%2F%5B%40attr_id%3D%27bgbl121s2959.pdf%27%5D__1731966492117](https://www.bgbl.de/xaver/bgbl/start.xav?startbk=Bundesanzeiger_BGBI&jumpTo=bgbl121s2959.pdf#bgbl%2F%2F%5B%40attr_id%3D%27bgbl121s2959.pdf%27%5D__1731966492117) accessed 15 December 2024.

<https://www.bgbl.de/xaver/bgbl/start.xav?startbk=Bundesanzeiger_BGBI&jumpTo=bgbl121s2959.pdf#_bgbl_%2F%2F%5B%40attr_id%3D%27bgbl121s2959.pdf%27%5D__1731966492117> accessed 18 November 2024

⁷⁷ German Federal Ministry for Economic Affairs and Energy, *Supply Chain Act Overview*, available at [csr-in-deutschland.de/EN/Business-Human-Rights/Supply-Chain-Act/supply-chain-act.html](https://www.csr-in-deutschland.de/EN/Business-Human-Rights/Supply-Chain-Act/supply-chain-act.html) accessed 15 December 2024.

2,800 in 2024.⁷⁸ Unlike previous frameworks that centered primarily on domestic operations, this law places an emphasis on extending corporate accountability across complex, international supply chains. This has broad implications for global suppliers, as they now must align with German standards to maintain business relations, thereby extending the reach of German regulations far beyond its borders. Other European countries have chosen to narrow their focus within the ESG framework, zeroing in on particular issues of significant concern. For example, the Norwegian Transparency Act,⁷⁹ enacted in 2021, addresses the increasing demand for transparency around corporate human rights practices. This act mandates that companies meeting at least two of the three specific criteria i) having at least 50 full-time employees, ii) an annual turnover of NOK 70 million, or iii) a balance sheet total of NOK 35 million conduct human rights due diligence across their operations and supply chains in line with the OECD Guidelines.⁸⁰ Unlike broader due diligence laws, Norway's approach primarily centers on transparency and accountability in relation to human rights, emphasizing the value of making information publicly accessible to ensure corporate practices align with ethical standards. Similarly, some countries have passed legislation specifically targeting individual social concerns. The Dutch Child Labor Due Diligence Act⁸¹ of 2019 represents a concrete step in addressing child labor issue. Under the Dutch legislation, companies are required to investigate whether child labor is involved in the production of the goods or services they offer, and to prepare action plans to prevent it if risks are identified.

⁷⁸ KPMG, 'Supply Chain Act: Pitfalls and Recommendations' (KPMG, June 2021), available at [kpmg.com/de/en/home/insights/2021/06/supply-chain-act-pitfalls-and-recommendations.html](https://www.kpmg.com/de/en/home/insights/2021/06/supply-chain-act-pitfalls-and-recommendations.html) accessed 15 December 2024.

⁷⁹ Lov om virksomhetens åpenhet og arbeid med grunnleggende menneskerettigheter og anstendige arbeidsforhold (Norwegian Transparency Act) 2021, available at lovdata.no/dokument/NLE/lov/2021-06-18-99/§1 accessed 15 December 2024.

⁸⁰ Kia Kyhl, Alice Pease, and Francesca Manta, 'The Norwegian Transparency Act: Key Insights for Business' (BSR, 30 June 2022), available at [bsr.org/en/blog/the-norwegian-transparency-act-key-insights-for-business](https://www.bsr.org/en/blog/the-norwegian-transparency-act-key-insights-for-business) accessed 15 December 2024.

⁸¹ Government of the Netherlands, *Official Gazette on Child Labour Law* (2019), available at zoek.officielebekendmakingen.nl/stb-2019-401.html accessed 15 December 2024.

These rules introduce significant enforcement measures, including fines and potential imprisonment for company directors in cases of non-compliance.⁸² This law signifies a crucial move away from generalized ESG frameworks to a targeted regulatory effort aimed at eradicating one of the most severe forms of labor rights abuse—child labor. It reflects the belief that more focused regulations can make substantial impacts on specific social challenges.

Examples of national-level ESG legislation illustrate the evolving regulatory landscape in Europe, where voluntary commitments are gradually being replaced by mandatory compliance measures. Such regulations represent a paradigm shift, aiming to enforce corporate responsibility by embedding ESG considerations directly into legislative frameworks. National laws compel companies to take proactive measures, whether through due diligence, transparency, or directly addressing specific social and environmental issues. While these domestic regulations are not explicitly designed to govern foreign investments, their impact often extends beyond national borders, as companies must adhere to them to maintain their market position or continue operations across Europe. For instance, suppliers in emerging markets seeking access to European markets must align their practices with these standards, indirectly elevating global corporate practices in line with ESG values.

In conclusion, the EU's ESG agenda represents a far-reaching, multi-dimensional framework that has progressively aligned economic and social activities with sustainability principles. Through landmark initiatives, the Union has established ambitious targets for climate neutrality, responsible corporate behavior, and social equity. By setting rigorous standards in areas ranging from carbon

⁸² Joseph Wilde-Ramsing, 'Going Dutch: Four Things You Should Know About the Netherlands' New Law to Eliminate Child Labour' (Business & Human Rights Resource Centre, June 2019), available at business-humanrights.org/en/blog/going-dutch-four-things-you-should-know-about-the-netherlands-new-law-to-eliminate-child-labour/ accessed 15 December 2024.

emissions to board diversity, the EU not only enhances transparency and accountability within its internal market but also exerts considerable extraterritorial influence, encouraging businesses worldwide to adopt higher ESG standards.

Moreover, the EU's commitment to sustainability is further reinforced at the Member State level, where targeted national laws embed ESG considerations directly into corporate operations and supply chains. These local rules often serve as extensions or complements to EU directives, ensuring that enforcement mechanisms are robust and that companies cannot sidestep sustainability obligations by relocating activities or outsourcing responsibilities.

Taken together, the evolving tapestry of EU-level directives and national regulations forms a comprehensive governance structure that simultaneously addresses environmental protection, social responsibility, and ethical corporate conduct. Whether through mandatory reporting requirements, extended due diligence obligations, or explicit accountability provisions, companies operating within—or seeking access to—European markets must increasingly internalize sustainability goals. This harmonized approach strengthens the EU's leadership on the global stage, as major market participants worldwide respond to European standards by recalibrating their own strategies and practices. Ultimately, the Union's ESG framework highlights the critical link between sustainable development and long-term economic resilience, seeking to ensure that future growth remains equitable, resource-efficient, and responsible.

3. Extraterritorial Impact of EU's ESG Agenda

3.1. Introduction

The EU exerts a profound and far-reaching extraterritorial influence on global governance, regulatory frameworks, and institutional practices, establishing itself as a pivotal actor in shaping the global order.⁸³ Unlike traditional nation-states, whose influence is often confined to their geographic territories, the EU's impact transcends its member states, allowing it to mold policies, laws, and institutional behaviors far beyond its borders.⁸⁴

As a global standard-setter and policy shaper, the EU extends its norms and values to neighboring countries, requiring them to align with its legal and regulatory frameworks through its enlargement processes as a prerequisite for membership. This transformative power forces candidate countries to adopt EU-compliant standards, fundamentally reshaping their domestic institutions, and ultimately has led to regulatory alignment for countries aspiring to EU membership.⁸⁵ However, the EU's extraterritorial influence is not merely regional but also ripples outward to affect countries with no prospects of membership. The EU's strategic policies are not only ambitious but are also designed to produce transformative, long-term impacts that transcend its borders. Its approach to key goals such as sustainability, data privacy, consumer protection and competition rules have not only influenced international norms but also driven convergence in disparate regulatory systems. This standard-setting capacity is amplified by the "Brussels Effect," a phenomenon whereby the

⁸³ Joanne Scott, 'Extraterritoriality and Territorial Extension in EU Law' (2014) 62(1) *American Journal of Comparative Law* 87 <https://doi.org/10.5131/AJCL.2013.0012> accessed 15 December 2024.

⁸⁴ Anu Bradford, 'The Brussels Effect' (2012) 107(1) *Northwestern University Law Review* <http://scholarlycommons.law.northwestern.edu/nulr/vol107/iss1/1> accessed 15 December 2024.

⁸⁵ Elizabeth Golberg, *Regulatory Cooperation—A Reality Check* (M-RCBG Associate Working Paper Series No. 115, Harvard Kennedy School, 2019).

EU's domestic regulations achieve global applicability due to the market size and economic influence of the Union.

The Brussels Effect, a concept coined by Professor Anu Bradford, refers to the EU's capacity to project its regulatory standards beyond its borders, effectively shaping global rules and norms.⁸⁶ This influence, achieved through market dynamics rather than coercive political or diplomatic means, is grounded in the EU's significant market size and economic power, which incentivizes multinational corporations and third countries to adopt its regulations to maintain access to the EU's lucrative markets.⁸⁷ By leveraging this market access dependency, the EU establishes itself as a global regulatory leader, setting high benchmarks across various domains.

The Brussels Effect operates through a process termed unilateral regulatory globalization wherein stringent EU regulations indirectly compel global companies to comply with its rules across their operations. Companies, seeking to avoid the inefficiencies and costs of maintaining segmented production or operational standards, align universally with the EU's robust regulations to achieve economies of scale, simplify their global operations, and maintain seamless access to the EU's vast and lucrative market.⁸⁸ This self-reinforcing mechanism ensures that the EU's norms are adopted voluntarily by external actors seeking to access the lucrative EU market, thereby extending the EU's regulatory footprint without requiring formal jurisdiction.

⁸⁶ Bradford, 'The Brussels Effect' (n 84).

⁸⁷ Ibid.

⁸⁸ Ibid. The Brussels Effect is contingent upon the non-divisibility of production due to technical, legal, or economic constraints. It is argued that in the event of companies demonstrating the capacity and preference to adapt their operational procedures to align with varying requirements as opposed to standardizing, the anticipated consequence will not materialize. Conversely, if firms opt to rationalize their operational processes in accordance with the standards enshrined in European regulations, the term "de facto Brussels Effect" occurs, as evidenced by numerous instances within domains such as data protection, product safety, and consumer health. Additionally, "de jure Brussels Effect" may also occur when other countries pursue a similar course of action, adopting analogous policies.

The Brussels Effect is historically visible in certain sectors such as competition law, environmental standards, consumer protection, and data privacy. A quintessential example is the General Data Protection Regulation (GDPR), which has become a global standard since its implementation in 2018. Multinational corporations operating in the EU adjusted their global data processing practices to meet GDPR's stringent requirements, effectively extending its influence to jurisdictions worldwide, including the United States and emerging markets.⁸⁹ The global adoption of GDPR-inspired policies, such as California's Consumer Privacy Act, underscores the Brussels Effect's regulatory spillover.⁹⁰

Similarly, the EU's ESG agenda serves as a prominent example of how the EU's norms and standards transcend its geographical boundaries, shaping policies and practices in other jurisdictions through both direct and indirect influence. This extraterritorial reach is achieved by embedding sustainability principles into trade agreements, corporate governance mandates, and environmental policies, compelling foreign businesses and governments to align with EU regulations to maintain market access. By linking access to its vast internal market with compliance to ESG principles, the EU leverages its economic and regulatory power to promote global adoption of higher standards in sustainability, transparency, and accountability. Although many of the EU's ESG-related regulations are still in the enactment phase,⁹¹ making it premature

⁸⁹ Simon Gunst and Ferdi De Ville, 'The Brussels Effect: How the GDPR Conquered Silicon Valley' (2021) 26(3) *European Foreign Affairs Review* 437–458.

⁹⁰ It is argued that the EU's new legislation regarding artificial intelligence, the AI Act (Regulation (EU) 2024/1689), will have a global impact, akin to that of the GDPR (see <https://www.chathamhouse.org/2024/03/eus-new-ai-act-could-have-global-impact>). Given the theory that the artificial intelligence will represent the next profound advance in scientific and technological development, building upon the transformative legacy of the World Wide Web (Governing AI for Humanity - Final Report) it is this author's opinion that high-level principles governing the protection of fundamental human rights, public health and the security of artificial intelligence applications introduced by the AI Act will play a pivotal role in shaping the regulations and implementations of artificial intelligence on a global scale, serving as an example of the Brussels Effect.

⁹¹ As of 15 December 2024, the status of the specified EU regulations is as follows:
CBAM: The CBAM is set to be implemented in phases, with the initial reporting obligations starting in October 2023. Full implementation, including financial adjustments, is scheduled for 2026.

to fully evaluate their global impact, it is already evident that the so-called 'Brussels Effect'—or, more broadly, the extraterritorial influence of EU policies—will significantly shape ESG domains worldwide.

3.2. EU Influence on Türkiye's ESG Landscape

In countries with robust economic and political ties to the EU, such as Türkiye, the extraterritorial impact of the EU's ESG agenda is particularly evident. It is influencing the formulation of policy frameworks and the conduct of business, while effecting structural and operational changes across pivotal sectors.

3.2.1. EU-Türkiye Relations

Türkiye and the EU have shared a unique and multifaceted relationship, deeply rooted in history and shaped by both economic and geopolitical dynamics. The formalization of relations began with the signing of the Ankara Agreement in 1963,⁹² which established an association between Türkiye and the European Economic Community (EEC), predecessor of the EU's laying the groundwork for deeper integration. This agreement aimed to foster economic cooperation and

CSDDD: The CSDDD was adopted on June 13, 2024, and entered into force on July 5, 2024. Member States are required to transpose the directive into national law within two years, making it applicable by mid-2026.

CSRD: The CSRD entered into force on January 5, 2023. Companies are required to start reporting under this directive in phases, beginning in 2024 for reports covering the 2023 financial year.

SFDR: The SFDR has been in effect since March 10, 2021. It mandates financial market participants to disclose information on how they integrate sustainability risks and consider adverse sustainability impacts.

EU Green Bond Standards: The EU Green Bond Regulation is set to come into force on December 21, 2024. This regulation will establish a voluntary standard for issuers to use the designation "European Green Bond" (EuGB).

EU Taxonomy: The EU Taxonomy Regulation entered into force on July 12, 2020. It provides a classification system for environmentally sustainable economic activities.

⁹² European Parliament, *EU Texts – Delegation Documents*, available at europarl.europa.eu/delegations/en/d-tr/documents/eu-texts accessed 15 December 2024.

facilitate Türkiye's gradual alignment with the EEC, marking the first step toward potential full membership.

In 1995, the further agreement on the establishment of Customs Union⁹³ significantly intensified economic ties. This landmark development allowed for the free movement of goods between Türkiye and the EU in industrial and processed agricultural sectors, creating a robust framework for trade and fostering economic interdependence. The Customs Union not only boosted Türkiye's exports to EU markets but also facilitated the modernization of its industrial base, aligning it with European standards.

Another milestone was reached with Türkiye's recognition as a candidate country for EU membership in 1999. This marked the beginning of a new chapter, as Türkiye undertook a series of political, economic, and legal reforms aimed at meeting the Copenhagen Criteria required for EU membership.⁹⁴ Key areas of focus included democratization, human rights, judicial reform, and aligning regulatory frameworks with the EU *acquis communautaire*. These efforts were underscored by Türkiye's aspiration to integrate into the EU's political and economic structures, which would enhance its global standing and accelerate domestic progress. However, the relationship has been marked by periods of stagnation and tension.

While Türkiye made significant strides in aligning its policies and institutions with EU standards during the early 2000s, the relationship between Türkiye and the EU gradually began to drift apart. As a result, Türkiye's accession negotiations had effectively stalled, with no possibility of opening

⁹³ EU-Türkiye Association Council, *Decision No. 1/96 of 22 December 1995 on Implementing the Final Phase of the Customs Union* [1996] OJ L 035, available at [eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:21996D0213\(01\)&qid=1498928083545&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:21996D0213(01)&qid=1498928083545&from=EN) accessed 15 December 2024.

⁹⁴ Republic of Türkiye, Ministry for EU Affairs, *Accession Negotiations Overview*, available at ab.gov.tr/accesion-negotiations_37_en.html accessed 15 December 2024.

or closing additional chapters.⁹⁵ Despite these setbacks, the Türkiye-EU partnership has endured, largely sustained by the foundational economic ties and shared strategic interests. The Customs Union continues to serve as a vital mechanism for economic engagement, and Türkiye remains deeply embedded in Europe's economic fabric.

Today, based on 2023 data, the bilateral trade volume between the EU and Türkiye reached a record high of approximately €206 billion.⁹⁶ Türkiye ranks as the EU's 5th trading partner, underscoring its essential role in the EU's external trade network representing 4.1% of the EU's total trade volume, highlighting Türkiye's significance as an economic partner. Simultaneously, the EU is the largest trading partner of Türkiye, representing 41% of Türkiye's total exports and 29% of its imports, a testament to the enduring interdependence between the two economies.⁹⁷ In terms of foreign direct investment (FDI), the EU continues to be a critical source of economic support for Türkiye. By 2022, EU-based investments in Türkiye amounted to €50.4 billion,⁹⁸ making the EU Türkiye's largest source of FDI. Meanwhile, Türkiye has ascended to the fourth position among the top ten countries in Europe in terms of attracting FDI, with a total of 375 FDI projects in 2023, according to the latest issue of the EY Europe Attractiveness Survey.⁹⁹ These investments have been pivotal in modernizing key industries, improving infrastructure, and enhancing Türkiye's competitiveness in global markets. The FDI inflows are particularly

⁹⁵ Council of the European Union, *Enlargement Policy: Türkiye*, available at consilium.europa.eu/en/policies/enlargement/Turkiye/ accessed 15 December 2024.

⁹⁶ European Commission, *EU-Türkiye Trade Relations*, available at policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/turkiye_en accessed 15 December 2024.

⁹⁷ European Commission, *Neighbourhood and Enlargement Policy: Türkiye*, available at neighbourhood-enlargement.ec.europa.eu/enlargement-policy/turkiye_en accessed 15 December 2024.

⁹⁸ Ibid.

⁹⁹ EY, *Europe Attractiveness Survey 2024: Why Optimism Remains in Europe as Foreign Direct Investment Declines* (EY 2024), available at ey.com/en_uk/foreign-direct-investment-surveys/ey-europe-attractiveness-survey accessed 15 December 2024.

concentrated in manufacturing, finance, and telecommunications sectors, reflecting the EU's commitment to fostering sustainable development in Türkiye.¹⁰⁰

3.2.2. EU Influence on Policies

Although the period of intense policy alignment—marked by the Customs Union, encompassing customs tariffs and rules, commercial policy, competition policy, intellectual property rights, and technical legislation¹⁰¹—has long passed, the EU still holds significant potential to influence the trajectory of policy changes and legislative reforms in Türkiye. This influence is particularly apparent in domains such as environmental policy, trade regulation, and judicial reform, where EU benchmarks continue to play a significant role.¹⁰² Even in the absence of formal accession negotiations, the EU functions as a soft power, subtly encouraging Türkiye to align with its governance and policy frameworks ensuring that the extraterritorial influence of EU remains an ongoing process within Türkiye's political and societal dynamics.¹⁰³

The influence of the EU on policy alignment in Türkiye can also be observed in the realm of ESG. Nevertheless, while Türkiye's ESG-related-policies are, in some instances, in alignment with those of the EU, significant progress is needed in many domains for Türkiye to fully align its ESG regime with EU standards.

¹⁰⁰ Republic of Türkiye, Presidency of the Investment Office, *FDI in Türkiye*, available at invest.gov.tr/en/whyTürkiye/pages/fdi-in-Türkiye.aspx accessed 15 December 2024.

¹⁰¹ European Commission, *EU-Türkiye Trade Relations*, available at policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/turkiye_en accessed 15 December 2024.

¹⁰² Çiğdem Nas, 'Europeanisation of Identity: The Case of the Rebuffed Candidate' in Çiğdem Nas and Yonca Özer (eds), *Türkiye and the European Union: Processes of Europeanisation* (Ashgate 2012) 23–45.

¹⁰³ Ibid.

3.2.3. Türkiye's ESG Regime

Türkiye's ESG regime is shaped by a combination of constitutional mandates, specific laws, and regulatory guidelines, each addressing distinct aspects of sustainability and corporate responsibility.

3.2.3.1. Environmental Pillar

As a nation engaged in the EU accession process, Türkiye actively monitors EU policies and has been developing legislation on climate change and environmental protection to harmonize with the EU's legal framework.¹⁰⁴ Türkiye's environmental legislation is primarily shaped by the provisions of the Constitution and the Environmental Law,¹⁰⁵ which focus on the protection of the environment, the prevention of pollution, and the conservation of natural resources. These foundational regulations are further complemented and reinforced by secondary legislation,¹⁰⁶ including detailed regulations, directives, and guidelines designed to address specific environmental challenges and ensure effective implementation of overarching principles.

¹⁰⁴ Republic of Türkiye, *Climate Change Mitigation Strategy and Action Plan 2024–2030*, available at iklim.gov.tr/eylem-planlari-i-19 accessed 15 December 2024.

¹⁰⁵ Art. 2 of Environment Law:

Sustainable environment is defined as the process of improvement, protection and development of all environmental values that constitute the environment of both present and future generations in all areas (social, economic, physical, etc.) without jeopardizing the existence and quality of resources that future generations will need. Sustainable development is defined as development and progress based on the principle of establishing a balance between environmental, economic and social objectives that ensure that present and future generations live in a healthy environment.

¹⁰⁶ Key Legislations: Environmental Impact Assessment Regulation, Waste Management Regulation, Regulation on Control of Hazardous Wastes, Regulation on Control of Packaging Waste, Regulation on Control of Industrial Wastes, Law No. 5627 on Energy Efficiency, Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals, Air Quality Assessment and Management Regulation, Regulation on Monitoring and Reporting of Greenhouse Gas Emissions, Water Pollution Control Regulation.

Türkiye has established the Green Deal Action Plan¹⁰⁷ and set up an European Green Deal Working Group in 2021 to align with the EU's Green Deal to mitigate the potential negative impacts on close economic ties with the EU.¹⁰⁸ Türkiye ratified the Paris agreement and announced the country would aim at reaching net-zero emissions by 2053.¹⁰⁹ Türkiye also renewed its national Climate Change Adaptation Strategy and Action Plan as well as its Mitigation Strategy and Action Plan 2024-2030¹¹⁰ in March 2024.¹¹¹ Türkiye's Twelfth Development Plan (2024-2028)¹¹² introduced a set of measures under the heading of 'Environmental Protection' that are designed to reduce greenhouse gas emissions and strengthen climate adaptation actions on the basis of national conditions within the framework of the Paris Agreement and Türkiye's Nationally Determined

¹⁰⁷ Republic of Türkiye Sustainable Finance Framework 2021, available at: <https://en.hmb.gov.tr/>.

Türkiye's Green Deal Action Plan outlines nine key categories to align with the EU's sustainability objectives and facilitate a transition to a greener economy: i) carbon border adjustments; ii) green and circular economy; iii) green financing; iv) clean, economic and secure energy supply; v) sustainable agriculture; vi) sustainable smart transportation; vii) combating climate change; viii) diplomacy, and ix) awareness-raising regarding European Green Deal.

¹⁰⁸ Republic of Türkiye, Ministry of Trade, *Green Deal Action Plan and Working Group*, available at ticaret.gov.tr/dis-iliskiler/yesil-mutabakat/yesil-mutabakat-eylem-planlari-ve-calisma-grubu accessed 15 December 2024.

¹⁰⁹ European Commission, *Türkiye Progress Report 2022*, available at https://neighbourhood-enlargement.ec.europa.eu/turkiye-report-2022_en accessed 15 December 2024.

¹¹⁰ Republic of Türkiye, *2024 Climate Change Mitigation Strategy and Action Plan 2024-2030*, available at iklim.gov.tr/eylem-planlari-i-19 accessed 15 December 2024. Key strategies of the Action Plan is stated as; i) enhancing energy efficiency across various sectors; ii) increasing the adoption of renewable energy sources; iii) lowering the carbon footprint and intensity of industrial products; iv) fostering sustainability reporting practices; v) encouraging circular economy principles and resource efficiency in manufacturing; vi) promoting Nearly Zero Energy buildings; vii) expanding the use of district heating and cooling systems; viii) advancing electrification within the transport sector; ix) developing integrated transportation networks; x) shifting to low- or zero-emission transport options; xi) conserving and expanding carbon sink areas to enhance climate resilience; xii) transitioning forestry and agricultural enterprises to high-value circular bioeconomy models; xiii) promoting environmentally friendly agricultural techniques; xiv) ensuring efficient use of fertilizers; xv) cutting methane emissions from livestock activities; xvi) minimizing waste generation and increasing recycling; xvii) utilizing waste as raw materials in production processes; xviii) establishing an emissions trading system; xix) exploring alternative carbon pricing mechanisms; xx) supporting the development and adoption of clean technologies; xxi) advancing digital transformation across all industries; xxii) introducing incentives and support mechanisms for greenhouse gas reductions; xxiii) developing sustainable investment tools; xxiv) planning a fair transition toward a low-carbon economy; xxv) enhancing capacity for employment transformation within a just transition framework; and xxvi) embedding the net-zero emission target into educational system.

¹¹¹ European Commission, *Türkiye Progress Report 2024*, available at https://neighbourhood-enlargement.ec.europa.eu/turkiye-report-2024_en accessed 15 December 2024.

¹¹² Republic of Türkiye, *Twelfth Development Plan (2024-2028)*, available at sbb.gov.tr/kalkinma-planlari accessed 15 December 2024.

Contributions. In addition, Türkiye has submitted the draft Climate Law for public consultation, in alignment with EU policies on sustainability. The draft law includes the establishment of an emissions trading system as a carbon pricing mechanism, with the objective of limiting greenhouse gas emissions through the trading of permits. As an effect of the EU's Green Deal policy increasing the importance of sustainable finance instruments,¹¹³ Türkiye also published guidance on Green Debt Instruments, Sustainable Debt Instruments, Green Lease Certificates, and Sustainable Lease Certificates to promote investments that positively contribute to sustainability.

3.2.3.1.1. Gaps

Türkiye has yet to achieve alignment with several key areas of EU environmental standards, highlighting significant gaps in its regulatory framework. According to findings in the Türkiye Progress Report prepared by the European Commission in 2024¹¹⁴, in terms of horizontal legislation, Türkiye has not adopted the Espoo Convention, the Aarhus Convention, or aligned its laws with the Environmental Impact Assessment and Strategic Environmental Assessment Directives, leaving issues related to public participation, access to justice in environmental issues, and environmental crime harmonization unaddressed. In air quality, Türkiye has not implemented EU-compliant legislation on Ambient Air Quality and National Emission Ceilings; waste management lacks a Deposit Management System, a circular economy action plan, and adequate ship recycling laws; progress in water quality remains insufficient, with misalignment on EU drinking water directives and limited wastewater treatment; nature protection efforts lag, as Türkiye has not adopted the Kunming-Montreal Framework or a biodiversity strategy, with

¹¹³ Republic of Türkiye, *Sustainable Finance Framework 2021*, available at <https://ms.hmb.gov.tr/uploads/2021/11/Republic-of-Turkiye-Sustainable-Finance-Framework.pdf> accessed 15 December 2024.

¹¹⁴ European Commission, *Türkiye Progress Report 2024* (n 111).

concerns over mining in protected areas; misalignment on industrial pollution remains progress on noise regulation remains moderate while compliance with EU REACH regulations is not achieved.¹¹⁵

Despite the implementation of an updated Climate Change Adaptation and Mitigation Strategy and Action Plans, Türkiye has made only limited progress in addressing climate change. Türkiye is lacking in several key areas, including the absence of a comprehensive climate law, a domestic emissions trading system, and a long-term low-emission strategy in alignment with the Paris Agreement, all of which are necessary to achieve the 2053 climate-neutrality goal. The Nationally Determined Contribution remains insufficient, particularly in the short and medium term, and requires the establishment of a more ambitious emission reduction target in advance of UNFCCC COP30; and Türkiye has not yet fully implemented the Fuel Quality Directive, aligned with EU emissions standards for vehicles, or complied with regulations on ozone-depleting substances, fluorinated greenhouse gases, and the Carbon Capture and Storage Directive.¹¹⁶

3.2.3.2. Social Pillar

Social pillar of Türkiye's ESG regime is built on a robust legislative foundation such as the Labor Law, Law on the Protection of Personal Data, Social Security and General Health Insurance Law, and Occupational Health and Safety Law, encompassing laws and regulations that primarily address labor rights, occupational health and safety, social security, personal data protection, consumer protection, and ethical business practices. Complementing these are regulations aimed

¹¹⁵ Ibid.

¹¹⁶ Ibid.

at combating financial crimes, and preventing green-washing in advertising and ensuring transparency consumer interactions.

In its 2024–2030 Climate Change Adaptation Strategy and Action Plan,¹¹⁷ Türkiye has set forth the objectives of integrating the impacts of climate change into socio-economic development and ecosystem protection strategies at all levels of governance, namely national, regional, and local. It further specifies the incorporation of social development components into climate adaptation policies, planning, and implementation processes across sectors. The agenda places an emphasis on the development of social protection policies that serve to enhance resilience and adaptation to current and potential climate-related risks. Furthermore, it advocates for a transition from a crisis management model based on reactivity to one grounded in proactive risk management, which necessitates the reinforcement of legal, institutional, administrative, scientific, social, and financial capabilities. Additionally, Türkiye aspires to implement national climate adaptation policies that are anchored in a rights- and benefits-centric framework, thereby ensuring equitable opportunities and the well-being of all societal groups.

3.2.3.2.1. Gaps

Türkiye is confronted with important challenges in aligning its labor, equality and non-discrimination policies with the standards set out by the EU. According to findings in the Türkiye Progress Report prepared by the European Commission in 2024, the enforcement of labor legislation is particularly ineffective in rural areas and in small enterprises, due to the lack of adequate protective measures and the prevalence of undeclared work. The emergence of new

¹¹⁷Republic of Türkiye, *2024 Climate Change Mitigation Strategy and Action Plan 2024-2030*, available at iklim.gov.tr/eylem-planlari-i-19 accessed 15 December 2024.

sectors, such as platform work, has resulted in a lack of regulation, while child labor persists as a significant concern, with an increasing prevalence among children aged 15–17, particularly among migrant and adolescent boys.¹¹⁸ The lack of a unified strategy is evident in the current approach to occupational health and safety policies, which primarily rely on awareness campaigns in high-risk sectors such as mining. However, the informal economy serves to exacerbate the risks to workplace safety.¹¹⁹

Furthermore, efforts to combat discrimination are inadequate, as Türkiye lacks a comprehensive framework to address discrimination based on sexual orientation, gender identity, or disability. Gender inequality also represents a significant challenge, with women facing a notable pay gap, limited representation in leadership roles,¹²⁰ and heightened risks of poverty. As indicated in the 2023 Global Gender Gap Report, Türkiye has made only minimal progress in addressing gender disparities. Furthermore, the lack of comprehensive work-life balance policies and affordable childcare options continues to impede women's participation in the workforce. These shortcomings underscore the necessity for more robust measures to align Türkiye's labor and social policies with EU standards.¹²¹

3.2.3.3. Governance Pillar

Türkiye's governance framework under its ESG regime is shaped by a well-established legislative and institutional structure aimed at fostering transparency, accountability, and integrity in both

¹¹⁸ European Commission, *Türkiye Progress Report 2024* (n 111).

¹¹⁹ European Commission, *Türkiye Progress Report 2024* (n 111).

¹²⁰ In 2023, the proportion of women on the boards of directors of 517 companies listed on BIST increased from 17.5% to 17.9% over the past year, while the number of companies with all-male boards rose from 158 (33.3%) to 179 (34.6%). Sabancı University Corporate Governance Forum, *11th Annual Report: Women on Board 2023 Türkiye* (2023), available at yonetimkurulundakadin.org/ykkdbilgibankasi/34/women-on-board-Türkiye-2022-10th-annual-report accessed 15 December 2024.

¹²¹ European Commission, *Türkiye Progress Report 2024* (n 111).

public and private sectors. The primary legislative instruments include the Turkish Commercial Code, the Capital Markets Law, and the Law on the Prevention of Corruption, which collectively address corporate governance standards, anti-corruption measures, financial transparency, and shareholder rights. These are supported by regulations from the Banking Regulation and Supervision Agency, the Public Oversight, Accounting and Auditing Standards Authority (POA), and the Capital Markets Board (CMB), which ensure compliance with best practices in corporate governance and financial reporting.

CMB has introduced a Sustainability Principles Compliance Framework¹²² by the amendment to the Corporate Governance Communiqué in October 2020, as a significant milestone in advancing sustainability efforts in Türkiye. The framework encourages publicly listed companies to adopt ESG principles through a "comply or explain" system, thereby facilitating their integration into corporate governance practices. While this is a voluntary step, it is anticipated that it will align Türkiye with global sustainability trends and establish a foundation for the future mandatory adoption of certain principles, thereby promoting transparency, accountability, and alignment with international investment standards.

Borsa Istanbul offers initiatives¹²³ such as the BIST Sustainability Index, launched on 4 November 2014, which features companies with high sustainability performance, and The BIST Sustainability 25 Index, introduced on 21 November 2022, which highlights showcase organizations that demonstrate both exemplary sustainability performance and substantial market

¹²² Capital Markets Board of Türkiye, *Sustainability Principles Compliance Outline* (CMB Türkiye, 2021), available at cmb.gov.tr/data/62816f571b41c617eced1005/c1fad28f78a657e385ba3d2d94b2eee6.pdf accessed 15 December 2024.

¹²³ Borsa Istanbul, *Sustainability Indices*, available at borsaistanbul.com/en/sayfa/2227/sustainability-indices accessed 15 December 2024.

capitalization and value. The assessment of constituents is conducted in accordance with the methodology established by the London Stock Exchange Group. These indices provide investors with reliable instruments for sustainability-focused investments.

Furthermore, POA took a pivotal step toward fostering corporate transparency by introducing the Türkiye Sustainability Reporting Standards (TSRS) and Climate-Related Disclosure Standards in December 2023.¹²⁴ According to TSRS, companies meeting at least two key criteria—i) total assets exceeding TRY 500 million, ii) annual net sales surpassing TRY 1 billion, or a workforce of over iii) 250 employees—are mandated to submit sustainability reports, reflecting partial convergence with EU directives¹²⁵. Notably, banks are subject to these reporting requirements regardless of their size or financial standing, underscoring the sector's critical role in sustainability efforts. Complementing these advancements, the POA has also updated national auditing standards to integrate recent changes in international frameworks, ensuring Türkiye remains aligned with global best practices.

Moreover, in order to increase the reliability and international validity of sustainability reports, POA's decree, published in the Official Gazette on 5 September 2024, has made assurance audits of sustainability reports mandatory and has decided that assurance audits will start with limited assurance.¹²⁶

¹²⁴ Türkiye Sürdürülebilirlik Raporlama Standartları (TSRS1 and TSRS2)' [29 December 2023] Official Gazette No. 32414(M)
https://www.kgk.gov.tr/Portalv2Uploads/files/Duyurular/v2/Surdurulebilirlik/Duyuru/Turkiye_Surdurulebilirlik_Raporlama_Standartlari_ve_TSRSlerin_Uygulama_Kapsami_Resmi_Gazetede_Yayimlanmistir.pdf accessed 15 November 2024

¹²⁵ European Commission, *Türkiye Progress Report 2024* (n 111).

¹²⁶ Republic of Türkiye, Ministry of Trade, *Corporate Sustainability Reporting Directive*, available at ticaret.gov.tr/dis-iliskiler/yesil-mutabakat/surdurulebilir-finansman/kurumsal-surdurulebilirlik-raporlama-direktifi accessed 15 December 2024.

3.2.3.3.1. Gaps

Although Türkiye has been trying to keep up with the EU's principles through its recent legislative activities, there are notable gaps in the alignment between Türkiye's governance framework under the ESG agenda and the EU's rules. Key areas requiring further harmonization include the rules on shareholder rights and fostering long-term shareholder engagement, as outlined in Directive 2017/828 (SRDII), have yet to be fully integrated while the alignment regarding non-financial information disclosures and government payment reports remains uncertain, particularly in relation to the EU Sustainability Reporting Standards and Directive 2013/34/EU.¹²⁷ Furthermore, Türkiye has not made progress toward implementing measures aligned with the EU directive aimed at increasing gender balance on the boards of publicly listed companies.

In conclusion, building on a historically strong foundation, the EU continues to exert a profound influence on Türkiye's ESG framework, shaping its policies and legislative reforms despite the absence of formal accession negotiations. The EU's soft power serves as a pivotal instrument in steering Türkiye towards integrating sustainability into its governance practices, fostering transparency, accountability, and alignment with international norms. Türkiye's advancements in areas such as climate adaptation strategies, sustainable finance instruments, and corporate governance principles underscore the EU's ongoing influence in shaping its trajectory. By leveraging its role as Türkiye's largest trading partner and source of foreign direct investment, the EU remains a key driver in encouraging Türkiye to align its ESG policies with European standards.

¹²⁷ European Commission, *Türkiye Progress Report 2024* (n 111).

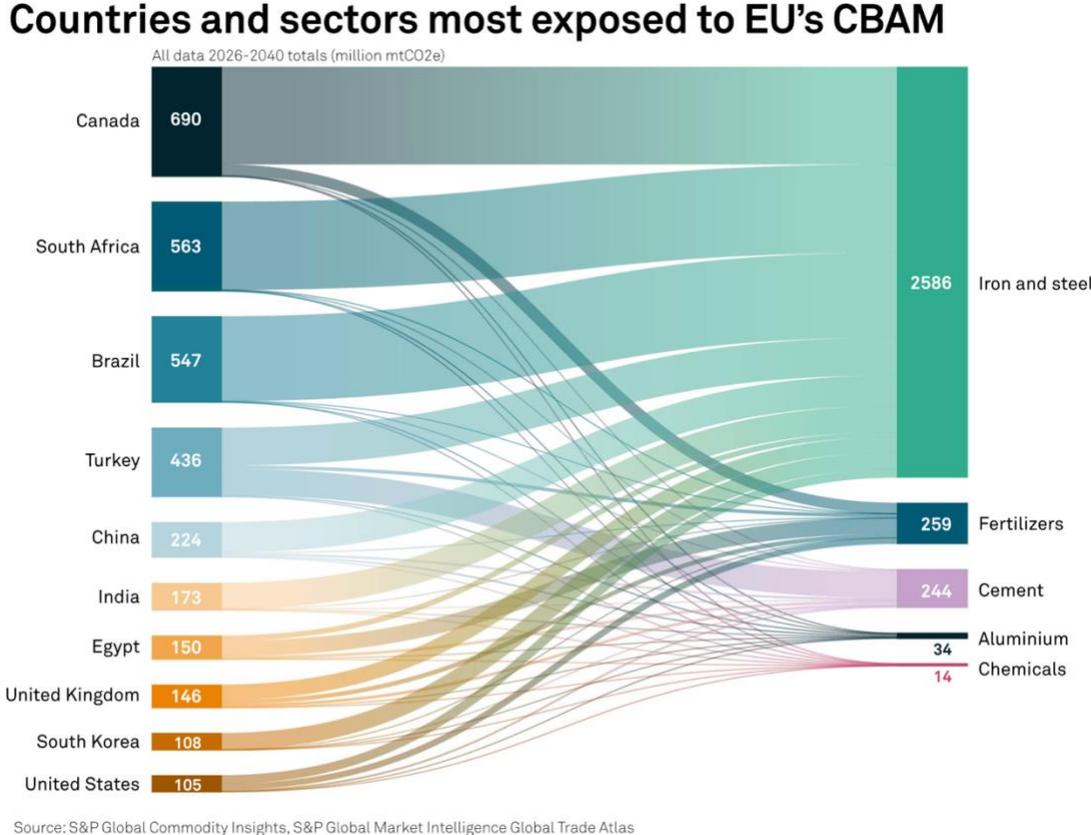
3.2.4. Impact of the EU's ESG Agenda on Turkish Businesses

In addition to the EU exerting considerable influence over the Turkish ESG landscape at the highest level, in terms of policy alignment and Türkiye's implementation of ESG principles at international standards, the adoption of ESG practices is becoming increasingly important due to the economic interdependence of businesses with the EU. The advancement of the EU's ESG agenda is significantly impacting key Turkish sectors such as trade, energy, and industry. It is crucial for Türkiye to be prepared in relevant sectors of its collaboration and trade with the EU and to take the necessary steps in a timely manner. When considering opportunities and risks, certain priorities including renewable energy technologies, particularly hydrogen, offshore energy, carbon-neutral gases, energy efficiency practices in buildings and industries, energy system integration, and other clean energy technologies emerge in line with Türkiye's policies and strategies within the context of the European Green Deal.¹²⁸ Therefore, Turkish businesses to gain a comprehensive understanding of these changes and to adapt their strategies accordingly may maintain competitiveness and secure market access in the EU.

The EU's trade policies, shaped by its ESG agenda under the European Green Deal, are significantly altering the regulatory framework for exporters, particularly through mechanisms like the CBAM. The CBAM, as the world's first carbon tariff mechanism, exemplifies the EU's extraterritorial impact by imposing a carbon price on imports of carbon-intensive goods, such as steel, cement, aluminum, and fertilizers, based on their embedded emissions. By requiring importers to pay a carbon price equivalent to that imposed on EU producers under the EU ETS,

¹²⁸ Mehmet Kemal Bozay, 'Avrupa Yeşil Mutabakatı Kapsamındaki Düzenlemeler AB ve Türkiye Perspektiflerinden Ele Alındı' (DEİK, 24 February 2021) <https://www.deik.org.tr/etkinlikler-avrupa-yesil-mutabakati-kapsamindaki-duzenlemeler-ab-ve-turkiye-perspektiflerinden-ele-alindi> accessed 15 December 2024.

CBAM effectively extends EU climate policies to global supply chains. It is to be expected that the overall impact of CBAM will be contingent upon the proportion of exports covered by the mechanism in relation to the total exports to the EU.¹²⁹ Figure 1¹³⁰ below illustrates an analysis of the countries and sectors most exposed to CBAM.



According to estimations, Türkiye is among the most exposed countries, alongside Canada, South Africa, and Brazil, reflecting their substantial export volumes in CBAM-covered sectors. The data underscores significant exposure, particularly in carbon-intensive sectors such as iron and steel,

¹²⁹ Carnegie Endowment for International Peace, *A Political Economy Perspective on the EU's Carbon Border Tax* (May 2023), available at carnegieendowment.org/research/2023/05/a-political-economy-perspective-on-the-eus-carbon-border-tax?lang=en¢er=europe accessed 15 December 2024.

¹³⁰ S&P Global, 'EU's CBAM to Spur Other Countries to Introduce Carbon Border Levies: IETA' (18 April 2024), available at spglobal.com/commodityinsights/en/market-insights/latest-news/energy-transition/041824-eus-cbam-to-spur-other-countries-to-introduce-carbon-border-levies-ieta accessed 15 December 2024.

fertilizers, and cement which is projected to account for 436 million metric tons of CO2 emissions between 2026 and 2040. Due to this significant exposure, Turkish exporters face increasing pressure to decarbonize their supply chains in order to avoid additional carbon costs and financial penalties and maintain their competitiveness in EU markets. This necessitates a shift toward adopting sustainable production practices, investing in low-carbon technologies, and aligning with the EU's stringent carbon regulations. Without these changes, Turkish industries risk losing market access and revenue in one of their most critical trade partnerships, while effective adaptation could enhance long-term economic resilience and open new opportunities in the growing global market for sustainable goods.

Furthermore, CSDDD is especially relevant for Turkish businesses as it requires companies within the EU to conduct due diligence on their entire chain of activities which include both upstream activities that are related to producing goods or providing services, such as design, extraction, sourcing, manufacturing, transportation, storage, and supply of raw materials or products, and downstream activities that involve distribution, transport, and storage of the company's products performed by business partners on its behalf,¹³¹ ensuring that both environmental and human rights standards are met. While Turkish companies need to have a net EU turnover meeting the 450 million EUR threshold to be directly affected by the CSDDD, they may still face indirect effects through parent or subsidiary entities or pressure from stakeholders due to contractual obligations, procurement requirements, or reputational considerations, particularly if they are involved with EU companies that fall within the scope of the CSDDD. It is inevitable that Turkish companies exporting to countries with such regulations will soon encounter the repercussions of the CSDDD.

¹³¹ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859, Art. 3.1(g), available at eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L_202401760 accessed 15 December 2024.

Consequently, EU companies will most likely request information from their business partners within their supply and operational chains regarding activities conducted under the scope of the Directive. This is because companies in countries where such regulations exist will be obliged to conduct a comprehensive assessment on human rights and environmental impacts. Consequently, Turkish companies that are part of the value chains of companies in these countries will face the obligation to provide information and fulfill responsibilities under these regulations. Non-compliance can lead to reputational risks, potential loss of business partnerships, and even legal repercussions for the EU company, which in turn impacts the Turkish supplier.

Moreover, the CEAP represent transformative initiatives addressing climate change and environmental degradation, impacting all sectors, including Turkish business and industry. As one of the EU's major trade partners, Türkiye's business community will be directly affected by the EU's transition to a circular economy, which seeks to redefine production and consumption patterns toward sustainability.¹³² The CEAP emphasizes the development of sustainable, durable, and resource-efficient products, requiring Turkish industries to adapt to these new standards. It includes regulatory frameworks, investments, and innovations targeting key sectors such as manufacturing, services, and supply chains. Businesses in Türkiye, particularly those in trade with the EU, will need to ensure compliance with these legal and policy requirements, including alignment with sustainable production practices and supply chain transparency. Additionally, sectors involved in high-value supply chains will be expected to integrate circular economy principles, such as waste reduction and sustainable resource management. Companies must also

¹³² TÜSİAD, *Avrupa Yeşil Mutabakatı Döngüsel Ekonomi Eylem Planı Türk İş Dünyasına Neler Getirecek?* (TÜSİAD-T/2021-06/621, 2021) ISBN: 978-605-165-049-4 https://oaib.org.tr/Uploads/menu_view/42bc9e76963056230fea1e3fe6f8b8c653216644.pdf accessed 15 December 2024.

participate in dialogues, adopt international partnerships, and enhance innovation to align with EU market expectations. However, the Turkish business sector faces challenges related to harmonizing existing regulations with EU directives under the CEAP as the divergence between Turkish legislation and EU standards may create additional barriers for Turkish companies in maintaining their competitiveness.¹³³

4. ESG's Impact on M&A in Türkiye

4.1. Overview

Mergers and acquisitions (M&A) refer broadly to the process by which two or more separate business entities combine under a single organizational structure which can be achieved through a merger, in which typically multiple companies of similar size and scope consolidate to create an entirely new corporate entity, or through an acquisition, where one company acquires partial or complete ownership of another, effectively absorbing the acquired firm's assets, workforce, and market presence.¹³⁴ M&A have a long, evolutionary history; modern form of M&A can be traced back to the late 19th and early 20th centuries, when the United States experienced a series of “merger waves”.¹³⁵ These early transactions were primarily driven by the pursuit of market power and the realization of economies of scale. The first major wave, occurring between 1895 and 1905, resulted in the formation of large monopolistic or oligopolistic entities, fundamentally shaping the U.S. industrial landscape.¹³⁶ Subsequent merger waves followed in later decades, focused on vertical

¹³³ Ibid.

¹³⁴ Olimpia Meglio and Annette Risberg, 'The (Mis)Measurement of M&A Performance: A Systematic Narrative Literature Review' (2011) 27(4) *Scandinavian Journal of Management* 418–433.

¹³⁵ Patrick A. Gaughan, *Mergers, Acquisitions, and Corporate Restructurings*, 2nd ed. (New York: John Wiley & Sons, 1999), 21–60.

¹³⁶ Jörn Kleinert and Henning Klodt, 'Causes and Consequences of Merger Waves' (2002) Kiel Working Paper No. 1092, Kiel Institute for the World Economy, available at econstor.eu/bitstream/10419/2692/1/kap1092.pdf accessed 15 December 2024.

and conglomerate mergers due to heightened government and judicial scrutiny of horizontal mergers.¹³⁷ During this period, novel sectoral clusters emerged, notably in the domains of railroads and utilities which leveraged network effects to achieve economies of scale.¹³⁸ From the post-World War II era onward, M&A activity gradually spread to Europe and, later, to other regions, reflecting increasing levels of global economic integration.¹³⁹ The late 20th century saw a steep rise in cross-border M&A, supported by deregulation, financial market liberalization, and advancements in telecommunications and information technology.¹⁴⁰ Today, M&A activities span virtually every industry and corner of the globe, encompassing developed economies with established legal frameworks and stable corporate governance systems. According to data of Institute for Mergers, Acquisitions and Alliances, the total global net value of M&A deals has reached to 2,495 billion dollars in 2023 while the volume of M&A deals has reached to nearly 40,000 transactions.¹⁴¹

Historically, businesses have relied on M&As as crucial tools to drive growth, seize market opportunities, and enhance value creation.¹⁴² M&As are conventionally driven by strategic objectives and are intended to enhance a firm's competitive position, and expand its market share.¹⁴³ From a value-creation standpoint, M&A deals is highly considered as an option for

¹³⁷ Ibid.

¹³⁸ Ibid.

¹³⁹ Patrick A. Gaughan, 'Mergers and Acquisitions in the 1990s: A Record-Breaking Decade' (2000) 11(2) *Journal of Corporate Accounting & Finance* 3–5.

¹⁴⁰ Kleinert and Klodt, 'Causes and Consequences of Merger Waves' (n 139).

¹⁴¹ Institute for Mergers, Acquisitions and Alliances (IMAA), 'Number of Merger and Acquisition (M&A) Transactions Worldwide from 1985 to May 2024' (3 June 2024), available at [statista.com/statistics/267368/number-of-mergers-and-acquisitions-worldwide-since-2005/](https://www.statista.com/statistics/267368/number-of-mergers-and-acquisitions-worldwide-since-2005/) accessed 15 December 2024.

¹⁴² J G Lynch and B Lind, 'Escaping Merger and Acquisition Madness' (2002) 30(2) *Strategy and Leadership* 5–12.; Susan Cartwright and Richard Schoenberg, 'Thirty Years of Mergers and Acquisitions Research: Recent Advances and Future Opportunities' (2006) 17(S1) *British Journal of Management* S1–S5.

¹⁴³ Antonio Salvi, Felice Petruzzella, and Anastasia Giakoumelou, 'Green M&A Deals and Bidders' Value Creation: The Role of Sustainability in Post-Acquisition Performance' (2018) 11(7) *International Business Research* 96–105.

businesses looking to achieve strategic gains.¹⁴⁴ Companies may seek not only to capitalize on economies of scale and scope—improving efficiency, reducing costs, and increasing output at a lower average cost—but also to realize revenue synergies such as cross-selling opportunities, enhanced brand positioning, and improved innovation capabilities.¹⁴⁵ By combining complementary resources, knowledge bases, and technological competencies, merged or acquired companies can create integrated value chains capable of enhancing supply chain coordination, streamlining production processes, and optimizing the distribution of goods and services.¹⁴⁶

Moreover, M&As are viewed as powerful instruments for boosting a company's profitability. Merging with or acquiring another company enables managers to exert greater control over an expanded portion of the value chain—from raw material procurement to end-customer delivery—and can drive efficiency improvements that would be more difficult to attain through organic growth alone.¹⁴⁷

4.2. ESG Considerations in M&A Transactions

While earlier generations of M&A deals focused narrowly on financial efficiency and market share, contemporary transactions frequently integrate a broader range of considerations. Among these, ESG factors are becoming integral to evaluating potential targets and assessing long-term deal outcomes. There is a growing recognition that true corporate value creation is influenced not

¹⁴⁴ Rickard Larsson and Sydney Finkelstein, 'Integrating Strategic, Organizational, and Human Resource Perspectives on Mergers and Acquisitions: A Case Survey of Synergy Realization' (1999) 10(1) *Organization Science* 1–26.; Petri Parvinen and Henrikki Tikkanen, 'Incentive Asymmetries in the Mergers and Acquisitions Process' (2007) 18(2) *Journal of Management Studies* 157–177.

¹⁴⁵ Rachel Calipha, Shlomo Tarba, and David Brock, 'Mergers and Acquisitions: A Review of Phases, Motives, and Success Factors' in Cary L Cooper and Sydney Finkelstein (eds), *Advances in Mergers and Acquisitions*, vol 9 (Emerald Group Publishing 2010) 1–24.

¹⁴⁶ *Ibid.*

¹⁴⁷ Steven Brakman, Harry Garretsen, and Charles van Marrewijk, 'Cross-border Mergers & Acquisitions: The Facts as a Guide for International Economics' (2006) 10(6) *Journal of International Economics* 1–30.

only by immediate earnings performance but also by an organization's sustainability profile, ethical conduct, and resilience in the face of environmental and social challenges. According to report published by KPMG in 2024, globally, 82% of organizations consider ESG factors in their M&A agenda, with regional engagement levels varying: 85% in Europe, the Middle East, and Africa, 79% in Asia-Pacific, and 78% in the Americas.¹⁴⁸ Over the past 12 to 18 months, ESG has gained greater importance in transactions for 71% of organizations worldwide, with the Americas leading this trend at 76%, followed by Europe, the Middle East, and Africa, and Asia-Pacific, both at 70%. A small proportion of respondents across regions reported no change in priority or a decrease in the importance of ESG considerations. Moreover, growing importance of ESG considerations is evidenced by interviews with seventy executives from forty-three global institutional investing firms, who identified ESG as a top priority within their strategic decision-making processes.¹⁴⁹ These findings demonstrate a strong and growing emphasis on ESG integration in M&A activities, reflecting its critical role in corporate strategies.

Numerous studies conducted in the recent years have demonstrated a substantial correlation between sustainability characteristics and financial performance.¹⁵⁰ It has been discovered that companies with higher ESG measures do better over the long run than their counterparts in terms of accounting metrics and stock market price.¹⁵¹ The integration of ESG factors into corporate

¹⁴⁸ KPMG, *Global ESG Due Diligence Study 2024: Moving from Risk to Value Creation* (KPMG International, 2024) <https://www.kpmg.com/esg-dd-2024> accessed 15 December 2024.

¹⁴⁹ Robert G Eccles and Svetlana Klimenko, 'The Investor Revolution' (2019) 97(3) *Harvard Business Review* 106 <https://hbr.org/2019/05/the-investor-revolution> accessed 15 December 2024.

¹⁵⁰ Ibrahim Erel, Rose C. Liao, and Michael S. Weisbach, 'Determinants of Cross-Border Mergers and Acquisitions' (2012) 67 *The Journal of Finance* 1045–1082, available at doi.org/10.1111/j.1540-6261.2012.01741.x accessed 15 December 2024.; Sadok El Ghouli, Omrane Guedhami, Chuck C.Y. Kwok, and Dev R. Mishra, 'Does Corporate Social Responsibility Affect the Cost of Capital?' (2011) 35(9) *Journal of Banking & Finance* 2388–2406.; Caroline Flammer, 'Corporate Social Responsibility and Shareholder Reaction: The Environmental Awareness of Investors' (2013) 56(3) *Academy of Management Journal* 758–781.

¹⁵¹ Robert G. Eccles, Ioannis Ioannou, and George Serafeim, 'The Impact of Corporate Sustainability on Organizational Processes and Performance' (2014) 60(11) *Management Science* 2835–2857.

practices has been demonstrated to generate numerous benefits for companies, including the enhancement of corporate governance,¹⁵² the increase in employee satisfaction,¹⁵³ and the improvement of business reputation.¹⁵⁴

Moreover, a robust ESG profile serves to mitigate the knowledge asymmetry that exists between investors and the company, which will ultimately result in reduced capital costs.¹⁵⁵ The accessibility of expanding green finance products, including green bonds, gives rise to novel funding opportunities, while transparent ESG reporting communicates to stakeholders enhanced quality and reliability which can result in more favorable funding terms in addition to broadening the pool of potential investors.¹⁵⁶

Furthermore, companies that are more involved in ESG have proven to be more resilient in times of crisis and market downturn. Companies with higher ESG rankings, for instance, were able to raise more financing during the financial crisis in addition to achieving higher profits, indicating that socially conscious actions foster confidence and lower volatility.¹⁵⁷ It is becoming more and more obvious that having a high ESG profile is not only morally required but also a strategic advantage in the M&A process as ESG factors become more ingrained in capital markets.

¹⁵² Hoje Jo and Maretno A. Harjoto, 'Corporate Governance and Firm Value: The Impact of Corporate Social Responsibility' (2011) 103 *Journal of Business Ethics* 351–383.

¹⁵³ Joana Story and Pedro Neves, 'When Corporate Social Responsibility (CSR) Increases Performance: Exploring the Role of Intrinsic and Extrinsic CSR Attribution' (2015) 24(2) *Business Ethics: A European Review* 111–124.

¹⁵⁴ Amal Aouadi and Sylvain Marsat, 'Do ESG Controversies Matter for Firm Value? Evidence from International Data' (2016) 134 *Journal of Business Ethics* 1–18.

¹⁵⁵ Dan S. Dhaliwal, Oliver Zhen Li, Albert Tsang, and Yong George Yang, 'Voluntary Nonfinancial Disclosure and the Cost of Equity Capital: The Initiation of Corporate Social Responsibility Reporting' (2011) 86(1) *The Accounting Review* 59–100.

¹⁵⁶ Ran Zhang, Yanru Li and Yingzhu Liu, 'Green Bond Issuance and Corporate Cost of Capital' (2021) 69 *Pacific-Basin Finance Journal* 101626 <https://doi.org/10.1016/j.pacfin.2021.101626> accessed 15 December 2024.

¹⁵⁷ Karl V. Lins, Henri Servaes, and Ane Tamayo, 'Social Capital, Trust, and Firm Performance: The Value of Corporate Social Responsibility during the Financial Crisis' (2017) 72(4) *The Journal of Finance* 1785–1824

According to a recent survey,¹⁵⁸ ESG is increasingly becoming a standard consideration in M&A for dealmakers; 57% of organizations now assess the impact of M&A on their ESG profiles using defined and standardized metrics, a significant rise from 39% reported in the 2022 survey.¹⁵⁹ The growing importance of ESG is reflected in the significant rise in the number of organizations assessing its impact in M&A, signaling its emergence as a strategic driver in corporate decision-making and value creation.

Another survey demonstrates that dealmakers increasingly value ESG initiatives in M&A, with energy efficiency (15%), sustainable customer options (13%), and cost savings from climate adaptation (12%) identified as key drivers justifying premiums for targets while other priorities include resource optimization, waste reduction, access to new markets, and higher-margin green products, highlighting the strategic and operational benefits of ESG alignment.¹⁶⁰

Emerging sustainability regulations, particularly in Europe, are playing a significant role in influencing M&A dealmaking by driving the adoption of clear ESG metrics and operational standards. While ESG regulatory involvement is increasing globally, geographical disparities exist: 68% of companies in Europe and the Middle East assess deals against their ESG profiles, compared to 49% of US respondents, reflecting faster regulatory developments in Europe and the Middle East. This trend is further shaped by evolving policies like cross-border carbon taxes and

¹⁵⁸ Deloitte surveyed 500 leaders in January 2024 from corporations with annual revenues of \$500 million or more, or private equity (PE) funds managing assets of \$1 billion or more. The survey excluded not-for-profit and public-sector organizations and included a balanced mix of C-suite executives and senior- to mid-level managers. Of the respondents, 90% were from corporate backgrounds, and 10% were from PE firms. Company size was evenly represented in terms of annual revenue, with geographical distribution balanced across North America (34%), Europe and the Middle East (33%), and the Asia-Pacific region (33%)

¹⁵⁹ Deloitte, *2024 ESG in M&A Trends Survey* (Deloitte, 2024) <https://www.deloitte.com/cbc/en/services/financial-advisory/analysis/global-esg-ma-survey.html> accessed 15 December 2024.

¹⁶⁰ Boston Consulting Group and Gibson Dunn, *The Payoffs and Pitfalls of ESG Due Diligence* (2023) <https://www.bcg.com/publications/2024/payoffs-and-pitfalls-of-esg-due-diligence> accessed 15 December 2024.

disclosure requirements use, which are creating modern operational impacts for businesses and shifting priorities in M&A decisions.¹⁶¹

While global M&A practice are increasingly shaped by sustainability imperatives, the EU's enhanced focus on ESG standards promises to have a particularly pronounced influence on the M&A environment within Türkiye as well. As the EU tightens its regulatory frameworks—through measures such as the CBAM, the CSDDD, and the CSRD—these standards are expected to cascade down supply chains, investment structures, and corporate governance practices. While the ESG regime of the EU has already begun to exert an impact on Turkish companies across a range of sectors, Turkish businesses whether seeking to attract foreign direct investment or integrate into European value chains or sustain its commercial partnership within the bloc, will inevitably need to align its M&A activities with these evolving norms. This alignment of Turkish companies may require recalibrating operational strategies, reforming in investment decision-making, adopting more rigorous disclosure practices, and strengthening internal compliance mechanisms to meet the EU's stringent ESG requirements.

4.3. Türkiye's M&A Landscape

Starting from the first recorded merger which occurred in 1874 between the Austrian-owned Austrian Ottoman Bank and the Franco-British-owned Imperial Ottoman Bank,¹⁶² Türkiye has experienced significant growth in merger and acquisition activity, following global patterns observed in regions such as the U.S. and Europe, with only minor deviations.¹⁶³ From 1988 to

¹⁶¹ Deloitte, 2024 ESG in M&A Trends Survey (n 159)

¹⁶² Osman Nuri Şahin, 'Analysis of Mergers & Acquisitions in Türkiye by Years and Comparison with Worldwide, USA, EU and Asia-Pacific Data' (2016) 8(15) Journal of Academic Researches and Studies 229.

¹⁶³ Ibid.

2000, Turkish M&A activity experienced steady growth, which accelerated significantly in the post-2000 period, creating a clear distinction between the pre-2000 and post-2000 eras in terms of trends and dynamics.¹⁶⁴ During this time, horizontal mergers emerged as the most prevalent type of consolidation, with acquisitions being the preferred method for achieving integration. While foreign investors dominated the M&A landscape before 2000, local investors gained prominence in the following decades, surpassing foreign investors in transaction volume, although foreign investors continued to lead in transaction value.¹⁶⁵ The sectoral diversity of Turkish M&A activity, with notable concentrations in industries such as chemicals, pharmaceuticals, agriculture, food and beverages, transportation, and financial services, underscores the importance of understanding these trends within a global context to ensure Turkish firms can continue to benefit from international integration, paving the way for further research to explore these dynamics in greater depth.¹⁶⁶ Today, Türkiye's M&A landscape is characterized by a sophisticated investor base, heightened interest from strategic international players—particularly those from the EU—and a regulatory regime that seeks to balance market efficiency with robust oversight.

The Turkish M&A landscape has exhibited notable fluctuations over the past decade, driven largely by the contributions of international investors. Figure-2¹⁶⁷ indicates that; this trend is reflected in the consistent dominance of international investors, who accounted for over 50% of total deal value throughout the period, peaking at 70% in 2015 and reaching 65% in 2023. Despite

¹⁶⁴ Ibid. 252.

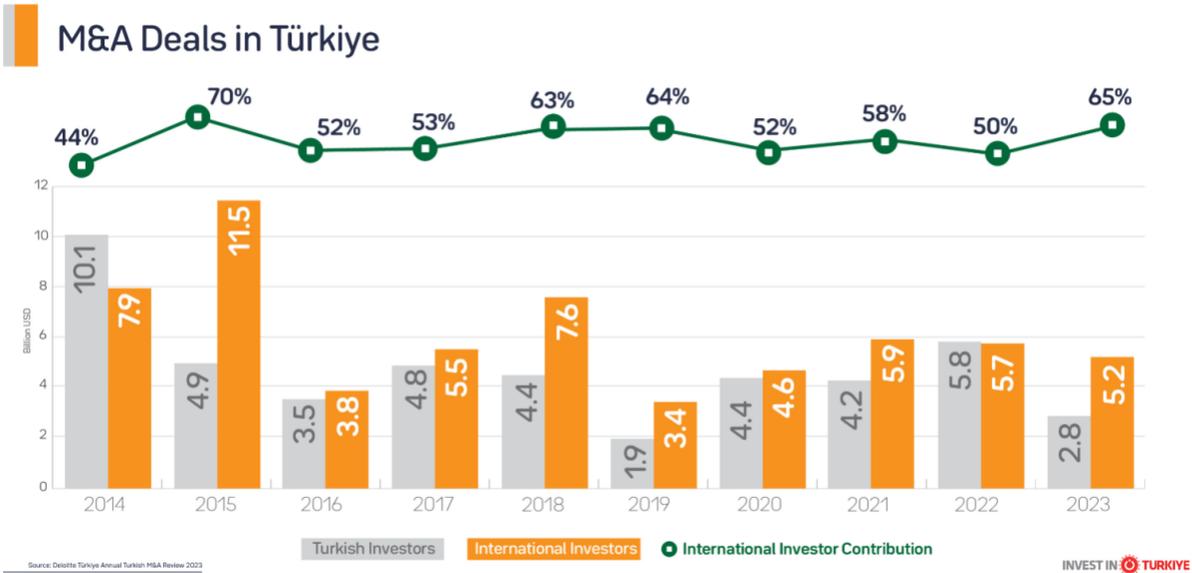
¹⁶⁵ Ibid. 252.

¹⁶⁶ Ibid. 252.

¹⁶⁷ Deloitte Türkiye, *Annual Turkish M&A Review 2023* (Invest in Türkiye, 2023), available at invest.gov.tr/en/news/news-from-Turkiye/pages/international-interest-turkish-ma-sector-remains-resilient.aspx accessed 15 December 2024.

economic uncertainties, international investor contributions have remained resilient, signaling continued confidence in Türkiye’s market potential.

Figure - 2



The year 2015 emerged as a standout period, with international investors contributing 11.5 billion USD, the highest recorded in the observed timeframe. However, post-2018, deal volumes experienced a moderate decline, reflecting both domestic and global economic challenges. This decline, though significant, has been mitigated by a steady recovery observed between 2021 and 2023, with international investors continuing to play a pivotal role. In 2023 alone, they contributed 5.2 billion USD, maintaining their substantial share of the market.

The participation of Turkish investors, on the other hand, has fluctuated, with domestic deal values ranging between 2.8 billion USD and 5.8 billion USD in recent years. This demonstrates the dual reliance on both domestic and international stakeholders to drive M&A activity. The data underscores the critical role of international capital in sustaining Türkiye’s M&A market while highlighting the need for Turkish companies to align with global investment priorities. This

alignment, particularly with ESG compliance and sustainable value creation, is becoming increasingly important for attracting and retaining foreign interest in Türkiye's evolving M&A ecosystem.

Moreover, based on compiled data from merger control investigations conducted by the Turkish Competition Authority on an annual basis,¹⁶⁸ foreign investors have consistently maintained a significant presence in the Turkish M&A landscape over the past decade (2014-2023), both in terms of the number of transactions and total deal values. Within this broad category of foreign participants, investors originating from the EU have emerged as particularly influential actors, not only dominating the upper ranks of annual deal counts but also contributing significantly to the aggregate investment volume.

From a volumetric perspective, the share of EU-based investors in Turkish M&A transactions has been pronounced and stable. Year-on-year data compiled by the Turkish Competition Authority reveals that EU countries regularly feature among the top investment sources for Turkish target companies. For instance, throughout the examined period, Germany, the Netherlands, and Luxembourg frequently appear in the top tier of foreign investor origins. In some years, this dominance is strikingly evident: in 2021, Luxembourg-based investors executed no fewer than 10 separate transactions, representing the highest single-country foreign investor count for that year. Similarly, Germany, often securing a leading position—such as accounting for 8 transactions in 2023—repeatedly underscores the centrality of EU involvement. Even in years when the total number of foreign-invested transactions fluctuated (ranging roughly between 34 and 50 deals per

¹⁶⁸ Rekabet Kurumu (Turkish Competition Authority), *Merger and Acquisition Outlook Reports*, available at rekabet.gov.tr/tr/Sayfa/Yayinlar/birlesme-ve-devralma-gorunum-raporlari accessed 15 December 2024.

annum), EU-origin investors typically constituted a significant fraction of these deals, signaling their steady commitment to, and familiarity with, the Turkish market.

In addition to their consistent numerical presence, EU investors have also been key contributors to the total investment value of M&A transactions in Türkiye. Although the aggregate deal values have varied substantially from one year to the next—reflecting macroeconomic conditions, sectoral shifts, and currency fluctuations—EU-based acquirers frequently channeled substantial capital into their Turkish targets. In earlier years, total foreign-led M&A investments were often measured in tens of billions of Turkish Lira. For example, in 2018, foreign investors aimed to complete transactions totaling approximately 14.9 billion TRY (approximately 2.6 billion EUR), and by 2019 this figure rose to around 36.2 billion TRY (approximately 5.7 billion EUR). More recent estimates suggest an even more pronounced escalation in aggregate foreign investment values, reaching approximately 68 billion TRY (approximately 2.65 billion EUR) in 2023. Within these large and growing investment envelopes, EU investors have repeatedly been associated with premium valuations, larger deal sizes, and sustained interest in strategic sectors, thereby exerting an outsized influence on market benchmarks.

The recent M&A report published by the Competition Authority for 2024¹⁶⁹ highlights the importance of EU-based investors in M&A in Türkiye. In 2024, the number of foreign M&A transactions targeting Turkish companies increased to 47, representing a growth in foreign investor activity. The estimated investment volume for these transactions rose significantly to 99 billion TRY (approximately 2.77 billion EUR). The Netherlands became the leading investor with 7 transactions, while France followed closely with 6 transactions.

¹⁶⁹ Ibid.

The available data collectively demonstrate that the Turkish M&A environment continues to exert a notable influence, with international investors—especially those from the EU—serving as a vital driving force. This long-standing pattern of robust engagement by the EU serves to illustrate the strategic economic linkages between Türkiye and Europe's markets as well as it underscores the capacity of investors based in the EU to set trends, anchor valuations and drive long-term commitments within Türkiye's evolving M&A landscape which is expected to be further amplified by the EU's ESG regime.

4.4. Impact of the EU's ESG Agenda on Turkish M&A Transactions

M&A is a transaction that comprises a series of phases, which are not independent of one another but rather form part of a continuous process that extends throughout the entirety of the deal.¹⁷⁰ To fully appreciate the significance of ESG within the M&A context, it is essential to examine how sustainability-related considerations are embedded—or absent—at each stage of the deal lifecycle.

Although each transaction is distinct, the incorporation of ESG considerations into M&A can be broadly observed in the pre-deal phase, where target identification and due diligence take place; in the negotiation of the transaction's terms and the structuring of the deal according to the agreed valuation; and in the post-deal integration phase. The rigorous integration of ESG factors across these phases can facilitate more informed risk assessments, provide guidance on the negotiation of terms that adequately reflect sustainability metrics, and inform the development of post-merger integration strategies that reinforce the long-term ESG value proposition of the combined entity.

¹⁷⁰ Timothy J. Galpin and Mark Herndon, *The Complete Guide to Mergers and Acquisitions: Process Tools to Support M&A Integration at Every Level* (3rd edn, Jossey-Bass 2014).

4.4.1. Pre-Deal Phase

In the initial phase of an M&A, ESG factors are expected to play a growing role in the selection of potential targets and business partners, as companies increasingly recognize opportunities in collaborating with businesses that have strong ESG profiles.¹⁷¹ Formulating a holistic strategic framework that integrates ESG considerations into the broader corporate growth agenda is crucial for companies looking to pivot toward more sustainable growth models.¹⁷² Strategies to strengthen companies ESG efforts may involve obtaining ESG service providers to expand advisory offerings, acquiring sustainable companies to meet "green" objectives and boost brand reputation, targeting firms that improve greenhouse gas emissions standards, incorporating businesses that contribute to greening their product portfolios, and engaging suppliers and distributors with strong ESG practices to enhance supply chain sustainability.¹⁷³ The identification of targets in accordance with such ESG-focused strategies represents a preliminary step towards enhancing the pursuit of ESG objectives.

Following the target identification through the strategic evaluation process, a comprehensive due diligence (DD) constitutes an essential subsequent step to analyzing ESG-related risk factors. This process should investigate in depth the key sustainability concerns by evaluating climate-related factors such as carbon footprint, decarbonization efforts, and climate risk exposure, as well as environmental concerns like contamination and resource efficiency; examining the target's history of ESG controversies, integration of ESG into business strategy, adherence to relevant regulations,

¹⁷¹ Andrew R. Brownstein, David M. Silk, and Sebastian V. Niles, 'The Coming Impact of ESG on M&A' (Harvard Law School Forum on Corporate Governance, 20 February 2020), available at corpgov.law.harvard.edu/2020/02/20/the-coming-impact-of-esg-on-ma/ accessed 15 December 2024.

¹⁷² Timothy Galpin and Maja de Vibe, 'Incorporating ESG across the M&A Process' (2024) 52(1) *Strategy & Leadership* 29–37.

¹⁷³ *Ibid.*

and recognition through sustainability certifications; focusing on governance structures, employee health and safety, labor practices, diversity and inclusion, product safety, and biodiversity; as well as assessing the target's anti-corruption measures, materiality understanding, ESG data systems, compliance processes, tax transparency standards and cybersecurity policies.¹⁷⁴ Based on the observations of an upward trajectory of ESG DD in dealmaking, led by the EU companies,¹⁷⁵ it is reasonable to anticipate a significant further increase in ESG focus within due diligence activities following the implementation of the EU's emerging ESG policies. A primary effect of the new regime will be a heightened emphasis on due diligence under the CSDDD, CSRD and CBAM framework. Companies engaging in M&A will need to align its sustainability performance with the EU's green objectives. This necessity applies to Turkish companies as well.

As the CSRD requires in-scope Turkish companies to disclose ESG performance details in line with EU standards, potential investors or acquirers will increasingly scrutinize these disclosures as part of their due diligence processes. Comprehensive and accurate ESG reporting can significantly influence an acquirer's perception of a target company, shaping their assessment of risks, liabilities, and long-term value. On the other hand, Turkish companies that are not directly subject to the CSRD may still feel its ripple effects. As EU-based clients work to comply with disclosure requirements, they will likely demand more extensive ESG data from their entire value chain, including suppliers outside the CSRD's scope. Consequently, it may be advantageous for Turkish suppliers to proactively collect and communicate comprehensive social and environmental

¹⁷⁴ KPMG, *ESG Due Diligence in M&A*, available at assets.kpmg.com/content/dam/kpmgsites/ch/pdf/esg-due-diligence-mergers-acquisitions.pdf accessed 15 December 2024.

¹⁷⁵ According to a survey conducted by BCG and Gibson Dunn involving 115 dealmakers, the adoption of ESG DD varies across regions and deal sizes; Europe leads in implementation, with ESG DD conducted in 50% of deals, compared to one-third in North and South America and Asia while larger acquisitions prioritize ESG DD, with it being performed in 60% of such deals, while mid-cap and smaller deals show lower adoption rates at 40% and 30%, respectively. Boston Consulting Group and Gibson Dunn, *The Payoffs and Pitfalls of ESG Due Diligence* (n 160).

metrics. This would not only help to foster trust and safeguard business relationships, but also position them favorably for future opportunities. By demonstrating robust sustainability practices, such suppliers can reinforce their position as attractive targets in an evolving marketplace where responsible sourcing and data-driven decision-making are rapidly becoming the norm.

Similarly, Turkish companies in-scope of the CSDDD are required to conduct value chain due diligence to identify, prevent, and mitigate adverse impacts on human rights, environmental sustainability, and governance. On the other hand, Turkish companies not directly covered by the CSDDD may still face indirect effects through business relationships with EU companies, which are required to ensure their partners comply with the CSDDD's human rights and environmental standards. Turkish companies will need to address indirect CSDDD compliance to enhance their attractiveness as acquisition targets, secure cross-border partnerships, and expand their presence in the European market. For instance, a textile supplier in Türkiye engaged in a commercial relationship with an EU-based brand subject to the CSDDD must ensure its production processes adhere to responsible labor practices, minimize environmental harm, and prevent human rights abuses to meet the European partner's compliance requirements under the directive. By achieving CSDDD compliance, the supplier can enhance its attractiveness to investors in M&A transactions where it is the target. In scenarios where it is the acquirer, the company should conduct a thorough due diligence on the target and implement growth strategies aimed at strengthening its ESG profile, ensuring alignment with European sustainability standards. Failure to comply with these standards may eventually lead to the loss of access to key markets or exclusion from critical supply chains,¹⁷⁶

¹⁷⁶ Article 10(6) – Preventing potential adverse impacts: *As regards potential adverse impacts as referred to in paragraph 1 that could not be prevented or adequately mitigated by the measures set out in paragraphs 2, 4 and 5, the company shall, as a last resort, be required to refrain from entering into new or extending existing relations with a business partner in connection with which, or in the chain of activities of which, the impact has arisen and shall, where the law governing their relations so entitles them, take the following actions, as a last resort:*
(a) adopt and implement an enhanced prevention action plan for the specific adverse impact without undue delay, by

as European partners are held accountable under the CSDDD. Furthermore, non-compliance entails considerable legal and financial risks for Turkish companies, as the CSDDD's extraterritorial enforcement mechanisms encompass fines and civil liabilities that may be applicable to Turkish companies as well. Therefore, it is possible that a Turkish company directly within the directive's scope, or one operating within the supply chain of an in-scope European business partner may be held accountable for harms occurring outside the EU. As a consequence of this accountability, the practice of naming and shaming could potentially result in reputational harm for Turkish companies as the fines are publicly disclosed.

Furthermore, although Turkish law does not yet contain any specific provision imposing liability on board members for ESG matters beyond the “comply or explain” obligations set forth under the Sustainability Principles Compliance Framework (namely identifying ESG-related priorities, risks, and opportunities, devising corresponding policies, and formulating a corporate strategy aligned with established ESG objectives), the general principles on board member liability remain applicable. In M&A transactions, disregarding ESG considerations—particularly by conducting due diligence without integrating ESG factors or omitting such due diligence altogether—may constitute a breach of the duty of care and loyalty under Article 369 of the Turkish Commercial Code (TCC). By ensuring they adequately address ESG risks and opportunities, boards and management can better fulfill their duties of care and loyalty under Article 369 of the TCC,

using or increasing the company's leverage through the temporary suspension of business relationships with respect to the activities concerned, provided that there is a reasonable expectation that those efforts will succeed; the action plan shall include a specific and appropriate timeline for the adoption and implementation of all actions therein, during which the company may also seek alternative business partners;
(b) if there is no reasonable expectation that those efforts would succeed, or if the implementation of the enhanced prevention action plan has failed to prevent or mitigate the adverse impact, terminate the business relationship with respect to the activities concerned if the potential adverse impact is severe. Directive (EU) 2024/1760 on corporate due diligence obligations for sustainable supply chains [2024] OJ L 220/5 art 10(6) https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L_202401760 accessed 15 December 2024.

safeguard corporate interests, and align themselves with the growing global emphasis on sustainable business practices. In addition, although Article 25,¹⁷⁷ which initially recognized a director's duty of care with respect to the sustainability consequences of corporate decisions (including human rights, climate change, and the environment), was ultimately excluded from the final text of the CSDDD, it is likely that, as ESG-related case law evolves, courts will interpret directors' duty of care in a manner that reflects these emerging standards.

Moreover, the EU's new carbon pricing regime will have particular resonance for Turkish M&A transactions. As CBAM introduces adjustments based on the carbon intensity of imported products, Turkish companies seeking to sustain or expand their businesses within the European single market may face additional compliance costs. As an extraterritorial consequence of CBAM regime, Turkish suppliers exporting in carbon-intensive goods to the EU are required to prepare emission calculation data that form the basis for reporting under CBAM and ideally reduce the embedded emissions of their operations. Therefore, CBAM will be subjected to rigorous examination during the due diligence and target identification phases of M&A, with particular attention paid to the target company's emission data, sustainability practices, and preparedness to align with the new principles. For Turkish companies targeting EU-based partners or buyers, demonstrating CBAM compliance by implementing robust emissions reduction plans and transparent reporting processes will have a competitive edge in M&A deals. Conversely, non-

¹⁷⁷ Proposed Article 25 – Directors' Duty of Care: (1) Member States shall ensure that, when fulfilling their duty to act in the best interest of the company, directors of companies referred to in Article 2(1) take into account the consequences of their decisions for sustainability matters, including, where applicable, human rights, climate change and environmental consequences, including in the short, medium and long term. (2) Member States shall ensure that their laws, regulations and administrative provisions providing for a breach of directors' duties apply also to the provisions of this Article. Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937, COM(2022) 71 final, 23 February 2022, art 25 <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52022PC0071> accessed 15 December 2024.

compliance could lead to restricted market access and a decline in demand for their products, as EU customers, bound by CBAM requirements, will be compelled to prioritize cooperative suppliers to avoid regulatory and financial burdens.

In summary, Turkish companies must adopt an ESG-oriented approach from the very beginning of their M&A activities to remain competitive in the evolving global market. For acquiring Turkish companies, this means strengthening their own ESG profiles to align with EU standards by carefully identifying and assessing acquisition targets that comply with the EU's extraterritorial ESG principles, such as those outlined in the CSRD, CSDDD and CBAM. On the other hand, Turkish companies positioning themselves as targets in M&A transactions can significantly improve their attractiveness by proactively adopting sustainable practices and demonstrating compliance with international ESG benchmarks. By presenting a strong ESG profile during due diligence, these companies can highlight their commitment to sustainable practices and regulatory alignment, making them attractive targets for foreign investors.

4.4.2. Deal Phase

Once prospective targets are identified and assessed, reflecting ESG considerations into contract negotiations, particularly in the Share Purchase Agreement (SPA), is essential for mitigating risks and aligning the transaction with sustainability objectives. The findings of ESG due diligence often serve as the foundation for contractual risk management strategies designed to address both immediate and potential future risks. These strategies may be implemented through various contractual mechanisms, including the determination of specific indemnities, the inclusion of representations and warranties, the definition of closing conditions, and the formulation of material

adverse clauses. According to findings of a recent survey,¹⁷⁸ the most commonly used mechanisms to address ESG findings in M&A transactions are representations and warranties, applied by 30% of respondents, followed closely by other safeguards such as indemnities, escrow arrangements or requiring the seller to take remedial action prior to closing at 29%. Less frequently, structural changes are employed by 16% of respondents, and price reductions are used in 15% of cases to mitigate ESG-related risks. Interestingly, only 4% of respondents resort to deal termination when faced with ESG issues, while 6% reported taking no action at all. These findings highlight the growing reliance on contractual mechanisms to manage ESG risks. It is foreseeable that the incorporation of ESG considerations into contract design will become a significant and indispensable aspect, particularly in light of regulatory frameworks such as the CSDDD that explicitly mandate the inclusion of "contractual assurances." According to Article 7 of the CSDDD; companies must prevent potential adverse impacts by seeking contractual assurances from direct business partners to ensure compliance with the company's code of conduct and prevention action plans, emphasizing that these assurances should also extend to the partners' own value chain activities through contractual cascading.¹⁷⁹ It may be observed that deal practice in Türkiye is likely to be significantly influenced by such emerging ESG regime.

In transactions where Turkish companies act as targets, European buyers will likely prioritize compliance with the CSDDD's requirements, including evidence of robust ESG policies and

¹⁷⁸ Boston Consulting Group and Gibson Dunn, *The Payoffs and Pitfalls of ESG Due Diligence* (n 160).

¹⁷⁹ Further in 4th paragraph of the same article: "*The contractual assurances or the contract shall be accompanied by the appropriate measures to verify compliance. For the purposes of verifying compliance, the company may refer to suitable industry initiatives or independent third-party verification. When contractual assurances are obtained from, or a contract is entered into, with an SME, the terms used shall be fair, reasonable and non-discriminatory. Where measures to verify compliance are carried out in relation to SMEs, the company shall bear the cost of the independent third-party verification.*" Directive on Corporate Sustainability Due Diligence, Proposal for a Directive of the European Parliament and of the Council, COM (2022) 71 final, Art. 7(4), available at eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52022PC0071 accessed 15 December 2024.

cascading contractual assurances throughout the target’s value chain. Due to the cascading nature of these obligations, Turkish targets would be required to obtain similar contractual assurances from their partners and suppliers to ensure compliance. Similarly, Turkish companies aiming to align with the CSDDD regime—or the broader ESG agenda—would need to adopt such contractual mechanisms in their own transactions, also when acting as acquirers, to mitigate risks and ensure that the companies they acquire adhere to sustainability standards. For example, Turkish buyers may force its counterparties with the inclusion of a broad contractual assurances¹⁸⁰ to ensure that the target complies with the ESG standards throughout its operations and supply chain, and specific indemnities can be negotiated to protect against future liabilities such as fines arising from non-compliance with the CSDDD. Implementing such mechanisms would signal a proactive approach to aligning with the broader ESG agenda that enables Turkish companies to manage potential risks effectively, attract ESG-conscious investors, and secure partnerships with EU-based businesses.

Another mechanism for mitigating risks identified during the early stages of a transaction is price reduction. The ESG performance of companies is increasingly becoming a critical factor in determining the overall value of the deal. According to a recent survey, 77% of respondents

¹⁸⁰ According to Article 12 of the CSDDD, the Commission will issue guidance on voluntary model contract clauses to help companies comply with contractual assurances. Following clause can be given as an example for contractual assurance: *“The Seller represents and warrants to the Buyer that, to the best of its knowledge and after conducting reasonable inquiry and due diligence, no ESG situation, event, or condition has occurred, exists, or is continuing at the Target Company, or in connection with its operations, business practices, or chain of activities, within the five (5) years prior to the date of this Agreement that constitutes or constituted a violation of any applicable laws, regulations, directives, standards, or Global Best Practices relating to ESG, including but not limited to environmental protection, labor practices, human rights, anti-corruption, or corporate governance. Furthermore, the Seller warrants that no such ESG situation, event, or condition is reasonably expected to occur or arise within two (2) years following the date of this Agreement that could materially and adversely affect the Target Company’s assets, liabilities, financial condition, business operations, or results of operations; impair the Target Company’s ability to conduct its business in the ordinary course or comply with its contractual, legal, or regulatory obligations; or cause reputational harm or loss of goodwill to the Target Company, including but not limited to negative publicity, boycotts, or exclusion from partnerships, contracts, or markets.”*

observed that higher ESG maturity leads to higher valuations for target companies, resulting in ESG premiums and higher multiples.¹⁸¹ Most respondents are willing to pay or expect to receive a premium for companies with strong ESG maturity, with European respondents generally anticipating a premium of up to 5%. Energy efficiency leads as the most frequently cited factor, with 15% of respondents recognizing it as a key contributor to value. Other key drivers include sustainable customer options (13%), cost savings from climate change adaptation and resource optimization (12%), waste reduction through circular economy practices (11%), and improved market access (11%). Additional factors, such as higher-margin green products (10%), net zero ambitions (8%), and water protection (7%), highlight the growing importance of forward-looking ESG measures in successful deal strategies.¹⁸²

The impact of ESG on deal valuation is supported by a growing number of academic studies.¹⁸³ In a study analyzing a global sample of 588 M&A deals announced between 2003 and 2014, findings show that M&A bidders value the CSR performance of target firms positively, however, only the social performance is associated with premiums in cross-border M&A, highlighting the managerial importance of improving CSR performance for target shareholders, as it can increase acquisition premiums.¹⁸⁴ In another study using a sample of 248 cross-border M&A deals declared between 2007 and 2017, reveals that targets with a history of socially irresponsible behavior or negative ESG incidents, especially when widely reported, tend to receive lower acquisition premiums in M&A transactions, suggesting the importance of a target's social performance in determining

¹⁸¹ Boston Consulting Group and Gibson Dunn, *The Payoffs and Pitfalls of ESG Due Diligence* (n 160).

¹⁸² Ibid.

¹⁸³ Mohammad Faisal Ahammad, 'The Role of Sustainability in Mergers & Acquisitions: A Literature Review' in Cary L. Cooper and Sydney Finkelstein (eds), *Advances in Mergers and Acquisitions*, vol 22 (Emerald Publishing Limited 2023) available at <https://doi.org/10.1108/S1479-361X20230000022002>, accessed 15 December 2024.

¹⁸⁴ Mathieu Gomes and Sylvain Marsat, 'Does CSR Impact Premiums in M&A Transactions?' (2017) *Journal of Business Ethics*, available at doi.org/10.1016/j.jbef.2017.12.005 accessed 15 December 2024.

acquisition outcomes and synergies, highlighting the significant economic implications of ESG reputation risks.¹⁸⁵ The empirical findings underscore that ESG factors will play a pivotal role in determining deal valuations, aligning with the practices of dealmakers.

As investors increasingly price ESG considerations into their valuation models, Turkish companies with robust sustainability credentials may attract higher premiums, whereas companies that fail to meet the EU's stringent ESG standards might experience lower valuations or even encounter difficulty closing deals. Turkish targets, in particular, stand to benefit from articulating a clear, verifiable ESG narrative. By quantifying emissions reductions, documenting responsible sourcing practices, and enhancing supply chain transparency these entities can present themselves as lower-risk, future-oriented partners to EU-based acquirers. This alignment can translate into stronger bargaining power during deal negotiations, where the demonstration of ESG compliance and future-proof operational models can justify higher acquisition premiums and more advantageous financial terms. Such an approach could enable Turkish companies to position themselves as competitive and sustainable partners for EU-based investors seeking to incorporate ESG-compliant suppliers into their value chains.

Turkish targets can leverage their position to secure more favorable negotiations with EU counterparts regarding deal value by demonstrating a compliant ESG profile which be achieved through strategies such as adopting decarbonization initiatives, enhancing supply chain transparency, and aligning their practices with the EU's ESG framework. Such an approach could enable Turkish companies to position themselves as competitive and sustainable partners for EU-

¹⁸⁵ Min Maung, Craig Wilson, and Weisu Yu, 'Does Reputation Risk Matter? Evidence from Cross-Border Mergers and Acquisitions' (2020) 66 *Journal of International Financial Markets, Institutions & Money* 101204, available at doi.org/10.1016/j.intfin.2020.101204 accessed 15 December 2024.

based investors seeking to incorporate ESG-compliant suppliers into their value chains. For Turkish acquirers, on the other hand, recognizing ESG deficiencies early in the valuation process ensures that potential liabilities—ranging from carbon transition costs to reputational damage—are factored into pricing and risk adjustments before finalizing the deal. Consequently, Turkish acquirers who incorporate ESG indicators into their pricing strategies may ensure the protection of their returns and guarantee that the transaction's economic rationale is firmly grounded in a comprehensive understanding of value creation.

In conclusion, integrating ESG considerations into the dealmaking phase of M&A transactions would present a significant necessity for Turkish companies, particularly in era of the increasingly stringent EU regulatory framework. As targets, Turkish companies have the opportunity to enhance their attractiveness to ESG-conscious European buyers and achieve more favorable valuations by demonstrating strong ESG credentials, including compliance with cascading contractual assurances. The proactive adoption of sustainability strategies, such as implementing decarbonization initiatives and enhancing supply chain transparency, can strategically position Turkish firms as competitive and reliable partners within EU value chains. Conversely, as acquirers, Turkish companies could undertake a comprehensive assessment of ESG risks in their targets, employing a range of mechanisms, including contractual assurances, indemnities, and purchase price adjustments, to safeguard their investments and ensure compliance with EU sustainability frameworks. The adoption of these practices by Turkish companies would serve to enhance their appeal to cross-border investors, whilst simultaneously ensuring the safeguarding of long-term value creation in an increasingly ESG-driven global marketplace.

4.4.3. Post Deal Phase

Integrating ESG considerations during the post-transaction phase is of critical importance, as it ensures the alignment of the merged or acquired entity with sustainability objectives, mitigates potential compliance risks, and unlocks long-term value creation opportunities. An increasing body of research¹⁸⁶ highlights a positive correlation between robust ESG practices and the success of the post-M&A phase, emphasizing the critical role ESG factors play in driving sustainable value creation and operational synergy. A seminal study examined market reactions to acquisitions involving targets with strong social and environmental performance. This investigation involved the analysis of 129 M&A deals that were announced between the years 2000 and 2007. The findings indicated that acquirers realized higher abnormal returns when targets exhibited stronger performance in social and environmental metrics.¹⁸⁷ Another study evaluating the impact of ESG performance on post-merger operating outcomes by analyzing 796 mergers conducted between 2011 and 2018 suggest that strong ESG practices enhance post-merger performance, likely by fostering better alignment and operational synergies between merging entities, while excessively high ESG scores may lead to diminishing returns due to the challenges and costs associated with maintaining those standards during the integration process.¹⁸⁸ A further survey examined the correlation between M&A and ESG performance across 41 countries and 12 economic sectors from 2002 to 2020, indicating that M&A transactions have a positive impact on firms' ESG scores. Although this improvement is not immediate and does not occur in the year the deal is finalized, significant improvements in ESG performance are observed in the year following the transaction,

¹⁸⁶ Ahammad, 'The Role of Sustainability in Mergers & Acquisitions' (n 183).

¹⁸⁷ Nihat Aktas, Eric de Bodt and Jean-Gabriel Cousin, 'Do Financial Markets Care About SRI? Evidence from Mergers and Acquisitions' (2011) 35(7) *Journal of Banking & Finance* 1753 <https://doi.org/10.1016/j.jbankfin.2010.12.006> accessed 15 December 2024.

¹⁸⁸ Emanuele Teti and Lorenzo Spiga, 'The Effect of Environmental, Social and Governance Score on Operating Performance after Mergers and Acquisitions' (2022) *Business Strategy and the Environment* 1–13.

with similar effects seen across all three ESG pillars.¹⁸⁹ Another study investigating the influence of cross-border M&A on CSR performance, utilizing a sample of Chinese acquirers from 2006 to 2019, revealed that cross-border M&A transactions markedly enhance firms' CSR performance in terms of "strengths", while they do not diminish CSR "concerns".¹⁹⁰ Moreover, a study examining the impact of acquiring targets with superior ESG performance on the acquirers' ESG ratings and market values by using a sample of 100 European M&A deals from 2003 to 2017, reveals that acquiring a target with higher ESG performance than the acquirer leads to an improvement in the acquirer's post-M&A ESG performance and subsequent market value which indicates that the acquisition of sustainability-focused targets can serve as a strategy for acquirers to enhance their ESG profile and market standing.¹⁹¹ The growing body of research underscores that robust ESG practices during this phase not only enhance post-merger operational performance and synergies but also improve ESG scores and market value, highlighting the strategic role of ESG alignment in maximizing value creation and strengthening market position in the post-M&A landscape.

The increasing necessity for the integration of ESG considerations in the post-deal period is further compounded by the evolving regulatory landscape within the EU, which is increasingly defined by a comprehensive and rigorously enforced framework aimed at driving corporate accountability and long-term sustainability. Under the increasingly stringent regulatory requirements companies involved in M&A transactions may face heightened scrutiny on their ESG profile. Such evolving requirements have immediate effects for Turkish dealmakers as they would need a more aligned

¹⁸⁹ Victor Barros, Pedro Verga Matos, Joaquim Miranda Sarmiento, and Pedro Rino Vieira, 'M&A Activity as a Driver for Better ESG Performance' (2022) 175 *Technological Forecasting and Social Change* 121338.

¹⁹⁰ Na Yang, Yifan Zhang, Liyan Yu, Jian Wang, and Xiaohong Liu, 'Cross-Border Mergers and Acquisitions, Regional Cultural Diversity and Acquirers' Corporate Social Responsibility: Evidence from China Listed Companies' (2022) 79 *International Review of Economics & Finance* 565–578.

¹⁹¹ Ioannis Tampakoudis and Evgenia Anagnostopoulou, 'The Effect of Mergers and Acquisitions on Environmental, Social and Governance Performance and Market Value: Evidence from EU Acquirers' (2023) *Business Strategy and the Environment*, available at doi.org/10.1002/bse.3221 accessed 15 December 2024.

stance with regard to EU's ESG regime requiring businesses to measure, verify, and publicly disclose complex ESG metrics, to conduct more comprehensive due diligence, and to necessitate embedded accountability across all chain of activities. It is notable that, despite the fact that Turkish companies are not directly subject to these regulations, the far-reaching nature of the EU's ESG regulations, such as CSDDD and CSRD, will nevertheless have an impact on Turkish companies that are part of the supply chain of European companies that are subject to these directives. Consequently, for Turkish acquirers, the post-merger integration period would demand a swift and systematic assimilation of ESG principles into the acquired or combined entity's operational fabric. Turkish acquirers may sustain their position as ESG-compliant upon the completion of the deal by going beyond pre-merger ESG assessments by implementing standardized metrics, strong governance frameworks, and transparent reporting aligned with EU directives. Therefore, Turkish acquirers may demonstrate their ability to unify ESG practices, meet compliance standards, and leverage these competencies to achieve competitive advantages, investor confidence, and long-term operational efficiencies by reconciling differing ESG cultures, aligning supply chains with sustainability benchmarks, and embedding accountability structures across the acquired or combined entity. Turkish target companies, on the other hand, may find themselves adapting to the acquirer's ESG frameworks and performance thresholds during the post-integration phase. If acquired by an EU-based firm or an investor with well-established ESG requirements, Turkish targets would feel pressure to make transition from local or regionally oriented sustainability approaches to the more rigorous, transparent, and data-driven models that European stakeholders increasingly demand. This may entail restructuring internal compliance units, harmonizing reporting systems, adopting advanced ESG analytics tools, and undergoing cultural shifts to embed sustainability at every organizational level as well as reevaluating supplier

relationships, enhancing environmental stewardship strategies, and refining workforce policies to align with heightened EU standards. While these changes can impose steep learning curves and initial burdens, by successfully adapting to the acquirer's ESG vision and demonstrating measurable progress, Turkish targets can elevate their operational quality, market reach, and their strategic value within the merged entity in the post-deal environment.

Taken together, the evolving EU regulatory framework, the heightened the investor focus on sustainability, and the growing empirical evidence on the financial and operational benefits of ESG integration underscore that ESG is no longer a peripheral concern for Turkish companies engaged in M&A transactions. Instead, it has become a strategic imperative that must be incorporated at every stage—from target identification and due diligence to contract negotiation and post-deal integration. By proactively embracing ESG principles, Turkish companies can more effectively align with European standards, mitigate operational and reputational risks, and ultimately secure a competitive edge in attracting foreign capital. Simultaneously, Turkish companies that demonstrate robust sustainability credentials, adopt transparency measures, and ensure supply chain compliance can command higher valuations, broaden their market appeal, and strengthen their negotiating position. The result is a virtuous cycle in which ESG integration not only meets new legal and investor expectations but also drives long-term value creation, operational efficiency, and market positioning. In essence, adopting a comprehensive ESG-oriented approach in M&A provides Turkish companies—whether as buyers or sellers—with a clear pathway to thriving in an increasingly sustainability-driven global economy.

Conclusion

The objective of this thesis is to explore the implications of the EU's pioneering ESG initiatives for M&A transactions in Türkiye. Therefore, this study first provides a comprehensive analysis of the evolution of the ESG concept, tracing its trajectory from a peripheral concern to a central pillar of global business practices and policymaking. By exploring its origins and the factors driving its growing prominence, this research underscores that ESG has evolved into an essential framework for promoting sustainability, ethical conduct, and long-term resilience in today's interconnected world.

This thesis further provides an overview of the legal frameworks and policy initiatives established by the EU in the realm of ESG, emphasizing its leadership in global governance. Through the European Green Deal, the EU has crafted comprehensive policies across the environmental, social, and governance pillars, solidifying its position as a pioneer in this domain. By championing these innovative measures, the EU demonstrates its unwavering commitment to tackling climate change, advancing social equity, and addressing governance challenges, while setting a benchmark for regulatory compliance and accountability on the international stage.

The EU's comprehensive sustainability policies extend far beyond its member states, influencing all stakeholders aiming to access the EU market. For Türkiye, a nation with deep political connections as an EU candidate and substantial economic ties through high trade volumes, these ESG policies hold significant implications for both businesses and policymakers. This thesis explores how the extraterritorial reach of the EU's ESG policies shapes Türkiye's sustainability-related regulatory framework and examines the impact of these new rules on Turkish companies. It comprehensively evaluates areas where Türkiye's ESG policies align with EU legislation,

highlights gaps requiring further alignment, and underscores the EU's historical influence on Türkiye's policymaking, which also is evident in the ESG domain. To align its regulatory framework with the bloc's, Türkiye has undertaken efforts to harmonize its ESG regulations by introducing initiatives such as the Green Deal Action Plan, the Climate Change Adaptation Strategy and Action Plan, and the Sustainability Principles Compliance Framework. From a business perspective, these regulatory advancements compel Turkish companies, particularly those reliant on EU markets, to align with EU ESG expectations to maintain market access and sustain competitiveness. Failure to meet these evolving standards risks eroding competitiveness of the Turkish players in the EU market, where sustainability considerations increasingly influence investor decisions and supply chain dynamics.

This thesis primarily addresses the potential impacts of the EU's ESG policies on the Turkish M&A transactions. It examines the ways in which the EU's evolving ESG agenda intersects with and influences Turkish M&A transactions. Specifically, it asserts the necessity for Turkish companies—whether as acquirers or acquisition targets—to integrate ESG considerations into every stage of their M&A processes, including target identification, due diligence, contract drafting, valuation, and post-merger integration.

The analysis underscores the dual imperatives for Turkish companies in M&A transactions, addressing both the buyer and seller perspective. As acquirers, Turkish companies should conduct a thorough target identification process and robust due diligence to ensure that potential targets comply with the EU's extraterritorial ESG requirements, such as those outlined in the CSRD, CSDDD, and CBAM. A diligent examination of the target's ESG performance would enable Turkish acquirers to identify potential red flags (e.g. non-compliant supply chain partners, past governance breaches, or poor labor practices) at an early stage in the process. Armed with this

information, acquirers can structure the deal to include protective measures. To mitigate risks identified throughout the due diligence process, Turkish acquirers can incorporate contractual assurances, such as representations and warranties regarding ESG metrics, indemnities for unforeseen liabilities, and purchase price adjustments tied to unmet ESG thresholds. These mechanisms serve to safeguard the Turkish acquirer's investment while ensuring alignment with the recently adopted EU legislation, which is characterized by cascading effects on the chain of activities of businesses. After closing, Turkish acquirers may face the challenge of integrating or harmonizing the target's ESG policies, goals, and systems with their own. This includes aligning supply chain standards, standardizing reporting methodologies, and ensuring accountability structures are consistent across the expanded organization. Properly executed, this can lead to a more streamlined approach to ESG and help the acquirer meet or exceed EU compliance standards at scale. On the other hand, as targets, Turkish companies can bolster their ESG profiles by aligning with recognized European ESG standards such as the CSDDD, to become more appealing to European investors. Demonstrating measurable improvements in mapping and auditing the supply chain to minimize environmental risks, implementing fair labor policies, establishing robust governance controls, and having clear, audited, and transparent ESG reporting can significantly increase confidence among potential acquirers. Not only does it show a commitment to compliance, but it also reduces the acquirer's due diligence burden. Targets that can swiftly provide comprehensive data can position themselves favorably in the eyes of international investors. Furthermore, the dealmaking stage offers an opportunity for Turkish targets to showcase their ESG improvements and ongoing initiatives directly to potential European buyers. Targets can use data-driven evidence to support favorable valuations and negotiate better terms. Moreover, by fully embracing and integrating ESG initiatives post-deal, Turkish targets can assert themselves as an

indispensable part of the new organization. Under the umbrella of an acquirer committed to ESG, targets may gain access to greater resources, technology, and expertise. This can elevate the quality of the Turkish target's operations, from improved production processes to better worker training, ultimately increasing market competitiveness both domestically and internationally.

In summary, this comprehensive analysis posits that Turkish companies will be required to integrate ESG considerations rigorously into every stage of their M&A transactions to ensure they remain competitive and aligned with the stringent ESG principles championed by the EU. As the EU continues to prioritize sustainability and enforce robust regulatory frameworks, companies failing to meet these expectations risk losing access to key markets, investor confidence, and partnership opportunities. By addressing ESG factors during each phase, Turkish businesses can not only mitigate compliance risks but also position themselves as sustainable and responsible market players.

Limitations and Future Studies

While this study has provided valuable insights into the intersection of ESG principles and Turkish M&A activities, it acknowledges certain limitations that open avenues for further research. One notable limitation is the exclusion of sector-specific analyses, which could offer a more nuanced understanding of how different industries within Türkiye are impacted by the EU's stringent ESG regulations. Additionally, the study employs a theoretical approach, focusing on a comprehensive examination of the relationship between EU's ESG principles and Turkish M&A dynamics, rather than relying on empirical or data-driven methodologies. Furthermore, some of the key regulations within the EU's ESG legal framework have not yet entered into force, and their full effects on businesses and markets have not matured. This temporal gap presents a limitation in evaluating

the long-term implications and effectiveness of these regulations. Future studies could address these gaps by adopting data-driven methodologies and exploring the financial and operational impacts of ESG integration as the regulatory landscape evolves. Such research would provide a more comprehensive and actionable understanding of the relationship between ESG principles and Turkish M&A practices over time.

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