

# Euro-Thai Newsletter

## CBAM: one step closer to enforcement

Following the initial agreement between the European Parliament (EP) and the Council in December 2022, **the EP has finally adopted the Carbon Border Adjustment Mechanism (CBAM)**. The final text was approved **by an overwhelming majority of the European lawmakers** – 487 in favour, 81 against and 75 abstentions – with only opposition from the Eurosceptic far-right and conservative Groups. Their concern was the consequent rise of electricity costs and the impact on European households and industries with resulting job losses.

Before it comes into law with publication in the Official Journal of the EU, **the legislation still needs to be approved by the Council of the EU**. This will happen at the next Environment Council (20 June), when Member State environment ministers meet. This is expected to be merely a formality. Technical details on its rules and methodology for applying the mechanism will be further specified by the Commission after consultation with an expert group from all Member States – in a process known as *comitology*. The CBAM will then **enter into force on 1 October 2023 in its transitional phase** – principally focussed on data collection – until January 2026, when free allowances will be gradually phased out and replaced by CBAM quotas with full implementation in 2034.

## EU deforestation regulation adopted despite Nordic qualms

The EP adopted the long-awaited regulation on deforestation-free products, aimed at fighting climate change, protecting biodiversity and the rights of indigenous people. **The vote was overwhelmingly in favour** – 552, with 44 against and 43 abstentions. Nevertheless there was organised **opposition in the mainstream Groups from Nordic MEPs**. The Finns expressed concern over the impact on **cattle farms** with reports that the Minister of Agriculture and Forestry has advised farmers to put future investments on hold, with the consequences of the legislation as yet unclear. They were not alone.

Despite general support for the idea of deforestation-free trade, **Helsinki and Stockholm are wary of the domestic impact**. Finland's territory is 75% forest, while Sweden has opposed references to the protection of indigenous people with Sweden and Finland the home to Europe's only indigenous people – the Sámi – whose **territory is mostly covered by forests and is rich in natural resources** – including minerals useful for the green and digital transition. The collateral damage from industry to local ecosystems, therefore, goes hand-in-hand with the violation of the Sámi's rights. Protecting indigenous people abroad is cheaper than back home.

Like the CBAM, the regulation now awaits adoption by the Council of the EU. **Germany's backtracking on the combustion engines ban for 2035 has set a precedent the Nordic**

**countries wishfully hope to follow.** But they lack the political heft of Berlin and will struggle to find the necessary support from other Member States. **Stockholm**, who holds the rotating presidency of this institution until the end of June, **may attempt to postpone the vote until July or later to try to garner support, or at least shift the blame to ‘not on my watch.’**

## **EU’s Dombrovskis and Malaysia’s Zafrul meet to discuss trade, no FTA talks breakthrough achieved**

On 20 April, EU’s Trade Commissioner Valdis Dombrovskis and Malaysia’s Minister of Investment, Trade and Industry Tengku Zafrul met online to discuss **prospects for further bilateral and regional cooperation.** The meeting was held **a week after the EU extended its anti-dumping measures on stainless steel fittings on China and Taiwan to Malaysia.** The Commission found Chinese producers were circumventing anti-dumping measures imposed on them via the country, and therefore imposed a 64.9% duty on ‘Malaysian false flag products’ while exempting two ‘genuine’ Malaysian producers. Equally, the **EP’s greenlighting of the deforestation regulation was not well received in Kuala Lumpur**, with the Malaysian government denouncing the regulation is a ‘deliberate effort’ to damage and hinder the country’s palm oil industry.

In these circumstances it is no surprise that Free Trade Agreement (FTA) talks remain in Kuala Lumpur’s deep freeze. **Malaysia put negotiations on hold back in 2012**, unwilling to cede to Brussels’ demands on the liberalisation of the service sector, removal of caps on foreign equity holdings, and intellectual property rights, as well as on ‘sustainable’ palm oil. **Anwar Ibrahim**, a pro-democracy reformist keen to work with the West, **was appointed Prime Minister** on 24 November. **Brussels misread this as the sign of a thaw**, but seemingly even the prospects of being ASEAN’s left behind member state in terms of an FTA with Brussels was not enough to break the deadlock.