



# EU-Thailand Newsletter

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## **Corporate Sustainability Due Diligence: how will the Directive affect Thai companies?**

The European institutions are deeply divided over the issue of whether or not to include Small- and Medium-Sized Companies (SMEs) in the scope of the upcoming Directive on Corporate Sustainability Due Diligence. This will require European Union (EU) companies to address and redress human rights violations and negative environmental impacts throughout their supply chains, including outside of the EU.

The European Commission's initial proposal set relatively high turnover thresholds for companies covered by the legislation, set either at €150 million or €40 million where at least 50% of net turnover generated was in forestry, fisheries, textiles, agriculture or extraction activities – the so-called 'high-risk sectors.' However, the European Parliament (EP) is seeking to lower these thresholds to companies with a turnover of over €40 million, and €8 million with 30% of turnover generated in those 'high-risk sectors'<sup>1</sup>. The outcome will see final figures somewhere between those proposed by the European Commission and the EP.

This legislation will have a direct impact both on Thai companies exporting to the EU and those supplying EU companies with parts, components, or materials. The EP's intention is to require companies to ensure that their entire value chains are climate-neutral by 2050 while putting in place deterrents to them re-locating parts of their operations outside of the EU.

The final draft of the Due Diligence legislation is not expected before the end of 2023.

## **The European Parliament signals it will back the EU-Thailand Partnership and Cooperation Agreement**

The EP Committee on Foreign Affairs debated (28 February) the recently agreed EU Partnership and Cooperation Agreement (PCA) with Thailand. This agreement covers political, economic, social and environment cooperation, and paves the way for the conclusion of Free Trade Agreement (FTA) negotiations. The EU has previously signed PCAs with five other ASEAN member states where an FTA has been concluded (Singapore and Vietnam) or is under negotiation (Indonesia, Malaysia, and the Philippines).

The Committee debate showed unanimous support for the PCA across all political groups. Yet, at the same time, signalled areas the EU and EP will be paying close attention to in the FTA's conclusions. These include labour and minority rights, the death penalty, and freedom of

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<sup>1</sup> Stakeholder consultation on the Corporate Sustainability Due Diligence Directive with Axel Voss (shadow rapporteur, EPP)



expression. Brussels has a tradition in its FTAs of broadening agreements to go beyond strictly trade issues.

## **EU ban on new sales of CO2-emitting cars from 2035 on hold**

As part of the European Green Deal – the package of measures to accelerate the EU's green transition – member states agreed in October 2022 to ban car internal combustion engines sales by 2035. Now, Germany, the biggest car producer in Europe, has decided to hold up the legislation's final approval. Berlin now wants combustion engines that use synthetic fuels, such as biodiesel, to continue to be allowed on the road after 2035. They have collected support from Italy, Poland, Czechia and Bulgaria.

Any impact on Thailand will be indirect. This would be as regard the rubber market. According to Hyundai,<sup>2</sup> tyres on electric vehicles wear 20% faster than those powered with traditional internal combustion engines due to differences in acceleration. Any pullback from a total EU-wide ban will see a reduction in EU rubber demand.

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*EU-Thailand Newsletter by the Royal Thai Embassy, Brussels and Mission of Thailand to the European Union, in collaboration with Polint, as part of the Embassy's Intelligence Monitoring and Early-Warning Unit (IMEU) Project.*

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<sup>2</sup> <https://www.hyundaimotorgroup.com/story/CONT000000000050465>