



EU-Thailand Newsletter

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Green Deal Industrial Plan: reshoring production and correcting dependencies

The European Commission presented two key legislative proposals (16 March) to re-industrialise the EU and boost its digital and green transition: the Net Zero Industry Act and the Critical Raw Materials Act. These are the Europe's answer to two external threats: (1) the **US' and China's massive green-tech subsidies**, which undermine the competitiveness of European industry, and (2) the **overdependence on third countries**, especially China, for **critical raw materials**.

The **Net-Zero Industry Act** wants the EU manufacturing capacity for strategic net-zero technologies to reach 40% of the total domestic demand by 2030 whilst sharply **reducing supply chain and import vulnerabilities**. To that end, a **favourable environment for investment in net-zero technologies** is to be supported by prioritising net-zero strategic projects, lowering administrative burden for net-zero manufacturing projects, and attracting investment in areas, such as hydrogen through the proposed European Hydrogen Bank. A list of **'strategic technologies'** is provided, which includes solar photovoltaic and thermal, biomethane, and innovative grid technologies.

There are **opportunities for Thailand in the solar energy sector**, as current EU supply is dominated by China. According to a study by the Hinrich Foundation¹, a diversification of production to ASEAN countries such as Vietnam, Thailand, and Malaysia would strengthen supply chain resilience and reduce carbon emissions.

The **Critical Raw Materials Act** aims at **improving refining, processing and recycling of raw materials as well as diversification of supply**. The targets for 2030 are to produce a minimum of 10%, process 40%, and recycle 15% of the bloc's annual consumption, while not depending on a single third country for above 65% for the demand of each material. In order to ensure global supply chains, **the EU will finance relevant projects through the Global Gateway**, its large-scale global infrastructure investment programme. No projects for Thailand have been announced to date.

Natural rubber – considered a critical raw material since 2017 – **has been de-listed**. Thailand is the EU's second largest provider after Indonesia. This means Brussels will be giving priority to environmental impact over supply – the EU deforestation regulation envisages strict environmental monitoring. Nevertheless, **Thailand** could benefit from the EU diversification agenda with respect to magnesium and baryte.

¹ <https://www.hinrichfoundation.com/research/wp/sustainable/net-zero-s-trade-imperative/>



Reform of the European electricity market: Brussels pushes for more renewables

The European Commission published on 14 March its proposal to reform the EU electricity market. It seeks to **accelerate the deployment of renewables** to triple production before 2030. In addition, it looks at **reducing and buffering the impact of volatile fossil fuel prices** on electricity prices to protect consumers from future price spikes, like ones that followed Russia's invasion of Ukraine. This should protect the competitiveness of European industry, especially in energy-intensive sectors. However, the fundamentals of the EU market will remain the same, meaning **cheap renewables and nuclear power will provide baseload power** and a strengthening of the single market in the sector will allow frictionless trading **between member states at critical junctures and times of scarcity**.

For Thailand, both the **Partnership and Cooperation Agreement (PCA) – under article 39 on energy** – and a finalised **FTA will incentivise EU investment, especially in solar and wind projects**². Additionally, through the **EU-ASEAN Energy Dialogue**, member states will be in a position to benefit from best practice to deliver regional **electricity market integration** based on **clean energy and greater energy efficiency**.

The EU's renewed push for Free Trade Agreements

The EU has recognised – in a partial U-turn – that in order to achieve its ambitious green transition, it needs to conclude a further set of FTAs. Brussels **concluded its negotiations with New Zealand** in June 2022 and **aims to conclude a deal with Australia** before the end of the year. Latin America, and more specifically **Mercosur** – Argentina, Brazil, Paraguay, and Uruguay – is now seen as a key partner and an **agreement is currently being finalised**. Concerns over Amazon deforestation is the main sticking point, but there is optimism the election of Luiz Inácio Lula da Silva as Brazilian President will break the current impasse.

In Asia, ASEAN is the sought economic partner. Brussels has **trade deals already in place with Singapore (2019) and Vietnam (2020)** and is **currently in negotiations with Indonesia** – a priority partner for the EU. **Negotiations with Thailand**, which were put on hold in 2014, **will re-start in the coming months**. Deals with **Malaysia and the Philippines are on hold**, waiting decisions from Kuala Lumpur and Manila.

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² <https://www.wfw.com/articles/new-thailand-eu-partnership-cooperation-agreement-a-step-towards-a-free-trade-agreement/>