

"The EU has implemented CBAM. Is Thailand ready?"



"This is more than just another trade regulation," noted an expert in global environmental policy. "It's a wake-up call for developing economies."

Climate Policy Puts Thai Exports Under Pressure

As the European Union (EU) implements its groundbreaking Carbon Border Adjustment Mechanism (CBAM), Thai exporters face a critical inflection point in global trade. The EU's policy, targeting over \$410 million of Thailand's exports to Europe, is reshaping international supply chains and raising questions about the country's readiness. CBAM, a central element of the EU's Green Deal, aims to curb global emissions by imposing carbon costs on high-emission imports, sending ripples through key industries like steel, aluminum, and cement.

The mechanism, which began its rollout in 2023 and will reach full implementation by 2026, challenges developing countries like Thailand to

align with stringent EU standards. With carbon intensive sectors at its core, CBAM compels Thailand's industries to balance economic competitiveness with sustainable practices. The stakes couldn't be higher: can Thailand pivot quickly enough to thrive in this carbon-conscious era, or will it risk losing market access to one of the world's largest trading blocs?

What is CBAM? A Bold Step Toward Carbon Accountability

The Carbon Border Adjustment Mechanism (CBAM) is the EU's latest weapon in the fight against climate change—a pioneering policy that puts a price tag on the carbon emissions embedded in imports. Think of it as a "carbon tariff," designed to level the playing field

between EU manufacturers, who pay for their emissions, and foreign competitors, who often do not.

Launched on October 1, 2023, CBAM represents a radical shift in international trade. It functions as a kind of carbon passport for products entering the EU market. The mechanism works in tandem with the EU's existing cap-and-trade system, which mandates that EU companies exceeding their allocated carbon emissions must purchase additional emission allowances.

As the EU tightens its emissions cap and phases out free allowances for domestic producers, pressure mounts on both European and foreign manufacturers. The equation is simple: the higher the carbon footprint, the higher the cost of doing business with Europe. For foreign exporters, CBAM means unprecedented scrutiny of production processes. Every ton of carbon dioxide emitted during manufacturing must be accounted for and paid for through CBAM certificates, priced to match the EU's domestic carbon market.

The message is clear: adapt to cleaner production methods or face rising costs in one of the world's largest markets. This policy isn't just about environmental regulation—it's a structural shift in global trade dynamics, pushing industries toward a low-carbon future through market incentives.

CBAM Timeline: Phased Implementation for Maximum Impact

The EU has devised a strategic three-phase timeline for CBAM implementation, balancing the urgency of climate action with practical adaptation periods for businesses:

Transitional Period (2023-2025)

During this phase, importers are required to report greenhouse gas emissions for regulated products but face no financial obligations. This reporting-only period is a learning phase, allowing businesses to understand CBAM

requirements while building monitoring systems and expertise.

Definitive Period (2026-2034)

From 2026, CBAM enters its core phase. Importers must purchase CBAM certificates, with prices pegged to the EU's carbon market rates. During this nine-year period, Free Emission Allowances under the EU ETS will be phased out, increasing the scope of carbon pricing across industries. This gradual approach provides businesses with time to adapt and invest in cleaner technologies.

Full Implementation (2035 onwards)

By 2035, The CBAM will fully mature. The elimination of Free Emission Allowances ensures uniform carbon pricing for all imported and EU-produced goods, establishing a comprehensive framework that holds all products accountable for their carbon footprint.

The Products Under Scrutiny and Thailand's Export Exposure

CBAM initially targets six key sectors: cement, iron and steel, electricity, hydrogen, fertilizers, and aluminum. By 2026-2027, the scope will expand to include chemicals and polymers, and by 2035, it will encompass all products imported into the EU.

In the first nine months of 2024, CBAM-regulated Thai exports to the EU were valued at \$410.2 million, representing 1.9% of Thailand's total EU exports (\$21,079.4 million) and just 0.2% of global exports. While the current impact appears limited, the focus on sectors like iron, steel, and aluminum—key components of Thailand's industrial base—signals greater challenges ahead.

Furthermore, the anticipated expansion of similar mechanisms by the EU and the US, along with the inclusion of value chain emissions calculations, underscores the urgency for Thai industries to prepare. Even sectors not directly

covered by CBAM may face ripple effects through supply chain interconnections.

CBAM's Impact on Exporting Countries

The implications of CBAM extend far beyond Thailand. Exporting countries face significant challenges and opportunities as they navigate this new carbon-conscious trade landscape:

Increased Costs: Compliance with CBAM entails costs for measuring and reporting emissions, purchasing CBAM certificates, and upgrading production processes. These expenses could erode short-term competitiveness, particularly for carbon-intensive industries like steel and cement. Failure to adapt risks long-term exclusion from the EU market.

Potential Decline in Exports: Countries with lower environmental standards and limited capacity to transition to greener practices face indirect trade barriers. For economies reliant on high-emission exports, CBAM could significantly reduce trade volumes, impacting GDP and economic stability.

Opportunities for Green Investment: CBAM incentivizes investment in green markets such as renewable energy, carbon capture, and low-emission technologies. Exporters willing to transition to sustainable practices can gain access to growing global green markets and attract environmentally focused investments.

Driving Production Innovation: By pressuring industries to adopt cleaner technologies, CBAM accelerates the shift toward sustainable production. This trend, mirrored by initiatives like the US "polluter import fee," positions sustainability as a cornerstone of future global trade.

Thailand Faces CBAM Challenge: How Should It Adapt?

While UNCTAD data suggests Thailand is not among the top 20 nations most vulnerable to CBAM, the country cannot afford complacency.

Key export-driven industries such as cement, steel, and aluminum must prepare for stricter environmental standards or risk losing competitiveness in global markets.

Thailand should prioritize developing a comprehensive carbon emissions database, covering the entire production chain from upstream to downstream. Accurate data will be essential for compliance, ensuring uninterrupted exports when CBAM regulations are fully enforced. Additionally, detailed emissions tracking can guide strategic reductions, enhancing operational efficiency and competitiveness.

Beyond compliance, Thailand's draft Climate Change Act, expected to come into force in 2027, signals the nation's commitment to reducing greenhouse gas emissions. However, implementing this policy requires close collaboration between the public and private sectors.

Adapting to CBAM will be neither easy nor cheap. Upgrading industrial processes, adopting renewable energy solutions, and implementing emissions tracking systems involve significant costs. Yet, the alternative—losing market access and falling behind in a decarbonized global economy—presents far greater risks.

Conclusion: A Catalyst for Sustainable Growth

CBAM is more than just a regulatory hurdle—it's a catalyst for transformation. For Thailand, adapting to CBAM offers an opportunity to lead Southeast Asia's green industrial revolution. By prioritizing sustainability, embracing innovation, and fostering collaboration, Thailand can turn CBAM's challenges into competitive advantages.

The stakes are high, but so are the rewards. For Thai industries ready to pivot, CBAM represents not just a survival strategy but a path to long-term resilience in a carbon-conscious global market.

Saralee Wongngern

Saralee.Wongngern@bangkokbank.com

Archawee Eiamsoonthonchai

Archawee.Eiamsoonthonchai@bangkokbank.com

Strategic Outlook and
Transformation Management
Office of the President