TRENDS IN SOUTHEAST ASIA

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Implications for ASEAN-EU Relations

Melinda Martinus and Kanin Laopirun

ISSUE 1
2023

YUSOF ISHAK INSTITUTE
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ISEAS YUSOF ISHAK INSTITUTE

Published by: ISEAS Publishing
30 Heng Mui Keng Terrace
Singapore 119614
publish@iseas.edu.sg
http://bookshop.iseas.edu.sg

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ISEAS Library Cataloguing-in-Publication Data

Name(s): Martinus, Melinda, author. | Laopirun, Kanin, author.
Title: The EU's Carbon Border Adjustment Mechanism (CBAM) : implications for ASEAN-EU relations / by Melinda Martinus and Kanin Laopirun.
Description: Singapore : ISEAS-Yusof Ishak Institute, January 2023. | Series: Trends in Southeast Asia, ISSN 0219-3213 ; TRS1/23 | Includes bibliographical references.
Identifiers: ISBN 9789815104011 (paperback) | ISBN 9789815104028 (ebook PDF)
Subjects: LCSH: Carbon taxes—European Union countries. | European Union countries—Commerce—Southeast Asia. | Southeast Asia—Commerce—European Union countries. | Climatic changes—Government policy.
Classification: LCC DS501 I59T no. 1(2023)

Typeset by Superskill Graphics Pte Ltd
Printed in Singapore by Mainland Press Pte Ltd

FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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The EU's Carbon Border Adjustment Mechanism (CBAM): Implications for ASEAN-EU Relations

By Melinda Martinus and Kanin Laopirun

EXECUTIVE SUMMARY

- There is a growing policy trend that in addressing climate change, various trade measures must be implemented to enhance the sustainable practices of global stakeholders.
- As a response to level up the playing field of global trade partners in enhancing sustainability, the EU recently introduced the European Union (EU) Carbon Border Adjustment Mechanism (CBAM), which will impose a carbon price on certain imports, namely, electricity, aluminium, cement, iron and steel, and fertilizer, to the EU.
- The EU CBAM may, however, cause trade disputes among World Trade Organization (WTO) members.
- EU and ASEAN trade relations are currently on an upswing trajectory, and there are therefore some risks involved in implementing the EU CBAM in the ASEAN region.
- At the same time, despite the perceived adverse effects, there is room for improvement in communicating EU CBAM implementation in ASEAN.
- The EU should introduce more calibrated approaches to implementing the EU CBAM in ASEAN, particularly considering the political and strategic risks, economic development and capacity, and climate ambitions of individual ASEAN countries.

The EU's Carbon Border Adjustment Mechanism (CBAM): Implications for ASEAN-EU Relations

By Melinda Martinus and Kanin Laopirun[1]

INTRODUCTION

According to international frameworks, climate solutions need to be scaled up in critical international trade issues to fulfil the United Nations Sustainable Development Goals' (UNSDG) goal 13, the 2015 Paris Agreement, and the decisions taken in the 2021 United Nations Climate Change Conference (COP 26) and the subsequent conference in 2022 (COP 27).

The European Union (EU) and the Association of Southeast Asian Nations (ASEAN) are the two most successful regional blocs, and trade relations between the two are currently on an upswing trajectory. However, the EU's current plan to impose a Carbon Border Adjustment Mechanism (CBAM) as part of the EU Green Deal will likely cause disputes with global partners, including ASEAN.

This paper analyses the EU CBAM and its technical implementation and, most importantly, the possible implications of the EU CBAM on ASEAN-EU strategic relations. Through literature reviews and

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interviews with expert partners, this paper attempts to capture the regional perceptions and possible calibrated scenarios of implementing the EU CBAM in the ASEAN region.

Section 1 explains the rationale behind EU CBAM, and its technical aspects, providing the nuanced perspectives of those who support and those who disapprove of its implementation, so as to give readers a balanced view of the issue. Section 2 looks closely at the strategic implications of the EU CBAM to ASEAN-EU relations and discusses ASEAN's receptiveness to such a policy. Section 3 concludes with possible future scenarios to be explored by the EU and ASEAN for adaptation to the EU CBAM.

SECTION 1: ABOUT THE EU CBAM

As part of its flagship Green Deal policy launched in 2021, the European Union introduced a Carbon Border Adjustment Mechanism (CBAM). If it fully takes off, the EU CBAM will impose a carbon price on certain imports, such as electricity, aluminium, cement, iron and steel, and fertilizer, into the EU region.[2]

The CBAM aims to strengthen global climate change actions, and is much aligned with the EU's current unwavering commitment to the UN Paris Agreement on climate change. Under the Paris Pledge, countries worldwide are fully committed to limiting global warming to well below 2 degrees Celsius and preferably to 1.5 degrees Celsius. By imposing the CBAM, the EU aims to address inconsistencies in the climate ambitions of countries around the world and to extend the geographical reach of its carbon price to reflect accurately the carbon content of imports. By doing so, the EU also hopes to prevent companies from relocating their activities to countries with lower carbon emission tariffs or taxes.

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[2] European Commission, "Carbon Border Adjustment Mechanism", *European Commission* (blog), 14 July 2021, https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3661

From a fairness perspective, such a measure will ensure healthy competition between onshore and offshore companies. Companies in the EU currently must pay a high price for carbon emissions. Under the EU Emissions Trading Systems (ETS), the price per ton of CO2 emitted reached €69 (US$75) in 2021, which makes carbon prices in the EU one of the highest in the world.[3] According to the World Bank Carbon Pricing Dashboard, major economies in Asia are still trailing behind that number. Under their national ETS, China, Korea, and Japan only imposed a carbon tax of US$9.20, US$18.75, and US$2.30 per tonne of CO2 emitted, respectively.[4] The EU thus imposes a carbon price on companies or exporters from countries with low carbon prices in order to level up the playing field.

How Does the EU CBAM Work?

When the EU CBAM is fully implemented, importers of foreign goods covered under the industry scope must buy carbon certificates corresponding to the carbon price that would have been paid, assuming the goods have been produced under the EU's carbon pricing rules. Alternatively, if a non-EU producer can show that they have already paid the price for the carbon used in the production of the imported goods, EU importers are allowed to claim a corresponding reduction.[5]

The initial phase will apply to the import of electricity, cement, aluminium, fertilizer, and iron and steel products. Under the current plans, the EU CBAM is to be fully implemented by 2026. During the transitional phase covering the period 2023–25, EU importers will have

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[3] Tim Schauenberg, "CO2 Tax at EU Border: Revolution or Protectionism?", Dw.Com, 12 July 2021, https://www.dw.com/en/carbon-border-tax-co2-eu-europe-global-south/a-59987093

[4] World Bank, "Carbon Pricing Dashboard | Up-to-Date Overview of Carbon Pricing Initiatives", https://carbonpricingdashboard.worldbank.org/map_data (accessed 31 October 2022).

[5] European Commission, "Carbon Border Adjustment Mechanism".

to comply with reporting requirements but are not required to purchase and surrender CBAM certificates.[6] However, positions on CBAM implementation remain unclear. Some countries in the EU are calling for faster implementation of the full mechanism from 2025 onwards while others are calling for the expansion of the scope to cover more sectors and emissions from the same date.[7]

The EU CBAM became a key priority under the French Presidency of the Council of the European Union in 2022. The French Presidency has been mobilizing resources to align the EU CBAM with the World Trade Organization's (WTO's) standards and the multilateral climate framework.[8] The European Council has agreed that the new registry of CBAM declarants (importers) will be centralized at the EU level, and recently also mandated the establishment of a minimum threshold which exempts consignments with a value less than €150 from CBAM obligations.[9]

Is the EU CBAM Promising?

The EU CBAM has however received much criticism worldwide. Chief among these are the economic risks it poses to developing countries' exports regime. However, a study by the United Nations Conference on

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[6] Graham Stuart et al., "EU: European Commission Adopts Proposal for New Carbon Border Adjustment Mechanism", *Global Compliance News*, 23 August 2021, https://www.globalcompliancenews.com/2021/08/23/eu-european-commission-adopts-proposal-for-new-carbon-border-adjustment-mechanism10082021/

[7] Victoria Hatherick, "Doubts Persist on Suitability of EU CBAM", Argus Media, 8 December 2021, https://www.argusmedia.com/en/news/2281231-doubts-persist-on-suitability-of-eu-cbam

[8] European Council of the EU, "Council Agrees on the Carbon Border Adjustment Mechanism (CBAM)", 15 March 2022, https://www.consilium.europa.eu/en/press/press-releases/2022/03/15/carbon-border-adjustment-mechanism-cbam-council-agrees-its-negotiating-mandate/

[9] Ibid.

Trade and Development (UNCTAD) indicates that the impacts on this front would be minuscule. Developing countries will potentially see only a reduction of 1.4 per cent of exports across the total of the targeted carbon-intensive sectors if the EU CBAM is implemented with a price of US$44 per tonne of embedded CO2 emissions, and a 2.4 per cent reduction if it is implemented with a US$88 per tonne price.[10]

The UNCTAD study also points out that while the EU CBAM is intended to reduce carbon leakage and to level the playing field of trade partners so as to increase their climate ambitions, its mitigating of global carbon emissions will be relatively minuscule. The EU CBAM will only help to cut 0.1 per cent of global CO2 emissions if it is fully implemented.[11] Moreover, justifying the EU CBAM through the climate rationale might turn out to be challenging because the EU and most of its least-developed trading partners are the signatories of the United Nations Framework Convention on Climate Change (UNFCCC). At the Earth Summit in Rio de Janeiro in 1992, all UNFCCC signatories pledged to respect the principle of Common but Differentiated Responsibilities (CBDR),[12] which acknowledges individual countries' different and differing responsibilities in addressing climate change based on their respective capacities. Imposing a CBAM on least-developed countries might be perceived as a violation of the CBDR principle.

Second, there is concern that the EU CBAM could also exacerbate income and welfare distribution inequalities between rich and poor economies by acting as a major non-tariff barrier. The EU could potentially favour goods produced in developed countries because they

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[10] UNCTAD, "A European Union Carbon Border Adjustment Mechanism: Implications for Developing Countries", 2021, https://unctad.org/system/files/official-document/osginf2021d2_en.pdf

[11] Ibid.

[12] United Nations Climate Change, "Introduction to Climate Finance", UNFCCC, https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance/introduction-to-climate-finance (accessed 31 October 2022).

utilize less carbon-intensive production processes. Developed countries are also relatively advanced in pursuing carbon tax measures in their own jurisdictions; hence, it is technically easier for producers in developed countries to integrate with the EU CBAM. In such a case, EU CBAM implementation may depart from the WTO's Most-Favoured-Nation (MFN) principle[13] according to which countries cannot normally discriminate between their trading partners; they would be doing this if they give preference to trading partners who have robust emissions trading mechanisms. A study by the Task Force on Climate, Development and the International Monetary Fund (IMF) argues that at its broadest scope of implementation, the EU CBAM could result in an annual welfare gain in developed countries of US$141 billion while developing countries could see an annual welfare loss of US$106 billion.[14]

It should be noted, though, that the WTO is the governing body of trade, and it has upheld the principle of trade liberalization since the foundation of the General Agreement on Tariffs and Trade (GATT) amid the increasing need to ramp up sustainability practices in the global supply chain. The WTO is to stage the discussions and facilitate the exchange of views on trade and the environment, including the EU CBAM. It seems to push for both a global carbon pricing agreement and, simultaneously, the liberalization of goods and services. But the devil is in the details. The WTO needs to balance emissions trading systems, with trade fairness and other policy measures.

Third, the technical challenges of the EU CBAM are unavoidable. A policy report from Bruegel points out that implementing the EU CBAM will be potentially costly, as distinguishing targeted and non-targeted

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[13] World Trade Organization, "Understanding the WTO: Principles of the Trading System", https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm (accessed 31 October 2022).

[14] Xiaobei He, Zhai Fan, and Jun Ma, "The Global Impact of a Carbon Border Adjustment Mechanism, A Quantitative Assessment", Task Force on Climate, Development and the International Monetary Fund, March 2022, https://www.bu.edu/gdp/files/2022/03/TF-WP-001-FIN.pdf

products will be exceptionally challenging because the supply chain of goods production has now become highly complex, and carbon pricing mechanisms across the world vary greatly.[15] Exporters can, to some extent, re-route their products from countries that levy carbon tariffs to unregulated markets. For instance, an aluminium producer in India might stop exporting to the EU due to the EU CBAM, and re-route the aluminium to the United States. A company based in the US that may be somewhat already integrated with the EU ETS can then help re-sell it to the EU. Hence, to ensure that the EU CBAM entirely takes off, it requires more robust rules of origin (ROO) in trade agreements.[16]

Fourth, implementing the EU CBAM is politically costly for the EU. The EU must deal with the strategic and political implications of the EU CBAM on its trading partners or in various multilateral trade fora. The political repercussions might not be direct but can have long-term implications. For instance, least-developed countries that see that the EU CBAM would negatively affect their exports would likely hedge by seeking other trade partners, reducing their exports to the EU, and re-routing their exports to the least-carbon-regulated countries, which will ultimately encourage decoupling from the EU. There is already a deep trade divide between major global blocs, such as the United States versus China; developing versus developed countries; and Asian versus Western countries. There is a considerable risk that the EU CBAM will further fragmentize these major global trade blocs. Despite the aforementioned risks, there are still opportunities for the EU to promote and communicate the EU CBAM better, especially in the ASEAN region, one of its largest trading partners.

[15] Georg Zachmann and Ben McWilliams, "A European Carbon Border Tax: Much Pain, Little Gain", Bruegel, March 2022, https://www.bruegel.org/sites/default/files/wp-content/uploads/2020/03/PC-05-2020-050320v2.pdf

[16] Melinda Martinus and Jiahui Qiu, "Trade and Environmental Disputes May Persist Despite Promising Leaders' Summit on Climate". *ISEAS Perspective*, no. 2021/81, 23 June 2021, https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2021-85-trade-and-environmental-disputes-may-persist-despite-promising-leaders-summit-on-climate-by-melinda-martinus-and-qiu-jiahui/

SECTION 2: EU CBAM IMPLICATIONS TO ASEAN-EU RELATIONS

With the year 2022 having marked the 45th anniversary of ASEAN-EU relations and also witnessing the launch of the ASEAN EU Strategic Partnership (2023–27), the EU has the opportunity to introduce and promote the EU CBAM in ASEAN in more calibrated ways.

Currently, the EU is ASEAN's third largest trading partner after China and the United States, accounting for around 10.6 per cent of total ASEAN trade.[17] Congruently, the ten ASEAN member states collectively constitute the EU's third largest trading partner outside Europe (after China and the US) with more than €215.9 billion of trade in goods in 2021.[18]

Despite its high dependency on trade, ASEAN's response to the EU CBAM has been generally muted. This could be because the impact of the EU CBAM may be insignificant.[19] According to a study by the Policy Center for the New South, it is instead Russia, Turkey, and China, which are the top three most impacted countries in terms of the aggregated value of exports of exposed sectors.[20] While other major Asian economies such as the Republic of Korea and India are among the top ten affected countries, among ASEAN countries, only Malaysia and Indonesia would probably be affected due to the considerable value of their exports of iron and steel and aluminium to the EU. Be that as it may, the overall impact would be quite minuscule (see Figure 1).

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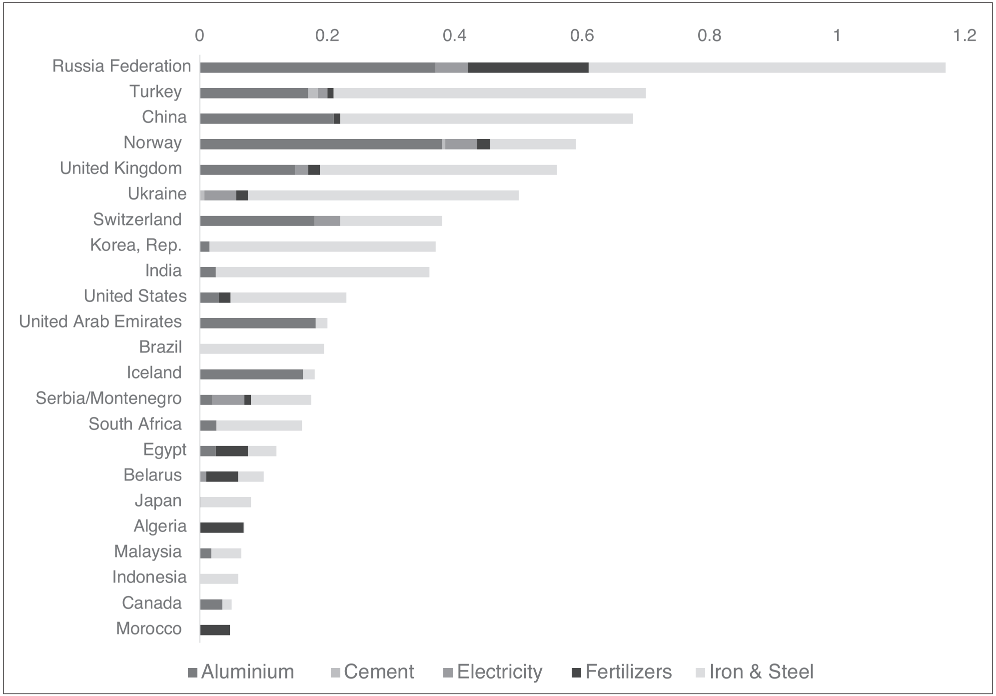
[17] European Commission, "EU Trade Relations with Association of South East Asian Nations (ASEAN)", https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/association-south-east-asian-nations-asean_en (accessed 31 October 2022).

[18] European Commission.

[19] Mirza Sadaqat Huda, "The Implications of EU's CBAM for Southeast Asia". *FULCRUM* (blog), 19 August 2022, https://fulcrum.sg/the-implications-of-eus-cbam-for-southeast-asia/

[20] Rim Berahab, "Is the EU's Carbon Border Adjustment Mechanism a Threat for Developing Countries?", Policy Center for the New South, January 2022, https://www.policycenter.ma/opinion/eus-carbon-border-adjustment-mechanism-threat-developing-countries

Figure 1: Exports to the European Union in CAM sectors in 2019; 23 most-exposed countries in terms of aggregated value of exports (US$ billion)



Source: World Integrated Trade Solutions (WITS); adapted from the Policy Centre for the New South.

EU policymakers therefore need to adopt a larger optic regarding implementing the CBAM on ASEAN countries, especially since the EU is increasingly seen as unilateralist in protecting its interests on the international scene, in areas such as climate mitigation and human rights.[21] A study by the Konrad Adenauer Foundation titled Perception of the Planned EU Carbon Border Adjustment Mechanism in the Asia Pacific: An Expert Survey suggests that although the EU CBAM will not apply to palm oil, one of the largest export commodities of Indonesia, due to the ongoing conflict with the EU over palm oil exports, most policymakers in Jakarta would probably see the EU as protectionist.[22]

A similar scenario would perhaps apply to Malaysia. Malaysia has submitted a dispute complaint against the EU over the latter's decision to phase out the import of unsustainable palm oil due to deforestation concerns. Malaysia and Indonesia are the top two palm oil exporters to the EU, accounting for more than 60 per cent of the EU's total palm oil imports.[23] Brussels's decision to ban the import of palm oil is perceived as discriminatory and unilateralist by both countries, and although both Kuala Lumpur and Brussels have committed to de-escalating the dispute and finding a win-win solution, the ongoing conflict might take time to de-escalate.

To complicate matters, the ongoing trade dispute might have a more significant geopolitical implication. In his visit to Kuala Lumpur in July

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[21] Alan Hervé, "European Unilateralism as a Tool for Regulating International Trade: A Necessary Evil in a Collapsing Multilateral System", Robert Schuman Foundation, 29 March 2022, https://www.robert-schuman.eu/en/doc/questions-d-europe/qe-626-en.pdf

[22] Konrad Adenauer Stiftung, "Perception of the Planned EU Carbon Border Adjustment Mechanism in Asia Pacific — An Expert Survey", March 2021 https://www.kas.de/en/web/recap/single-title/-/content/perception-of-the-planned-eu-carbon-border-adjustment-mechanism-in-asia-pacific-an-expert-survey

[23] David Hutt, "What Are the EU's Options in Palm Oil Standoff?", Dw.Com, 22 July 2022, https://www.dw.com/en/what-are-eus-options-in-palm-oil-row-with-malaysia-and-indonesia/a-62564129

2022, China's Foreign Minister Wang Yi pledged that Beijing would increase its imports of palm oil from Malaysia.[24] It is not hard to imagine a scenario where the implementation of the EU CBAM would further exacerbate trade disputes between the EU and ASEAN countries, and draw ASEAN countries closer to environmentally less-regulated markets such as China.

Among major trade partners, India, China, Russia, the US, and the United Arab Emirates are likely to oppose the implementation of the EU CBAM.[25] From a geopolitical point of view, this position will likely instigate trade wars and the formation of coalitions with more favourable rules, to counteract the EU CBAM. ASEAN will likely be attracted to such alliances.

EU CBAM's State of Play in ASEAN

The main rationale for implementing the EU CBAM is environmental concerns. The EU has a strong reputation for helping the world achieve the Paris Agreement. According to a survey conducted by the ISEAS – Yusof Ishak Institute, the Southeast Asia Climate Outlook: 2022 Survey Report, the EU is perceived as the world's leader in demonstrating climate leadership among ASEAN citizens.[26] At the same time, EU trade policies might be perceived as unilateralist by ASEAN trade communities and economic policymakers, and it is therefore critical for the EU to balance environmental messages with the maintaining of trade fairness when dealing with ASEAN.

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[24] Ibid.

[25] Indra Overland and Rahat Sabyrbekov, "Know Your Opponent: Which Countries Might Fight the European Carbon Border Adjustment Mechanism?", *Energy Policy* 169 (1 October 2022): 113175, https://doi.org/10.1016/j.enpol.2022.113175

[26] Sharon Seah et al., "Southeast Asia Climate Outlook: 2022 Survey Report", ISEAS – Yusof Ishak Institute, 8 September 2022, https://www.iseas.edu.sg/wp-content/uploads/2025/07/2022-CCSEAP-Report-28-Oct.pdf

While many expect the ASEAN region to oppose the implementation of the EU CBAM due to their significant volume of commodity exports to the EU, the same study by the Konrad Adenauer Foundation, “Perception of the Planned EU CBAM in Asia-Pacific: An Expert Survey, indicates that ASEAN countries have diverging views on the EU CBAM.[27] While it is expected that Indonesian perceptions of the EU CBAM will be heavily influenced by the ongoing conflict with the EU over palm oil, a collaboration between the two sides on the improvement of the sustainable timber agreement has been on a good trajectory. If the EU provides more capacity-building to assist Indonesia’s carbon reduction measures, the EU CBAM could become more accepted by Jakarta. It is also essential to state a clear position on how the EU will ultimately utilize the revenues generated from the EU CBAM. Many international stakeholders expect the EU to reinvest the revenues into carbon mitigation projects in developing countries to ease the tariffs that are imposed on developing countries.

In Singapore, the landscape of perceptions is exceptionally different. Singapore does not oppose the EU CBAM as long as it is fair and compliant with WTO rules. At the same time, the country is concerned with the perceived unilateralist nature of the EU CBAM. Singapore may benefit from the EU CBAM because the country is a financial hub and a leading country in the region for climate finance, but it tends to believe that a multilateral, incentive-based approach would be better in promoting the EU CBAM in the region.

In Thailand, meanwhile, the EU CBAM is expected to have no major impact on the economy. Thailand could potentially leverage the EU CBAM to demand that its businesses and industries do more on climate transparency, but Thai stakeholders will also see the mechanism as administratively complex and may struggle when interacting with it.

Due to ASEAN countries’ divergent positions on the EU CBAM, the EU might not be able to implement it as a region-to-region policy. While ASEAN as a regional organization might not hold a common position

[27] Konrad Adenauer Stiftung, “Perception of the Planned EU Carbon Border Adjustment Mechanism in Asia Pacific – An Expert Survey”.

in responding to the EU CBAM, and ASEAN furthermore does not have any regional emissions trading schemes, it is still critical for the EU to leverage ASEAN's convening roles to dialogue with individual ASEAN countries. There are several ASEAN bodies and independent organizations to engage with in the ASEAN region, including (non-exhaustively):

1. ASEAN Ministerial Meeting on the Environment (AMME)
2. ASEAN Economic Minister Meeting (AEM)
3. ASEAN Free Trade Area Council (AFTA Council)
4. ASEAN Finance Ministers Meeting (AFMM)
5. ASEAN Directors-General of Customs Meeting (Customs DG)
6. ASEAN Business Advisory Council (ASEAN-BAC)
7. ASEAN Business Forum (ABF)
8. ASEAN Chamber of Commerce and Industry (ASEAN-CCI)
9. ASEAN Iron & Steel Industry Federation
10. Federation of ASEAN Shippers' Council
11. ASEAN Vegetable Oil Club (AVOC)

SECTION 3: CONCLUSIONS

Possible Scenarios

The momentum of the 45th anniversary of ASEAN-EU relations can be used to enhance political goodwill and cooperation on both sides. While the EU might face a dilemma in implementing the EU CBAM in the ASEAN region, the initiative is a step in the right direction to elevate international partners' climate change actions and to ensure that everyone prioritizes the reduction of global carbon emissions.

The EU must however respect the CBDR principle under the UNFCCC and the MFN principle under the WTO. It must ensure calibrated approaches in implementing the EU CBAM. In addition, it should also consider the following technical aspects during its implementation in ASEAN countries:

1. The EU CBAM should have an appropriate sequencing, with a timeline that includes a transitional period, an adjustment to the

implementation period and a monitoring assessment period to ensure that stakeholders in ASEAN are not left behind.

2. The EU should consider incentivizing trade partners who want to voluntarily participate in the EU CBAM during the trial phase to build up the confidence and trust of stakeholders.
3. The EU CBAM should also seek to complement or at least incentivize trade partners' domestic carbon pricing mechanisms in order to build up a more cohesive international carbon emissions trading scheme.
4. In communicating the EU CBAM with stakeholders in the ASEAN region, the EU should ensure cross-sectoral cooperation between environmental protection agencies and trade representatives to balance trade fairness with environmental considerations.
5. Technological support, capacity-building, and research and development support must be provided to the least-developed countries in ASEAN.
6. The EU must also channel back the collected revenues of the EU CBAM in ASEAN to finance carbon-mitigation projects, as a way to incentivize trading partners.

In parallel, ASEAN should collectively consider the following points for accommodating sustainability practices in trade policies, and adapting to the EU CBAM:

1. ASEAN should strengthen and coordinate among the sectoral bodies of trade and investment issues under the ASEAN Economic Community Pillar, together with environmental management of climate change efforts under the ASEAN Socio-Cultural Pillar, and political protocol under the ASEAN Political-Security Pillar, in order to adapt to the EU CBAM.
2. ASEAN should resume discussions with the EU to accommodate the trade and environmental measures of the EU CBAM into the ongoing Free Trade Agreement (FTA) negotiation without causing trade barriers.
3. Since the EU CBAM targets iron and steel, cement, fertilizer, aluminium and electricity, which are raw and secondary materials of production inputs, ASEAN should consider the rule of origin and

the global value chains of finished goods and services. Additionally, ASEAN should regularize geographical locations as imports, exports, and production and assembly activities are dispersed across the region, so as to ensure that the burden of the EU CBAM will be shared fairly across the region.

4. ASEAN should systematically enhance carbon pricing mechanisms in the region, in order to facilitate a bloc-to-bloc emissions trading system and streamline the implementation of the EU CBAM.
5. ASEAN countries should change their perception that the EU CBAM is a tariff imposed on their exports, and instead see it as a way to align their exports better with the Environmental, Social, Governance (ESG) movement and to be more competitive in the global market.
6. ASEAN should coordinate within the region and be active in engaging with major trading partners as well as external dialogue partners for the improvement of the EU CBAM and other regional climate change actions.

POLICY RECOMMENDATIONS

It is critical that the EU upholds the multilateral approach of the CBAM. We propose that it uses a more calibrated approach in imposing the EU CBAM on individual ASEAN countries. We suggest three indicators to ensure that the EU balances environmental protection objectives with trade fairness.

First, the EU must consider the political risks of the EU CBAM to the imposed countries. Implementing the EU CBAM on international trade partners with whom the current state of political relations is shaky will only exacerbate disputes, discouraging trade partners from pursuing economic cooperation with the EU, or worse, improving their trade relations with countries that have less robust environmental regulations.

Second, the EU must consider the economic development level of trade partners, making sure that they have the capacities to follow the rules and regulations established in Brussels. Imposing the EU CBAM without considering this aspect will likely diminish the EU’s reputation as a helpful strategic partner.

Third, the EU must consider the state of its trade partners' commitments to the Paris Agreement, including evaluating partner countries' Nationally Determined Contributions (NDCs) submissions to the UNFCCC. The EU can be stricter with countries that have not demonstrated climate change ambitions or that have manifested a political will that does not align with the global goal of carbon emissions reduction.

The following section elaborates on further inputs for more calibrated approaches to the EU CBAM with respect to individual ASEAN countries.

Brunei Darussalam

Brunei is considered a high-income economy under the World Development Indicator by the World Bank, with a current GDP per capita of US$31,722. Currently, Brunei does not have a bilateral trade agreement with the EU. The EU is however Brunei's seventh largest trading partner in goods, involving an overall value of €559.2 million in 2019.[28] The EU is also Brunei's third largest supplier of goods.

Brunei submitted their updated NDCs to the UNFCCC on 31 December 2020, and it is committed to reducing its Greenhouse Gas (GHG) emissions by 20 per cent relative to Business-As-Usual levels by 2030.[29] The Brunei Darussalam National Climate Change Policy (BNCCP) indicates that the country will impose a price on carbon emissions for its industrial sector by 2025, and establish a proper Monitoring, Reporting and Verification (MRV) system to ensure accuracy and credibility in baseline emissions data for imposing carbon pricing.[30]

Implementing the CBAM on Brunei is unlikely to cause a dispute in future Brunei-EU relations as trade activities between the two sides

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[28] EU-ASEAN Strategic Partnership, "Brunei Darussalam – EU-ASEAN", https://euinasean.eu/cooperation/bilateral-cooperation/brunei-darussalam/ (accessed 31 October 2022).

[29] Brunei Darussalam First NDC | UNFCCC, 2 June 2022, https://unfccc.int/documents/497350

[30] Ibid.

remain low in value currently. Brunei has also indicated that it will consider some carbon pricing mechanisms, making it ready to adapt to transnational carbon pricing in the future. There are no high risks involved in implementing the EU CBAM on Brunei Darussalam.

Cambodia

Cambodia and the EU are currently enjoying an uptick in trade relations under the ASEAN-EU negotiated cooperation framework. The EU is ranked as Cambodia's fifth biggest trade partner, accounting for 9 per cent of the country's total trade, while Cambodia is the EU's 61st largest trading partner (accounting for 0.1 per cent of the EU's total trade).[31] Bilateral trade between Cambodia and the EU was valued at €4.5 billion (US$4.98 billion) in 2021, up 4.6 per cent from a year earlier.[32] Cambodia's main export commodities to the EU are agricultural products, including milled rice. Other exports include textiles, footwear, travel goods and bicycles. These sectors will not be covered under the initial version of the EU CBAM.

Cambodia is considered a lower-middle-income country under the World Development Indicator by the World Bank, with a current GDP per capita of US$1,591. Cambodia is among one of the three least-developed countries in ASEAN.

Its updated NDCs seek to decrease emissions by 41.7 per cent from the Business-as-Usual scenario by 2030, with half of that reduction concentrated in the Forest and Land Use Sector (FOLU) and the rest primarily in the energy, agriculture, industry, and waste sectors.[33] There

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[31] European Commission, "EU Trade Relations with Cambodia", https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/cambodia_en (accessed 31 October 2022).

[32] *Khmer Times*, "Cambodia-EU Trade up 4.6 Percent to $4.98 Billion Last Year", 10 March 2022, https://www.khmertimeskh.com/501039659/cambodia-eu-trade-up-4-6-percent-to-4-98-billion-last-year/

[33] NDC Partnership, "Cambodia", *NDC Partnership, Country: Cambodia* (blog), https://pia.ndcpartnership.org/country-stories/cambodia/ (accessed 31 October 2022).

is no signal from Cambodia that the country will adopt carbon pricing and tax to encourage businesses to adopt sustainable practices.

Cambodia is probably not ready to adapt to the EU CBAM, although the EU CBAM will not have a significant impact on Cambodia's current exports to the EU. But, it is predicted that the EU and Cambodia will deepen their trade relations in the future with Cambodia possibly expanding the range of their export commodities to the EU. Hence, the country must pay attention and be ready to adapt to the EU CBAM. Meanwhile, considering Cambodia's economic development level and current climate ambitions, the EU must collaborate closely with Cambodian policymakers to ramp up the country's climate change actions.

Indonesia

Indonesia and the EU launched the Indonesia-European Union Comprehensive Economic Partnership Agreement (Indonesia-EU CEPA) in November 2021.[34] In 2021, Indonesia's exports to the EU accounted for 8.5 per cent of its global export of goods, amounting to €16.8 billion. Its imports from the EU accounted for 5.1 per cent of its global import of goods, amounting to €7.9 billion.[35] Indonesia's most important export commodities are oil and gas, minerals, crude palm oil, electrical appliances and rubber products. The EU's decision to ban the use of palm oil biofuels in Europe after 2021 caused a trade conflict between the two sides, given the fact that Indonesia depends significantly on the EU as a market for its palm oil products. Data show that the EU is Indonesia's

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[34] Asia Regional Integration Center, "Indonesia-European Union Comprehensive Economic Partnership Agreement Free Trade Agreement", 1 November 2021, https://aric.adb.org/fta/indonesia-european-union-comprehensive-economic-partnership-agreement

[35] Home and Delegation of the European Union to Indonesia and Brunei Darussalam, "EU Trade and Investment with Indonesia 2022/2023", 10 October 2022, https://www.eeas.europa.eu/delegations/indonesia/eu-trade-and-investment-indonesia-20222023_en?s=168

second largest palm oil export destination with 14.35 per cent market share, after India with a market share of 25.37 per cent.[36]

Indonesia is considered a lower-middle-income country under the World Development Indicator by the World Bank, with a current GDP per capita of US$4,291. According to the World Resources Institute, Indonesia is the 8th largest global carbon emitter, which is a result of its land use, land-use change and forestry (LULUCF). According to an analysis by the Climate Action Tracker, Indonesia is improving its long-term planning towards net zero, but its NDCs remain unchanged. Indonesia submitted its updated NDCs in July 2021, where it did not strengthen the country's 2030 carbon emissions target.[37] Indonesia is exploring a carbon tax to help raise its climate ambitions. A pilot project has been directed for coal-fired power plants at this moment. However, it is expected that the price will remain low at US$2.10 per tonne of carbon dioxide equivalent (CO2e), far from the carbon tax rate suggested by the World Bank and the International Monetary Fund, which is between $30 and $100 per tonne of CO2e for developing countries.[38]

Considering the strategic risks and the state of economic development of Indonesia, the EU might have difficulties in imposing the EU CBAM there. But, as one of the top ten global emitters, Indonesia's role in raising its climate ambitions is critical. The EU will need to initiate several mechanisms to make the EU CBAM acceptable there.

Laos

Currently, Laos and the EU do not have an existing FTA. However, the EU ranked as the fourth biggest trade partner of Laos (after Thailand,

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[36] Try Ananto Wicaksono, "Indonesia's Fight against the EU Palm Oil Ban", *Geopolitical Monitor* (blog), 17 February 2021, https://www.geopoliticalmonitor.com/indonesias-fight-against-the-eu-palm-oil-ban/

[37] Climate Action Tracker, "Indonesia", 23 July 2021, https://climateactiontracker.org/climate-target-update-tracker/indonesia/

[38] Petra Christi, "Does Indonesia's Carbon Tax Have the Power to Trigger a Sustainable Market Shift?", *SEADS* (blog), 14 June 2022, https://seads.adb.org/solutions/does-indonesias-carbon-tax-have-power-trigger-sustainable-market-shift

China and Vietnam), accounting for 4.2 per cent of the country's total trade.[39] Textiles, footwear and agricultural products dominate EU imports from Laos. These main export commodities are not included in the EU CBAM's exposed products, and thus, Laos is not directly impacted.

Laos is considered a lower-middle-income country under the World Development Indicator by the World Bank, with a current GDP per capita of US$2,551, and is one of the three least-developed countries in ASEAN.

Laos raised its ambition in its revised NDCs with an unconditional emissions reduction target of 60 per cent by 2030, relative to the baseline scenario,[40] also announcing net-zero greenhouse gas emissions by 2050. The country focuses on mitigation measures in the forestry and energy sectors to achieve its target, and has demonstrated political will with the promulgation of a number of related laws and regulations such as the new forestry law in 2019 and the Decree on Climate Change in September 2019.[41] However, the country still faces some barriers to climate change actions, such as poor coordination among government agencies, lack of accurate and credible data, as well as lack of funds and institutional support.

Laos might have difficulties conforming to the EU CBAM due to a lack of technical capacity and expertise; the EU must collaborate and help the country to adjust granularly to the EU CBAM regulations.

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[39] EU Trade Relations with Laos, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/laos_en (accessed 31 October 2022).

[40] UNDP Climate Promise, "Lao PDR", https://climatepromise.undp.org/what-we-do/where-we-work/lao-pdr (accessed 31 October 2022).

[41] T. Vongvisouk et al., "Lao PDR's Nationally Determined Contribution (NDC): Progress, Opportunities, and Challenges in the Forestry Sector", Center for International Forestry Research, 24 February 2020, https://doi.org/10.17528/cifor/007557

Malaysia

Malaysia and the EU have been exploring a Malaysia-EU FTA since 2012, and currently, the negotiation is still on hold.[42] At the ASEAN-EU Summit on 14 December 2022, both sides signed a Partnership and Cooperation Agreement (PCA), a precursor to an FTA.[43] Like Indonesia, Malaysia and the EU are currently not on good terms due to the ongoing conflict over Malaysia's palm oil sustainability standard. The EU is the fifth largest trading partner of Malaysia (after China, Singapore, South Korea and the US), accounting for 7.4 per cent of the country's total trade. In 2020, Malaysia became the EU's 20th largest trading partner in goods.[44] Malaysia exports machinery and appliances to the EU—secondary goods that may include a component of covered goods under the EU CBAM (steel/aluminium). If the EU extends the coverage of the EU CBAM to secondary goods, Malaysia's exports might be exposed.

Malaysia is considered an upper-middle-income country under the World Development Indicator by the World Bank, with a current GDP per capita of US$11,371. It submitted its updated NDCs to the UNFCCC in October 2021. The country has removed its conditional carbon emissions target upon receiving international assistance.[45] The Malaysian government also made a modest increase in its unconditional

[42] Asia Regional Integration Center, "Free Trade Agreements".

[43] Council of the European Union, "Indo-Pacific: The European Union and Malaysia Signed Partnership and Cooperation Agreement", 14 December 2022, https://www.consilium.europa.eu/en/press/press-releases/2022/12/14/indo-pacific-the-european-union-and-malaysia-sign-partnership-and-cooperation-agreement/ (accessed 27 December 2022).

[44] European Commission, "EU Trade Relations with Malaysia", https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/malaysia_en (accessed 31 October 2022).

[45] UNDP Climate Promise. Malaysia, "UNDP Climate Promise", https://climatepromise.undp.org/what-we-do/where-we-work/malaysia (accessed 31 October 2022).

carbon emissions target with a carbon intensity reduction of 45 per cent from 2005 levels (previously only 35 per cent from 2005 levels). It also announced its net-zero target for as early as 2050.

The EU might face political risks in implementing the EU CBAM in Malaysia. In general, Malaysia has achieved modest progression in their NDCs submissions to the UNFCCC, showing that the country has the capacity to adopt global regulations and decarbonization trends. The EU is pushing for an integration of sustainability components in the future FTA with Malaysia.

Myanmar

Myanmar and the EU have not established an FTA. But both sides initiated the investment protection agreement in 2015. As of 2021, the value of international trade between Myanmar and the EU stood at €2.6 billion. The EU is Myanmar's fourth most significant trading partner (after China, Thailand and Singapore), accounting for 7.2 per cent of the country's total trade. It imported €2.3 billion worth of goods from Myanmar, particularly textiles, manufactured goods, footwear and agricultural products. Meanwhile, the EU exported goods worth €322 million to Myanmar, which includes machinery, transport equipment and chemicals.[46] Given the current political instability due to the military coup since February 2021, there will be no significant progress on trade cooperation between the EU and Myanmar in the near future; the EU is imposing sanctions such as an asset freeze, travel ban, and fund inaccessibility from EU financial institutions for companies closely connected to the Myanmar Armed Forces.[47]

[46] European Commission, "EU Trade Relations with Myanmar", https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/myanmar_en (accessed 31 October 2022).

[47] Council of the European Union, "Myanmar/Burma: EU Imposes Further Restrictive Measures on 19 Individuals and One Entity", 8 November 2022, https://www.consilium.europa.eu/en/press/press-releases/2022/11/08/myanmar-burma-eu-imposes-further-restrictive-measures-on-19-individuals-and-one-entity/ (accessed 27 December 2022).

ASEAN has deployed a special envoy to facilitate Myanmar to implement the Five-Point Consensus, which aims at restoring national political stability and, ultimately, international trade. This move has been supported by the EU. However, progress on a peaceful negotiation and restoration in Myanmar is yet to be realized.

Myanmar is considered a lower-middle-income country under the World Development Indicator by the World Bank, with a current GDP per capita of US$1,187. It is one of the three least-developed countries in ASEAN.

Myanmar submitted its NDCs in July 2021. As of 2018, it is one of the least greenhouse gas-emitting nations in the world. The country focuses on climate adaptation, disaster risk reduction and mitigation within key sectors such as energy, agriculture and forestry in line with international financial and technical assistance in order to meet the emissions reduction target by 2030. The objectives are mainstreamed to the major policies of Myanmar Climate Change Policy (2019), Myanmar Climate Change Strategy (2018–30) as well as Myanmar Climate Change Master Plan (2018–30). The role of carbon pricing initiatives is yet to be observed in Myanmar.[48]

It is highly risky for the EU to impose the CBAM on Myanmar as the current political situation remains uncertain. Myanmar's low economic development status and an absence of carbon pricing will make it hard for the EU to directly impose the EU CBAM on Myanmar. The apathetic attitude of the Myanmar Armed Forces towards the EU's sanctions makes it hard for the EU CBAM and overall trade and strategic relations between Myanmar and the EU to move forward.

The Philippines

The Philippines and the EU officially launched free trade agreement negotiations in 2015. In 2019, bilateral trade in goods stood at €15.2

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[48] "Nationally Determined Contributions: The Republic of the Union of Myanmar", n.d., https://unfccc.int/sites/default/files/NDC/2022-06/Myanmar%20Updated%20%20NDC%20July%202021.pdf

billion, whilst trade in services stood at €4.9 billion. In 2021, the EU was the Philippines' fourth largest trading partner, accounting for 7.9 per cent of Philippine total trade. On the other side, the Philippines was the EU's 39th largest trading partner and accounted for 0.4 per cent of the EU's total trade. Machinery, transport equipment, chemicals and food products are the main exports from the EU to the Philippines. The major exports of the Philippines to the EU are office and telecommunication equipment, machinery, food products as well as optical and photographic instruments.[49] The Philippines actively engages the EU in free trade agreement negotiations so as to secure duty-free market access, attract investments and improve competitiveness.

The Philippines is considered a lower-middle-income country under the World Development Indicator by the World Bank, with a current GDP per capita of US$3,548. Manila submitted its updated NDCs in April 2021, demonstrating its commitment to the UNFCCC. The country relies upon a whole-of-government and civil society approach with the inclusive participation of all stakeholders, referring to important national documents such as the Climate Change Act of 2009, the National Climate Change Action Plan 2011–28 and the Philippine Development Plan 2017–22. For climate change mitigation, the Philippines aims to develop a sustainable consumption and production approach with climate finance, technology and capacity building. For climate change adaptation, the Philippines focuses on the thematic areas of food security, water, environmental stability, human security, climate-smart cities, sustainable energy and knowledge development. Carbon pricing is yet to be observed in the national intended plans and actions.[50]

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[49] European Commission, "EU Trade Relations with Philippines", https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/philippines_en (accessed 31 October 2022).

[50] "Republic of the Philippines Nationally Determined Contribution Communicated to the UNFCCC on 15 April 2021", n.d., https://niccdies.climate.gov.ph/files/documents/Philippines%20-%20NDC.pdf

The Philippines is regarded as a prospective country where the EU CBAM can be used to enhance trade relations and carbon reduction for climate change mitigation. It has the enabling conditions of supporting political and trade activities, and the only challenges are the status of its economic development and the need for capacity building.

Singapore

Singapore is the country with the highest number of free trade agreements in ASEAN, with 45 agreements both in effect and under negotiation. This demonstrates Singapore's capacity to comply with rules-based agreements with trade partners. The Singapore-EU Free Trade Agreement took effect on 21 November 2021. The two sides have been enjoying an uptick in trade relations. EU exports to Singapore expanded by 10.4 per cent, reaching €15 billion, while EU imports from Singapore went up by 39.7 per cent, amounting to €10.5 billion in the first half of 2022, evidencing steady economic recovery from COVID-19 pandemic trade disruptions.[51] Singapore's main exports to the EU are organic chemicals and pharmaceutical products, which are not covered under the EU CBAM.

Singapore is considered a high-income country under the World Development Indicator by the World Bank, with a current GDP per capita of US$72,794. It submitted its updated NDCs to the UNFCCC in March 2020, demonstrating some progression, such as moving from an emissions intensity target to an absolute cap on emissions.[52] The country also announced its net-zero target by 2050. Recently, Singapore also made a correction in their NDCs and submitted a more ambitious target

[51] Delegation of the European Union to Singapore, "EU-Singapore Trade in Goods Increased by 20.7% in First Half of 2022", EEAS website, https://www.eeas.europa.eu/delegations/singapore/eu-singapore-trade-goods-increased-207-first-half-2022_en?s=178 (accessed 31 October 2022).

[52] Climate Action Tracker, "Singapore", https://climateactiontracker.org/climate-target-update-tracker/singapore/ (accessed 31 October 2022).

of 60 million tonnes of carbon dioxide equivalent (MtCO2e) in 2030 after peaking emissions.[53] In addition, Singapore was the first country in ASEAN that launched a carbon tax, in 2019. The carbon tax level is set at S$5/tCO2e for the period of 2019 to 2023, which will be adjusted to S$25 in 2025–26, and to S$45 in 2026–27, with a view to reaching $50–$80 by 2030.[54]

Singapore will not be directly exposed by the EU CBAM as the country does not export goods covered under this mechanism. However, it has the capacity to adjust should the EU CBAM require some stakeholders from the country to adopt it. The country's experiences in managing technical negotiations and dealing with various trade agreements are good indicators that the country can swiftly adapt to sustainability regulations should the EU CBAM come into effect. Singapore's current domestic carbon tax can also be an enabling factor for it to adjust to the EU CBAM.

Thailand

Thailand and the EU launched free trade agreement negotiations in March 2013. Despite negotiations being put on hold in 2014, the EU has tried to further engage with Thailand to resume comprehensive free trade agreement negotiations. As of 2020, Thailand and the EU had bilateral trade of €29 billion. Meanwhile, the EU is the fourth largest trading partner of Thailand (after China, Japan and the US) with 7.5 per cent of the country's total trade. Thailand is the 26th largest trading partner of the EU, and its exports to the EU totalled €15.1 billion, with the key products being machinery, electronics, transport equipment, manufactured articles and food. Meanwhile, the EU's exports to Thailand were worth €11.3

[53] "Singapore Commits to Achieve Net Zero Emissions by 2050 and to a Revised 2030 Nationally Determined Contribution; Public Sector and Jurong Lake District to Lead the Way with Net Zero Targets", 25 October 2022, https://www.nccs.gov.sg/media/press-releases/singapore-commits-to-achieve-net-zero/

[54] NCCS, "Carbon Tax", https://www.nccs.gov.sg/singapores-climate-action/carbon-tax/ (accessed 31 October 2022).

billion, including machinery, transport equipment, chemicals and related products.[55] Recently, the EU resumed trade negotiations with Thailand in 2022 by using various guiding documents on the issues of trade in goods and services, e-commerce, intellectual property rights and government procurement.[56]

Thailand is considered an upper-middle-income country under the World Development Indicator by the World Bank, with a current GDP per capita of US$7,233. It submitted its updated NDCs to the UNFCC in October 2020. The country aims to reduce greenhouse gas emissions by 20 per cent in 2030 based on proper access to technology, capacity building and financial resources, while also developing the Long-term Low Greenhouse Gas Emission Development Strategy (LT-LEDS) as the mitigation component. For climate change adaptation, Thailand prioritizes water resources, agriculture, tourism, public health, natural resources management and human security.[57] Currently, the Thailand Greenhouse Gas Management Organization actively engages with a carbon pricing development mechanism at the national level together with the EU CBAM proposition for increasing competitiveness and reducing carbon emissions.[58]

Considering infrastructure, political will, and the trade situation, as well as Thailand's status as an upper-middle-income country, Thailand has the enabling factors to swiftly adopt the EU CBAM regulations.

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[55] European Commission, "EU Trade Relations with Thailand", https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/thailand_en (accessed 31 October 2022).

[56] ASEAN Briefing, "Thailand and the EU Resume Free Trade Agreement Negotiations", *ASEAN Business News*, 4 August 2021, https://www.aseanbriefing.com/news/thailand-and-the-eu-resume-free-trade-agreement-negotiations/

[57] "Thailand's Nationally Determined Contribution", n.d., https://unfccc.int/sites/default/files/NDC/2022-06/Thailand%20Updated%20NDC.pdf

[58] Thailand Greenhouse Gas Management Organization (TGO), "MNRE; TGO in Collaboration with ERCST Disseminate the Study on the Economic Impact of the EU Carbon Border Adjustment Mechanism (CBAM) on Thailand", http://www.tgo.or.th/2020/index.php/en/post/mnre;-tgo-in-collaboration-with-ercst-disseminate-the-study-on-the-economic-impact-of-the-eu-carbon-border-adjustment-mechanism-cbam-on-thailand (accessed 31 October 2022).

Vietnam

It is observed that Vietnam signed a Trade Agreement and an Investment Protection Agreement on 30 June 2019 to eliminate tariffs, reduce trade barriers, open markets, and enforce the agreed rules with the EU. Vietnam is regarded as the EU's 15th largest trade partner. The EU mainly exports high-tech products to Vietnam, including electrical machinery and equipment, aircraft, vehicles and pharmaceutical products. Vietnam's main exports to the EU are telephone sets, electronic products, footwear, textiles and clothing, coffee, rice, seafood and furniture.[59] It was recently stated that Vietnam had a trade surplus over the EU of US$15.5 billion during the first six months of 2022. This signals that trade is a critical activity for Vietnam's COVID-19 recovery strategy and Vietnam will likely adhere to international trade rules and maintain good relationships with every partner.[60]

Vietnam is considered a lower-middle-income country under the World Development Indicator by the World Bank, with a current GDP per capita of US$3,694. Its NDCs were submitted in July 2020, and stated a conditional target of 27 per cent emissions reduction by 2030. The country's climate change actions focus primarily on energy and industry as well as agriculture, forestry and other land use sectors, and refer to the Law on Economical and Efficient Use of Energy (6/2010) and the National Climate Change Strategy (12/2011) for decarbonizing the energy and industry sectors. For the agriculture, forestry and land use sectors, Vietnam mentions the Land Law (2013) and the Law on Forestry (2017). It aims to reduce greenhouse gas emissions in the energy sector

[59] European Commission, "EU Trade Relations with Vietnam", https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/vietnam_en (accessed 31 October 2022).

[60] Vietnam Briefing, "Vietnam-EU Trade Surplus Underlines Growing Trade, Relations". *Vietnam Briefing News*, 27 July 2022, https://www.vietnam-briefing.com/news/vietnam-eu-trade-surplus-underlines-growing-trade-relations.html/

by 5.5 per cent, the agriculture sector by 0.7 per cent, and the waste sector and industrial processes by 1 per cent and 0.8 per cent, respectively.[61]

Vietnam's economy is currently improving, thanks to the resumption of trade activities. Its regulators will likely see the EU CBAM as a tool to improve Vietnam's global competitiveness and a way to continue expanding its trade activities in the EU. But at the same time, industry players in Vietnam might think of the EU CBAM as a significant barrier to Vietnam's tremendous export growth. The EU can further introduce the EU CBAM as a means to improve Vietnam's environmental protection efforts, supply chain sustainability, and export competitiveness.

[61] ASEAN Secretariat, "ASEAN State of Climate Change Report", 2022, https://asean.org/wp-content/uploads/2021/10/ASCCR-e-publication-Correction_8-June.pdf

ISSN 0219-3213

TRS1/23s

ISBN 978-981-5104-01-1

9 789815 104011

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