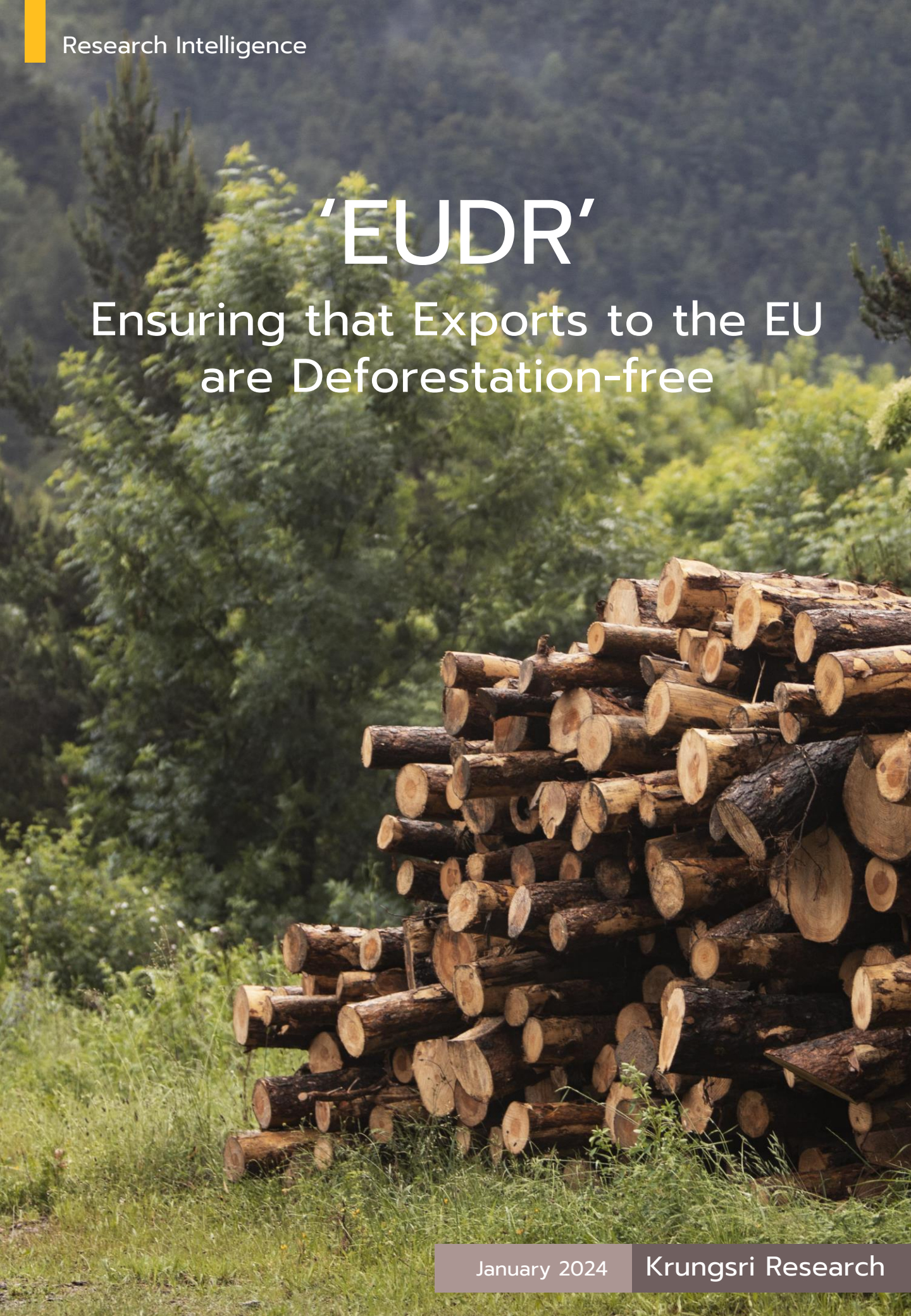
Research Intelligence

‘EUDR’

Ensuring that Exports to the EU are Deforestation-free



January 2024

Krungsri Research

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Executive Summary

The European Union's 'Deforestation Regulation', or EUDR, came into effect on 29 June, 2023, and this now means that imports and exports of goods in seven product categories, namely rubber, oil palm, cattle, wood, coffee, cocoa, and soy, together with derived products such as latex gloves, paper, and wooden furniture need to pass strict provenance controls and to demonstrate that production of these did not entail the degradation of existing forests or their complete deforestation. At present, enforcement of the EUDR is in its transitionary phase, but full implementation will begin on 30 December, 2024. This will have impacts on Thai suppliers working in areas covered by the regulations, though this will particularly affect companies involved in the processing or export of rubber, wood, and oil palm. These impacts will include: (i) higher costs for both manufacturers and exporters connected to reporting and supply chain checking and verification; (ii) the possible loss of competitiveness for smaller players if these cannot meet the EUDR requirements; and (iii) the gradual exclusion of Thai players from manufacturing supply chains and the diversion of global investment flows away from Thailand if the country is classified as high risk by the EU.

However, if Thailand can adequately prepare and adapt, particularly in the development of data collection and tracking systems for supply chain traceability, effective enforcement of environmental, social, and governance laws, as well as the support for sustainable production standards among farmers and business owners, particularly SMEs, it will open up opportunities for trade and investment in the European Union and throughout a wider participation across the global production chain. Moreover, it will contribute to elevating forest conservation efforts, aligning environmental and social policies within the country that are pushing forward with the increasing global sustainability trends.



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The European Union's Deforestation Regulation (EUDR)

What is the EUDR and where did it come from?

Forests are widely recognized as keystone ecological systems that play a crucially important role across the globe in preserving ecosystem- and bio-diversity, creating green spaces, and sequestering the greenhouse gases that are driving climate change. Unfortunately, this importance is not reflected in humankind's treatment of them, and the Food and Agriculture Organization of the United Nations (FAO) estimates that between 1990 and 2020, the world lost 420 million hectares (2.6 billion rai) of forests, or a full 10% of global forest cover, adding a vast source of fuel to the fire of climate change is one of the most dangerous.

In addition to the danger posed by naturally occurring fires, forests worldwide are under threat from encroachment by farmers, and this remains one of the leading causes of deforestation globally. In response to these problems, the EU, which has long been a leader in addressing environmental problems, has introduced the **EU Deforestation Regulation (EUDR)**. This aims to divert the supply and demand of goods away from sources that are connected to deforestation and thus blocking the former from the market and starving them of funds. To achieve this, the law requires that imports or exports to or from the EU of seven commodities must undergo inspection and reporting of their provenance to **ensure that their production did not entail the degradation of forest land or its deforestation**. The seven commodities covered by the EUDR are rubber, oil palm, cattle, timber, coffee, cocoa, and soy, as well as goods or products derived from these, such as tires, furniture, leather goods, and paper. The EUDR in fact builds on an earlier law, the EU Timber Regulations (EUTR), though the scope of this was restricted to banning the sale of illegal wood or wood products in the EU.

This paper therefore aims to explore the provisions and enforcement of the EUDR and then to assess its likely impacts since although the EU has introduced the EUDR with the goal of preserving the world's forests, these measures will also serve to raise international barriers to trade. Thailand, as one of Europe's trade partners, must prepare for the implementation of these measures if they are to minimize the resulting downside risks.

What are the provisions of the EUDR?

The EUDR establishes a legal framework that prohibits the trade in goods when the production of these has entailed any degree of deforestation. To this end, goods being imported to or exported from the EU will now have to meet the following three criteria.

1) **The goods must be deforestation-free**. In detail, products, inputs, raw materials and goods derived from the seven named commodities must not have originated from land that has been deforested since 31 December, 2020[1/] or, in the case of products made from wood, from land that has been degraded[2/] since the end of 2020.
2) **The goods should have been produced in conditions that are fully compliant with the local laws** prevailing in the original place of production (e.g., laws governing land ownership, labor and human rights, the environment, forest protection, taxation, etc.)

1/ Deforestation means the conversion of forest to agricultural use, whether human-induced or not

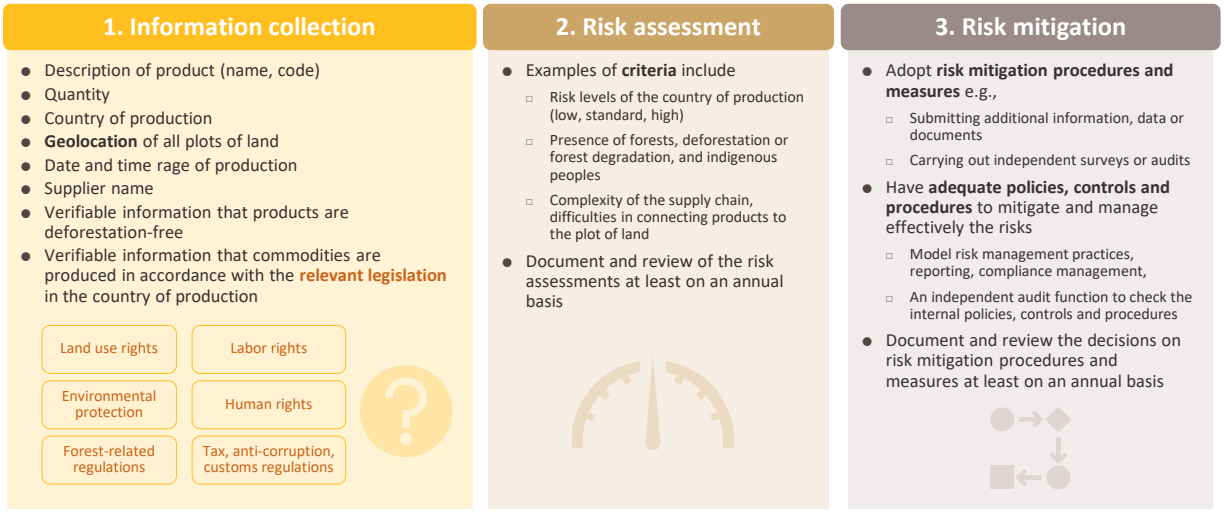
2/ Forest degradation means structural changes to forest cover, taking the form of the conversion of (i) primary forests or naturally regenerating forests into plantation forests or into other wooded land; or (ii) primary forests into planted forests.

3) **Businesses need to carry out due diligence on the provenance of the goods** as specified by these regulations. These state that prior to the import or export of goods covered by the EUDR rules, a due diligence statement needs to be submitted[3/]. This should include the following.

1. Information covering the full manufacturing supply chain: This will include the quantity of goods, their codes, their country of origin, the location of the production site/source of the agricultural inputs, the growing/production length and dates, details of any suppliers, and evidence demonstrating that the goods originate from non-deforested land and that their production was fully compliant with all relevant laws.
2. Risk assessment: An assessment should be made of the risk that production may have come from deforested land or that it may have involved violations of the law. This should include consideration of ESG metrics. A written assessment that includes a summary of associated risk should be made at least annually,
3. Risk mitigation: In the event that risks are determined to exist, additional measures will be required, e.g., preparing additional information, documents, surveys and audits, and putting in place measures to reduce this risk.

Figure 1:

Components of the Due Diligence Process



Source: European Commission, Preferred by Nature, Krungsri Research

To assess whether their procedures are compliant with the requirements laid out in the EUDR, the 'competent authorities' appointed by each of the EU member states will carry out annual audits of companies operating within their jurisdiction. The EU has set a minimum level of inspections that varies according to the likelihood that deforestation is occurring in originating countries. There are therefore three risk tiers: **(i) in high-risk countries, 9% of operations will be subject to random inspections; (ii) in standard-risk countries this will drop to 3%; and (iii) in low-risk countries, only 1% of companies will be subject to random auditing**. Having collected relevant data, the EU will announce the risk level of each country by the end of 2024. Importers from low-risk countries will be able to take advantage of a simplified due diligence process. Under this, companies will still be required to submit related information, but they will not need to carry out a risk assessment or put in place risk mitigation strategies (i.e., stages 2 and 3).

3/ Companies may prepare and submit their due diligence statement themselves or they may appoint an authorized representative to do this on their behalf. However, at present, the EUDR law does not provide details on appointing an authorized representative, but this will likely follow in subsidiary regulations to be issued by the EU. At present, companies offering due diligence related services include Global Traceability, TraceX, Know Your Vendor and Satelligence.

Who is covered by the EUDR, what goods does it affect, and when will it be enforced?

The scope and timeframe for the implementation of the EUDR has been set as follows.

- **Products covered by the EUDR**: At its initial stage, the EUDR covers seven commodities, namely **rubber, oil palm, cattle, timber, coffee, cocoa, and soy, as well as products derived from these, such as tires, furniture, paper, and leather goods**, though a full list of the goods is contained in Annex 1 of the EUDR (Regulation (EU) 2023/1115)[4/]. The EU will however review this list every two years and the scope of the regulations will be progressively expanded.

Table 1:

Goods Covered by the EUDR

Commodities	Examples of Derived Products
Rubber 	Technically specified rubber (TSR), Ribbed smoked sheet (RSS), Compounded rubber, New pneumatic tires, Inner tubes, Gloves
Oil palm 	Crude palm oil, Palm oil and its fractions, Oleic acid, Industrial fatty alcohols
Wood 	Particle board, Wood tools, Wooden furniture, Pulp and paper, Printed books, Prefabricated buildings
Cocoa 	Cocoa beans, Cocoa powder, Cocoa butter, fat and oil, Chocolate
Coffee 	Coffee, Coffee husks and skins, Coffee substitutes
Cattle 	Meat of cattle, Offal, Skins, Leather of cattle including parchment-dressed leather
Soya 	Soya bean flour and meal, Soya-bean oil, Oilcake and other solid residues of Soya-bean oil

Source: Regulation (EU) 2023/1115, Krungsri Research

- **Companies covered by the regulations**: The requirements to undertake due diligence checks for the goods listed above will apply to: **(i) manufacturers, importers and exporters (together referred to as 'operators'[5/])** and **(ii) non-SME traders[6/] operating in the EU**, for example large retailers. Companies in both of these groups in relevant supply chains are thus responsible for ensuring that goods entering the EU are compliant with the EUDR requirements. For **SME traders[7/]**, although these do not need to prepare due diligence reports, they are still required to maintain records relating to their supply chain, including the reference numbers of due diligence reports made by their suppliers. They may then be required to submit these when requested.

4/ Source : European Union Law, https://eur-lex.europa.eu/eli/reg/2023/1115/oj

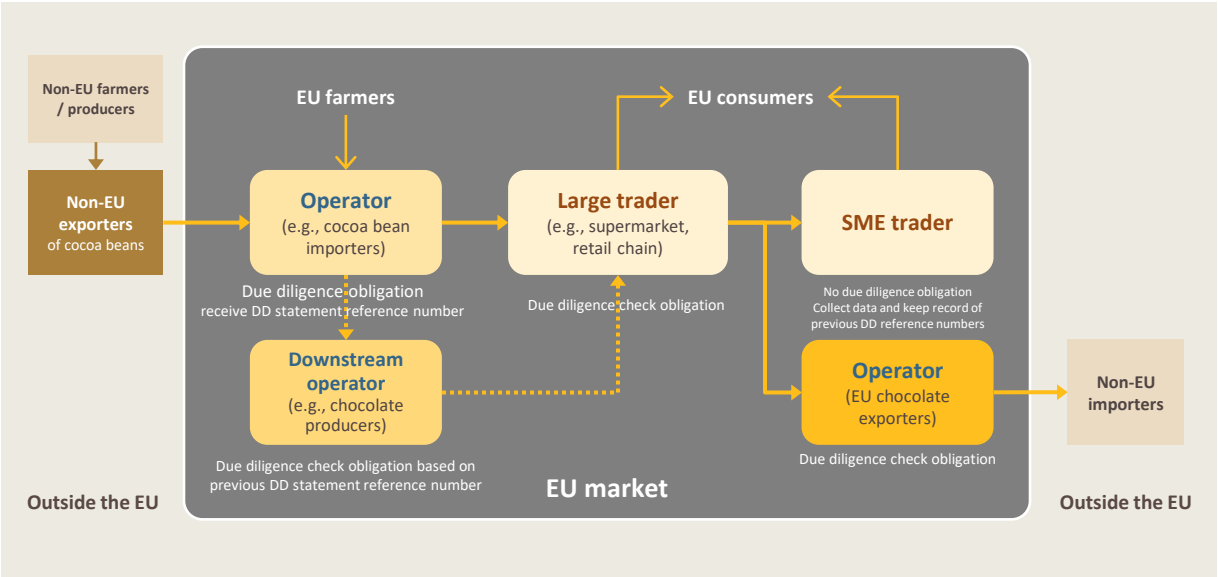
5/ Operator means any natural or legal person who places relevant products on the market or exports them.

6/ Trader means any person in the supply chain other than the operator who makes relevant products available on the EU market, such as large supermarket or retail chains.

7/ SMEs (including micro enterprises) in the EU refer to enterprises which on their balance sheet dates do not exceed the limits of at least two of the three following criteria: (i) balance sheet total of EUR 20m, (ii) net turnover of EUR 40m, and (iii) 250 employees (Directive 2013/34/EU of the European Parliament and of the Council https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013L0034)

Figure 2:

Companies Affected by the EUDR

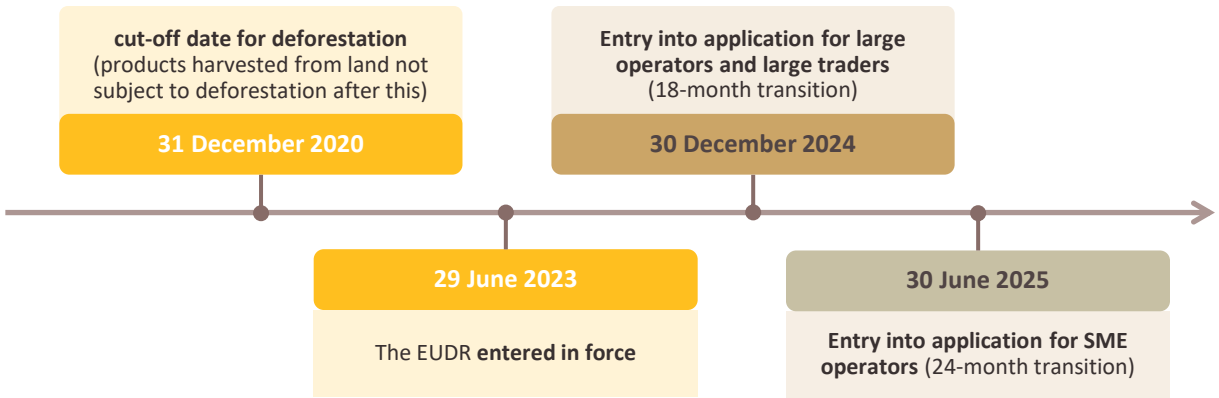


Source: European Commission, Preferred by Nature, Krungsri Research

- **Enforcement**: The EUDR entered into force on 29 June, 2023, but the EU has established an 18-month transition period before the regulations are fully applied. Thus, **for large operators and traders, the law will be enforced from 30 December, 2024**. However, **for SME operators**, the transition period is extended to two years, and so for them, **the law will be enforced from 30 June, 2025**

Figure 3:

Enforcement of the EUDR



Source: European Commission, Krungsri Research

Impacts Arising from the EUDR

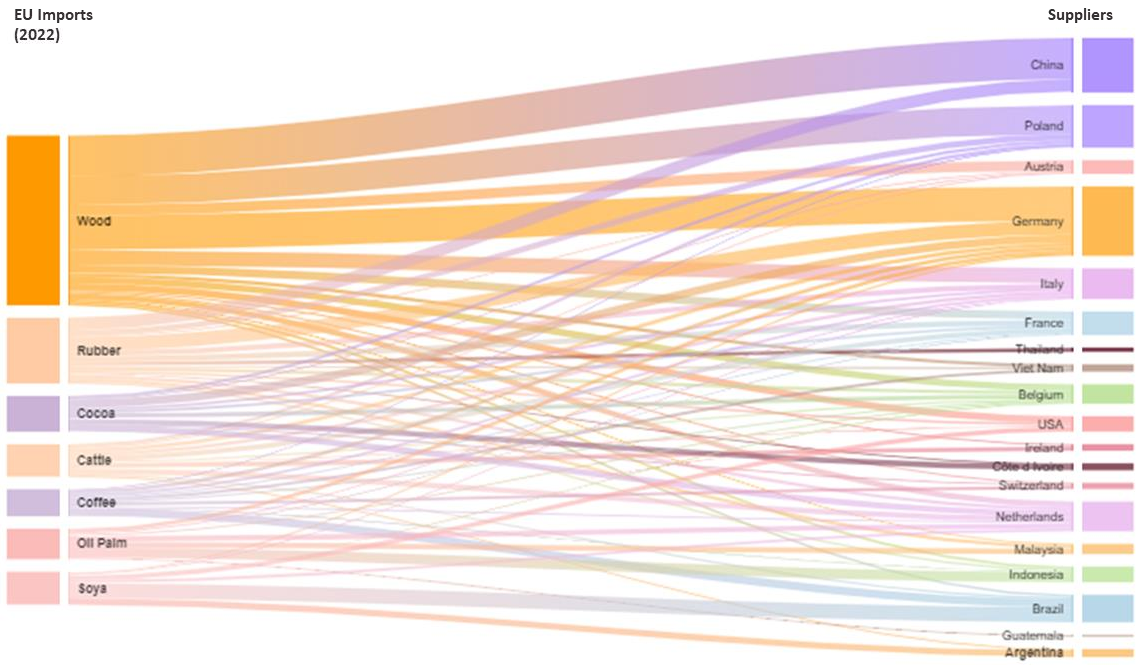
Global impacts

By imposing strict requirements on stakeholders in the EU and insisting that traders based outside the bloc take much greater account of the impacts of commercial activities on forest health, the EUDR will work to address global environmental problems. However, the regulations also break new ground in terms of their reach and stringency, and this will likely create worries over the effects of the EUDR on market leading importers and exporters around the world.

The EUDR regulations will impact imports to the EU worth some USD 401.1 billion annually, or around 5.5% of all imports to the bloc made in 2022. 56.3% of the value of EUDR imports will be of wood and wood products, which will be followed in importance by rubber and rubber products (15.1% of the total). The value of other EUDR imports will be split relatively evenly between the remaining categories (Figure 4).

Figure 4:

EUDR Imports to the EU and their Originating Countries

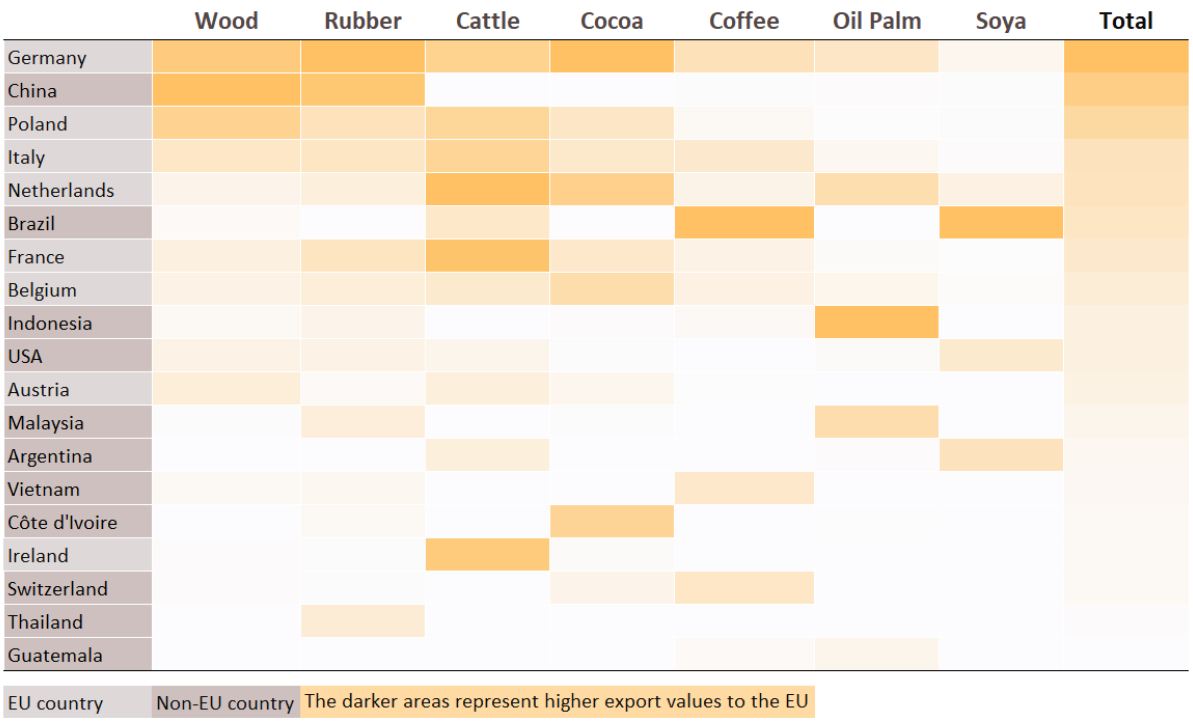


Source: International Trade Centre, Krungsri Research
Note: The figure considers only the top 5 suppliers for each EUDR product group to the EU.

Looking at imports to the EU of EUDR products, **the countries likely to be most heavily impacted by the new regulations will be in order, Germany, China, and Poland**. In particular, thanks to its position as one of the top five importers in every category of EUDR goods, Germany will be especially exposed, though Poland, Italy, the Netherlands, France, and Belgium are all major exporters of EUDR products (Table 2). **EU member states will thus be among those heavily affected by these changes** since whether goods are imported from within the bloc or from suppliers external to it, the new laws will apply equally. However, at present the trade in goods initially covered by these rules is relatively slight compared to the overall size of EU trade, and so at least at first, the consequent impacts on the EU will be relatively slight, though this will change if and when the scope of the EUDR regulations is extended.

Table 2:

Countries Most Affected by the Introduction of the EUDR



Source: International Trade Centre, Krungsri Research
Note: The table considers only the top 5 suppliers for each EUDR product group to the EU and ranks them based on the total EUDR export values to the EU in 2022.

Outside Europe, the impacts of the EUDR will vary depending on the nature of a country's trade relations with the bloc. **China** is the EU's second most important supplier of EUDR goods and so the country will see significant consequences from this, especially in industries related to forestry goods, products made from wood, and the rubber industry since China is a major supplier of these to the EU. China's role as a source of furniture is especially important because the country is the origin of more than half of all wooden furniture sold in the bloc[8/]. The EU also imports a wide range of goods from **Brazil**. In particular, the country is the world's biggest exporter of coffee and the EU is Brazil's most important export market, though the EU is also a major consumer of Brazilian soy and oil palm, for which it is Brazil's second biggest customer[9/]. Other countries in the Americas that will be affected by the EUDR include **Argentina** (for exports of soy, oil palm, and beef), **Guatemala** (oil palm and coffee) and **the US** (soy, wood, rubber, and cattle). Likewise, in Africa, **Côte d'Ivoire** and **Ghana** are both major exporters of cocoa and rank as the two most important sources of this for the EU, and so local industries in these countries will see consequences from the introduction of the EUDR.

Likewise, within the ASEAN region, many countries will be significantly impacted by these new rules. **Indonesia** and **Malaysia** will be among the most exposed to these developments since these two countries account for 85% of global production of oil palm and are thus the EU's two most important sources of this. Indeed, Indonesia and Malaysia are already in dispute with the EU over the existence of trade barriers resulting from the EU's Renewable Energy Directive II (RED II) regulations, which prohibit the use of palm oil as a source of energy from 2030 onwards[10/]. **Vietnam** is an important exporter of coffee to the European Union and thus their domestic coffee industry will have to contend with a greater range of challenges in the coming period. Finally, given its lowly position as the EU's 35th most important source of imports of EUDR goods, **Thailand** is likely to escape serious impacts, although because it is Europe's second most important supplier of rubber goods after China, any consequences that are felt will tend to be concentrated in the rubber industry.

8/ Source : S&P Global, https://www.spglobal.com/marketintelligence/en/mi/research-analysis/deforestation-rules-impact-on-supply-chains.html
9/ Source : Climate Policy Initiative (CPI), https://www.climatepolicyinitiative.org/publication/brazilian-environmental-policies-and-the-new-european-union-regulation-for-deforestation-free-products-opportunities-and-challenges/
10/ Source : International Institute for Sustainable Development (IISD), https://www.iisd.org/articles/policy-analysis/ppms-rise-new-sustainability-oriented-trade-policies-process-production-methods

Given the above, it is clear that the countries exporting EUDR goods to Europe are mostly **developing countries, which are typically dependent on exactly the kind of international trade and investment** that will be disrupted by the EUDR. Many of these countries have therefore noted the likely impacts on their domestic industries, and seventeen (including Thailand)[11/] have requested that the EU reconsider the implementation of these rules in terms of greater flexibility over the evidence that may be used to support supply chain traceability, and possible additional costs that will have to be borne by industries in supplier nations. There is also growing concern that the introduction of the EUDR will constitute an act of de facto unilateral deforestation benchmarking by the EU, which would be in contravention of its World Trade Organization (WTO) obligations and would potentially have negative consequences for world trade.

In addition to the direct impacts on trade between the European Union and any particular trade partner, the implementation of the EUDR may also have much more **widespread indirect consequences across manufacturing supply chains**. Specifically, if a major producer and exporter such as China cuts back on sales of EUDR goods into the EU, demand for intermediate goods and services provided by players in other countries will also contract. Meanwhile, those looking to expand their exports into Europe may switch to buying intermediate goods from countries that have more easily verifiable supply chains and where the risk of goods and services being associated with forest degradation or deforestation is lower. These will thus tend to displace suppliers in countries that have difficulty meeting the new requirements or where the risk of suppliers infringing EUDR regulations is higher. In addition to impacts at the global level, supply chain impacts may be seen at the national level. This would occur if manufacturers and exporters make the natural switch to sourcing inputs from large suppliers since these will be much better placed than small players to provide the supply chain checking and assurances necessary to show that the production of any particular good or service did not involve any amount of deforestation. Taken to its extreme, this process would ultimately lead to small companies being excluded from international supply chains.

Impacts on Thailand

Europe is an important export target for Thai producers, but the bloc is innovating in the way that it is tying international trade policies to measures to protect the environment. An earlier example of a move by the EU into this space is the Carbon Border Adjustment Mechanism (CBAM), which is already impacting Thai businesses, and although the EUDR does not impose direct fees relating to deforestation, by adding to overheads connected to additional reporting and verification requirements, its effects on Thai suppliers will likely mirror those of the CBAM. These impacts will occur across a broad front, as described below.

Negative impacts

1) **Manufacturers and exporters will see their costs rise as a result of these new requirements**, i.e., that importers sourcing goods in Thailand that fall within the seven product categories covered by the EUDR will need to carry out due diligence on their provenance. They will thus be required to show that production of these goods did not entail forest degradation or deforestation and that production was also in compliance with all relevant laws. Importers will therefore need information from their Thai suppliers for verification purposes, and this will include the location of the areas where the goods were cultivated, land use certificates, details of any suppliers, and proof that production did not contravene laws relating to labor rights, the environment, taxation, anti-corruption measures, and the payment of customs and excise. Selling into European markets will therefore involve additional compliance costs connected to data collection and reporting, while players will potentially face further costs relating to the international certification required to demonstrate that their products meet the relevant environmental and social standards, for example that timber or oil palm has been grown sustainably.

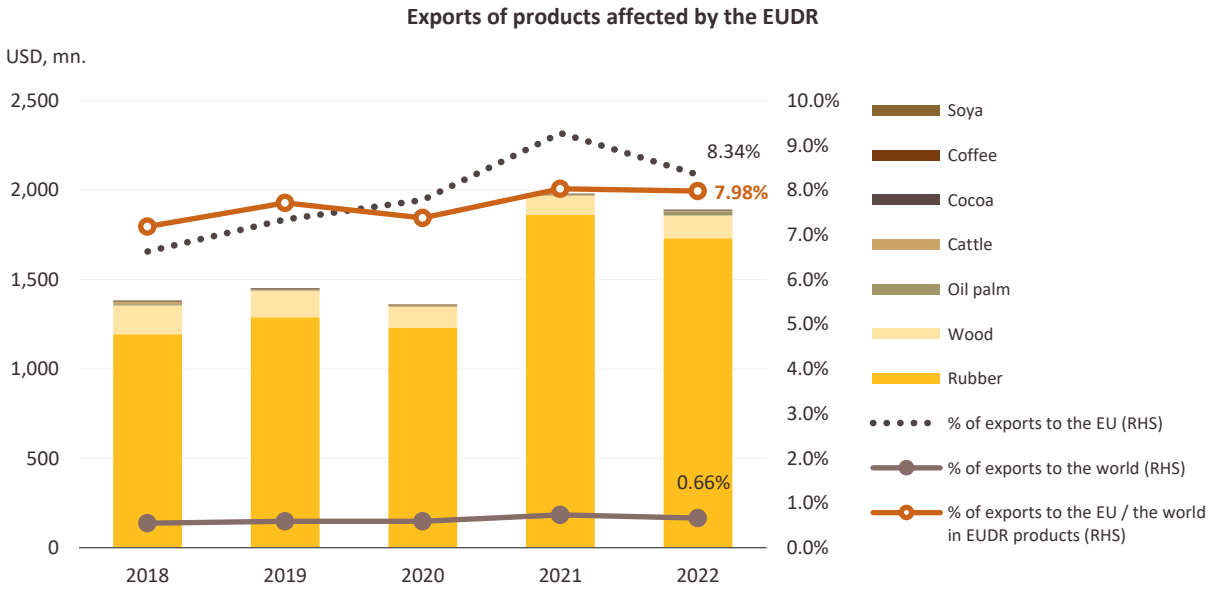
11/ The 17 countries are: Argentina, Brazil, Bolivia, Colombia, Côte d'Ivoire, Dominican Republic, Ecuador, Ghana, Guatemala, Honduras, Indonesia, Malaysia, Mexico, Nigeria, Paraguay, Peru, and Thailand (source: https://www.matichon.co.th/foreign/news_4173622)

Although goods covered by the EUDR accounted for only 8.3% of the value of all Thai exports to the EU in 2022, and just 0.7% of all Thai exports overall, this share has grown over the past 5 years (Figure 5). Moreover, considering all exports of EUDR goods from Thailand, the EU is the source of 8.0% of all orders of these by value, and because this is higher than the contribution of Europe to exports overall, EUDR goods are disproportionately important for Thai exporters to the EU. On the European side of the market, around 0.5% of EUDR imports are from Thailand, which is again above the contribution of Thailand to total imports to Europe (Table 3). **Trade between the bloc and Thailand in EUDR goods is thus overweight for both partners compared to overall trade flows between the two**, and with this tending to intensify, it will not be possible for Thai players to ignore the impacts of the EUDR.

However, it is important to note that imports of rubber and rubber products account for more than 90% by value of exports from Thailand to the EU of EUDR goods, while Europe is the buyer of 11.5% of exports of Thai rubber and related goods. After rubber, wood/timber and oil palm are the next most significant exports from Thailand to Europe of products covered by the EUDR, but exports of other EUDR goods are negligible and so at least initially, **players in the rubber, wood, and oil palm industries will be most heavily affected by these changes**. Also, goods in these three product categories tend to show a high degree of forward linkage, that is, production is tightly linked with downstream producers, and this will add to the cost and complexity of supply chain checking and verification. If in the future, the EU decides to expand the scope of goods covered by the EUDR or its reporting requirements, this will further add to costs, and so exporters will need to keep a close eye on any developments in this area.

Figure 5:

Exports of EUDR Goods from Thailand to the EU



Source: International Trade Centre, Krungsri Research

Table 3:

Impacts of the EUDR on Thai Companies, by Product Group

	Thai export values to the EU (USD, mn.)	Share of total Thai exports to the EU	Share of total EU imports from the World	Share of total Thai exports to the World	Forward Linkage Index(1)	Backward Linkage Index(2)	Number of firms(3)	Share of MSMEs(3)
All products	**22,637.28**	**100.00%**	**0.31%**	**7.97%**				
EUDR products	**1,888.55**	**8.34%**	**0.47%**	**7.98%**			**18,100**	**97.04%**
Rubber	1,730.79	7.65%	2.86%	11.45%	1.08	0.61	1,464	88.39%
Wood	128.07	0.57%	0.06%	2.20%	1.01	0.65	9,658	97.78%
Oil palm	22.17	0.10%	0.10%	1.30%	0.82	0.89	4,838	97.75%
Cattle	4.27	0.02%	0.02%	0.66%	0.66	0.65	1,331	97.67%
Cocoa	2.93	0.01%	0.01%	4.22%	0.51	0.92	100	97.00%
Coffee	0.32	0.001%	0.001%	8.82%	0.51	0.92	702	98.72%
Soya	0.005	0.00002%	0.00002%	0.002%	1.63	0.82	7	100.00%

Source: International Trade Centre, Office of the National Economic and Social Development Council, Department of Business Development, Krungsri Research
Note: (1) The sector with a high forward linkage index value means it is heavily integrated with downstream production. (2) The sector with a high backward linkage index value means it is heavily integrated with upstream production. (3) The number includes only active businesses registered with the Department of Business Development

2) **There is a risk that small-scale producers will lose competitiveness**. It is possible that smaller operations may not be able to meet the EUDR requirements, or they may be viewed as being at higher risk than their competitors of engaging in practices leading to deforestation or of infringing relevant laws, and either outcome would then lead to their being excluded from European markets and their income dropping. One area where this may happen is connected to land use by rubber farmers. As a result of policy initiatives by the Office of the National Land Policy Board, groups of growers and local communities have been permitted to site rubber plantations on state land but if officials are slow to issue certificates confirming this, plantation owners will not be able to demonstrate that their products have been grown in compliance with local land laws[12/]. Small operators that have difficulty collating the evidence required to prove that they are compliant with the EUDR may also lose access to the domestic market since downstream manufacturers (e.g., of latex gloves or furniture) may decide to lower the risk of being connected to possible deforestation or having difficulties with supply chain provenance by switching to sourcing inputs from larger suppliers that are better able to meet the new requirements. Beyond this, some agroforestry farmers diversify and maximize income by mixing regular crop cultivation with the planting of dense stands of agroforestry products, which closely resemble natural forests. However, converting forestry land to agroforestry use may count as deforestation under the EUDR, which would lead to a loss of income and market share for these farmers.

3) **Thailand may find itself slowly excluded from global supply chains and investment flows.** As part of the move to increase supply chain verification under the EUDR, the European authorities will also assign a risk rating to countries supplying EUDR goods, and it is possible that this will have consequences for manufacturing supply chains since high-risk countries may gradually be excluded from global value chains. Thus, if Thailand is subject to this categorization, countries trading with Europe in EUDR goods may cut purchases of intermediate goods from Thailand and holding back on new investments in the country. For example, if Thailand is designated a high-risk country, China, which is the most important source of wooden furniture imported into the EU, may cut back on purchases of intermediate inputs from Thailand and instead turn to countries from which imports of wood products have tended to increase over 2016-2022, such as Vietnam, Australia, New Zealand and the EU itself[13/]. It is therefore possible that in addition to causing Thailand to lose market share for EUDR goods themselves, Thailand's share of the market for intermediate goods in global EUDR supply chains may also shrink.

12/ Source : Resilient communities, sustainable and equitable forest landscapes, https://www.recoftc.org/stories/what-eu-regulation-deforestation-free-products-means-communities-and-smallholders-asia
13/ Source : S&P Global, https://www.spglobal.com/marketintelligence/en/mi/research-analysis/deforestation-rules-impact-on-supply-chains.html

Nevertheless, in addition to the impacts described above, the introduction of the EUDR may have a number of positive consequences for Thailand.

Positive impacts

1) **Trade opportunities may increase**. The EUDR may pave the way for Thai players to expand their share of the market for exports to the EU if Thai EUDR products are associated with a lower rate of deforestation, or if Thai companies are better able than their competitors to meet the new supply chain checking and verification requirements. Thailand may therefore be able to increase its market share for rubber and rubber products if Thai producers develop more sustainable plantation practices and are able to show that their plantations are sited on land that has not become available through deforestation. Because China imports EUDR-compliant intermediate rubber goods for processing into final goods for export to Europe, this would also ease the way for an increase in sales to Chinese producers. With regard to palm products, Thailand has an advantage in that the majority of palm plantations are on land that has been converted from other agricultural uses (e.g., for rubber plantations, fruit orchards, and rice growing) and Thai growers typically have full legal use of this land[14/]. While Indonesia and Malaysia are currently in dispute with the EU over oil palm use, Thailand may be able to take market share from these two competitors. It should be remembered though that the extent to which new trade possibilities will become a reality will be determined by the ability and willingness of participants across supply chains to adapt to changing circumstances.

2) **The EUDR may promote more intensive monitoring of deforestation, increased conservation efforts, and an extension in the total area of forested land.** Although the EUDR has no direct application or enforcement within Thailand, the country will come under greater pressure to strengthen its forest conservation efforts if it wishes to continue trading with the European Union. Thai forests are certainly better protected now than in the past, and as of 2022, **forests covered 31.6% of the country, or 16.3 million hectares (102.1 million rai)**. Nevertheless, forest cover has been diminishing since 2019 as a result of forest fires, encroachment, and land use change[15/], principally for conversion into use for agriculture[16/]. Of these, fire has recently been the most important driver of deforestation, with the total area of forest lost to fire increasing from 17,600 hectares (113,133 rai) in 2017 to 40,000 hectares (248,690 rai) in 2021, or an annual increase of 21.8%. At the same time, although encroachment has fallen from its earlier highs, this still amounted to 3,200 hectares (20,000 rai) over 2021 and 2022. It should be remembered that this figure represents only cases reported by the Royal Forestry Department.

   The enforcement of the EUDR will therefore work as an important catalyst accelerating the involvement of stakeholders across the country in forest conservation measures. Moreover, Thailand has already set the ambitious goal of increasing national forest coverage to 55% of the country by 2037[17/], but with the addition of these external pressures, meeting this target should be made considerably easier.

14/ Source : Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), https://www.thai-german-cooperation.info/th/eudr-a-trade-barrier-or-an-opportunity-for-the-thai-palm-oil-industry/

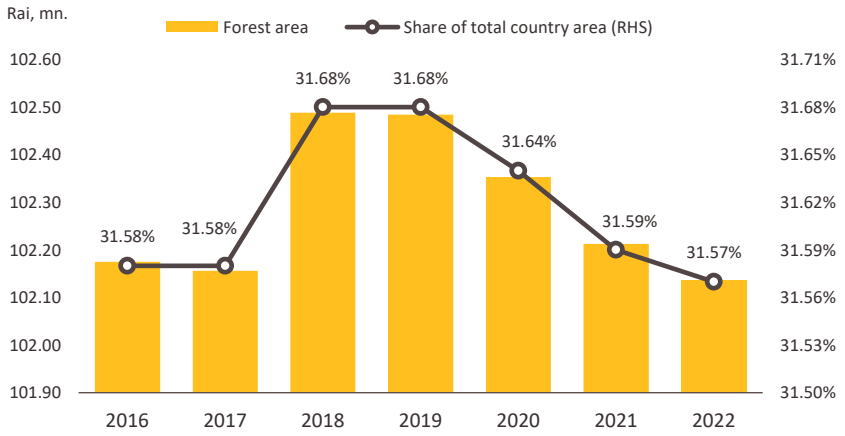
15/ Source : Seub Nakhasathien Foundation, https://www.seub.or.th/document/สถานการณ์ป่าไม้ไทย/2023-235/

16/ Land use change involves an alteration in the use made of a given area of land. This will be done to meet particular social, economic or environmental needs, and the change may be temporary or permanent. A common change involves the conversion of forested land to agricultural use (Source : https://km-ir.arts.tu.ac.th/files/original/4f4e0b66b6add0290e1e19022004d90220530945.pdf

17/ The 20-year strategic plan lays out the goal of extending national forest coverage to 55% of the country, split between 35% natural forests, 15% forest plantations, and 5% green areas in urban and rural locations.

Figure 6:

Thailand Forested Area



Source: Royal Forest Department

3) **Thailand's adherence to standards for sustainability, law enforcement, and data collection should strengthen**. In addition to its stipulations regarding deforestation, the EUDR will also help to ensure that manufacturers are compliant with laws relating to land use, labor and human rights, the environment, taxation, anti-corruption measures, and customs regulations. Clearly, collecting the evidence required to demonstrate that these additional requirements have been met will be regarded as excessively onerous by some companies, but being forced to do this will help to foster an environment within which businesses will operate on a more sustainable and legally compliant footing. More broadly, this will also likely bring domestic law more closely into line with international standards. In a similar vein, because of international accreditation, for example, the sustainability of wood products or of palm oil production will ease the EUDR due diligence requirements, Thai companies can be expected to apply for this in greater numbers. Finally, these changes will push Thailand to modernize and streamline its systems for gathering and storing data on agricultural activities and related suppliers since this data and its accompanying documentation will be required when processing exports transiting into the EU.

Impacts on particular industries

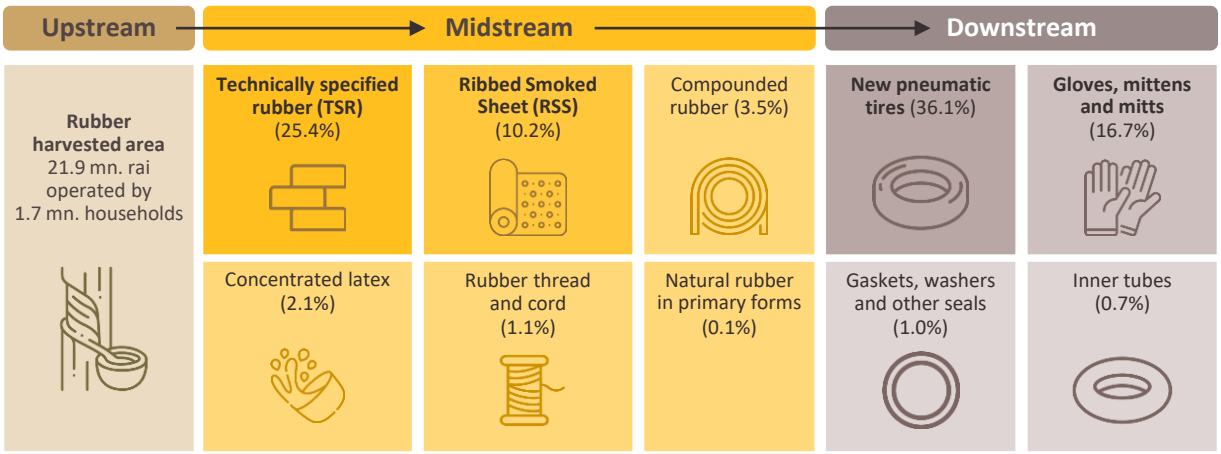
Having surveyed the positive and negative impacts of the EUDR on Thai companies overall, the following section will consider the effects of the regulations on individual industries.

Rubber

Thailand generated income worth USD 1.7 billion from exports of rubber goods to the EU in 2022, and so of the various industries covered by the EUDR, the rubber industry will be the most seriously impacted part of the economy. The **upstream** section of the domestic supply chain comprises rubber growers, rubber tappers, and some primary processing that converts the fresh field latex into dried products. As of 2022, 1.7 million households were involved in the cultivation of rubber, which covered a total area of 3.5 million hectares (21.9 million rai), over half of which was in the south of the country. Almost all primary production of latex is used in the manufacture of the main **intermediate** products of rubber smoked sheet (RSS), technically specified rubber (TSR), concentrated latex, compound rubber, and mixed rubber. These intermediate products are used by **downstream** industrial consumers (mostly in overseas markets) to produce end-products such as tires, latex gloves, condoms, and rubber bands, of which Thailand is also a major exporter.

Figure 7:

Thailand Rubber Supply Chain and Proportion of Rubber Exports Going to Europe



Source: Office of Agricultural Economics, International Trade Centre, Krungsri Research
Note: ( ) displays the share of total rubber exports to the EU in 2022, and darker areas represent larger shares

The rubber products most heavily affected by the EUDR will be processed rubber goods (TSR and RSS), tires, and latex gloves since these account for the greatest share of Thai rubber exports to the EU. In 2022, Thai exports to the EU of natural rubber goods had a total value of USD 654 million, which represented 37.8% of all Thai rubber exports. Of this, the most important product categories were **TSR** (25.4% of all rubber exports), **RSS** (10.2% of exports) and **concentrated latex** (2.1%). The importance of the European market to Thai rubber producers is reflected in the fact that the EU is respectively the 2nd and 3rd most important market for exports of TSR and RSS from Thailand, and so producers and processors of intermediate rubber goods will certainly feel the impact of the introduction of the EUDR.

At the same time, **exports to Europe of downstream goods such as pneumatic tires had a total value of USD 625 million (36.1% of exports of all rubber products) and so manufacturers of these will be just as seriously affected**. The most important exports from Thailand to Europe are bus, truck and auto tires, but producers of rubber apparel and clothing accessories will also be impacted, though in particular, this will hit manufacturers of **latex gloves** since these account for a full 16.7% of all exports of rubber goods. Moreover, because companies manufacturing downstream goods will have to carry out due diligence on their midstream and upstream suppliers, the overall burden of the additional EUDR requirements will be heavier for players in this group.

In some regards, the Thai rubber industry is reasonably well placed to respond to the introduction of the EUDR since **the majority of rubber plantations (18 million rai from a total of 22 million across the country) are registered with the Rubber Authority of Thailand (RAOT)**[18/]. Therefore, most growers can be assumed to be able to provide proof of the geographical source of their products and so to be harvesting rubber legally. However, the EUDR covers a wide range of issues relating to society and the environment, and one mechanism for demonstrating that growers have met the EUDR requirements for sustainability is international accreditation, such as that offered by the **Forest Stewardship Council (FSC)**. This provides a certification and labeling system, and only wood from socially and environmentally responsible plantations (thus not from natural or reserved forests) is permitted to carry the FSC label[19/].

The Rubber Authority of Thailand estimates that at present only around 64,000 hectares (400,000 rai) of Thai rubber production is certified by the FSC, or just 1.8% of the total area under cultivation across the country, and thus **only a small fraction of rubber producers is likely to be in full compliance with the EUDR**. Moreover, given the significant obstacles that have to be cleared before a producer can be certified and the costs involved in applying for the certification and then meeting its requirements (e.g., restrictions on the use of pesticides), it is generally only major players such as the Sri Trang Group[20/] that have done so. Independent growers and small-scale processors are thus at a distinct disadvantage, though it may well be the case that the EUDR rules will entail unavoidable costs either way, whether from the additional overheads entailed by reporting and verification or from applying for international certification and then using this to meet the EUDR requirements.

Another significant challenge relates to **data management and supply chain verification**, and there is now a race underway to get systems for this up and running ahead of the implementation of the EUDR, though the authorities are also keeping an eye on how other EU trade partners (e.g., China, Malaysia, and Indonesia) are managing this situation. The Rubber Authority of Thailand plans to use a geographic information system ('GIS Rubber') to manage information relating to the location of rubber plantations and to check land deeds, and it is hoped that it will be possible to use this for provenance checking by 2025[21/]. In the private sector, Sri Trang Group is developing 'Sri Trang Friends Platform', the company's in-house system for managing and verifying the source of goods entering its supply chain, and this will help the company to expand into markets with trade partners manufacturing downstream goods[22/]. However, because of the nature of the EUDR stipulations, the ability of Thai players to maintain and expand market share will be highly dependent on the functioning of systems for supply chain verification.

18/ Source : Thansettakij, https://www.thansettakij.com/business/trade-agriculture/577663

19/ The most important FSC requirements are closely aligned with those of the EUDR, including e.g., conservation of forests, ecosystems and the environment, fair employment practices, respect for the rights of indigenous peoples, and compliance with relevant laws (Source : https://fsc.org/en/fsc-standards)

20/ Source : Sri Trang Agro-Industry Plc., https://www.sritranggroup.com/th/news-update/company-news/view?id=507

21/ Source : Ministry of Agriculture and Cooperatives, https://www.moac.go.th/news-preview-451291792895

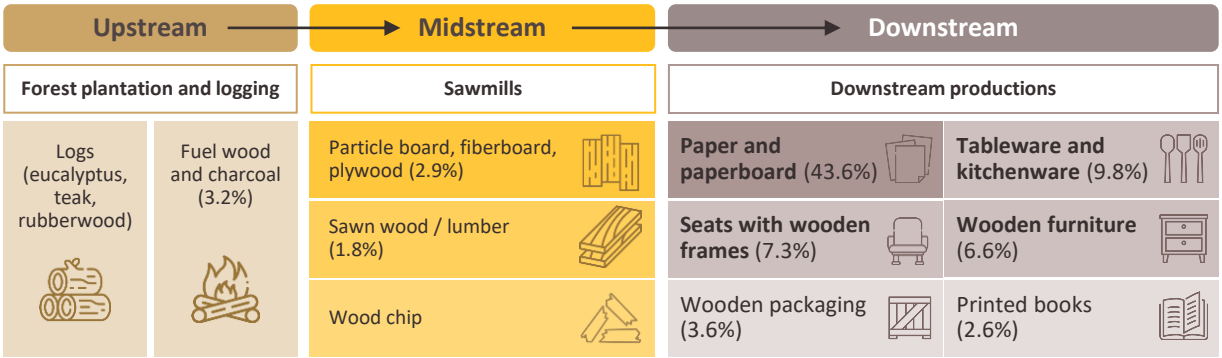
22/ Source : Thaipublica, https://thaipublica.org/2023/08/sta-sri-trang-friends-platform-eudr-pr-11082023/

Wood and wood products

Almost all wood processed by Thai mills is sold on to Chinese manufacturers, where it is typically consumed by China's enormous furniture industry, and so Europe is not a major export target for Thai players. Nevertheless, in 2022, exports of wood and wood products from Thailand to the EU generated income worth USD 128.1 million and so for Thailand, after rubber, wood and wood-derived goods will be the second most important category of EUDR products, and for players in this area, impacts may be significant. Indeed, of all the main commodities covered by the EUDR, wood has the broadest selection of goods associated with it. This is because of the wide range of downstream industries that use wood, and this diversity is reflected in the wood manufacturing supply chain, which is composed of the following: (i) In the **upstream** section of the industry supply chain, forest plantation results in felled lumber, which in Thailand is mostly eucalyptus, teak, and rubber[23/] (imports are limited to a small quantity of pine and oak); (ii) In **intermediate** processing in sawmills[24/], the felled timber is cut into sawn wood. Waste products from this (e.g., scraps and offcuts) are converted into processed wood products such as particle board and fiberboard, while waste wood chip is processed into paper. (iii) Finally, midstream processed wood is made into **downstream** products, such as packaging, kitchen appliances, paper, books and furniture.

Figure 8:

Thailand Wood Supply Chain and Proportion of Wood Exports Going to Europe



Source: Office of Agricultural Economics, Royal Forest Department, International Trade Centre, Krungsri Research
Note: ( ) displays the share of total wood exports to the EU in 2022, and darker areas represent larger shares.

The most seriously affected wood products will be downstream goods and those produced by related industries. Most notably, this will include **paper products** since these comprise 43.6% of all exports of wood and wood-derived products to the EU (uncoated paper and paperboard and toilet paper). This will be followed in importance by tableware and kitchen appliances (9.8% of wood exports), seats (7.3%), furniture (6.6%), carvings, statues and home decorations (3.8%), and packaging (3.6%). The quantity of processed wood products exported to the EU is fairly slight and thus only 2.9% of particle board, fiberboard, plywood and veneered products is bound for markets in Europe, indicating that direct impacts will be limited. However, **Thai players will be exposed to indirect effects since over 90% of exports of Thai processed wood products go to China**, **Europe's most important supplier of wooden goods, especially of furniture**. However, the introduction of the EUDR and the accompanying risk of losing market share should Chinese imports contravene the new regulations may encourage Chinese manufacturers to switch to sourcing inputs from countries that are better placed to carry out due diligence. This would then place Thailand in the unwelcome position of having to compete more aggressively with countries already supplying China with processed wood, including Vietnam, Australia, New Zealand, and countries in the EU itself, and given the overwhelming importance of China for Thai exporters, this has the potential to be an important issue.

23/ Data on timber production comes from the Forest Industry Organization, https://forestinfo.forest.go.th/Content.aspx?id=9
24/ As of 2021, there were 5,761 sawmills in Thailand (data from the Royal Forestry Department and the Office of Agricultural Economics).

Compared to those in other parts of the economy, players in the wood industry will be at something of an advantage since exporters to Europe are already familiar with the **EU Timber Regulations (EUTR)**, which have been in effect since 2013 and that likewise require suppliers to carry out due diligence. Under the EUTR, suppliers need to check the provenance of wood and wood products imported into the European Union and to be assured that these have been sourced legally[25/], and title deeds have played an important evidential role in proving that wood has not entered the market as a result of deforestation[26/]. To this end, the Royal Forestry Department has played a central role overseeing the market for wood products and managing supply chains. This includes registering forest plantation, permitting logging, licensing sawmills, and certifying wood and wood-derived products prior to export, and this should all transfer smoothly to being used to demonstrate compliance with EUDR legal requirements.

In addition to its forestry conservation measures, the European Union has been pushing forward with measures to promote environmental and social sustainability, and so companies involved in the trade in wood or wood products that wish to maintain or expand their place in European markets will need to operate in line with international sustainability standards. The latter includes not only the FSC standards, which can be used to certify rubber and wood goods, but also the **Program for the Endorsement of Forest Certification (PEFC)**, a well-regarded scheme for the certification of the sustainability of wood products. The PEFC in fact operates a meta-certification program under which it assesses and evaluates national forestry certification schemes. In the case of Thailand, this is the Thailand Forest Certification Council (TFCC), which since 2019 has been the certifying body for the PEFC[27/]. In keeping with those set by international bodies[28/], these standards are focused on the sustainability of forestry management, labor rights, biodiversity, land use, and compliance with other relevant laws, and PEFC-accredited goods commonly include paper, wood packaging or boxes, and processed wood products.

Overall, Thai exporters of wood and wood-derived products have significant potential to expand into European markets. This will be especially so for those involved in rubber wood since there is a total of 3.5 million hectares (22 million rai) of rubber under cultivation in Thailand, and rubber is alone among wood products in not being subject to export controls. However, success in this will depend on companies obtaining international certification, and failure to do so will weigh heavily on growth, in particular now that the EUDR has added to the requirements laid out in the EUTR.

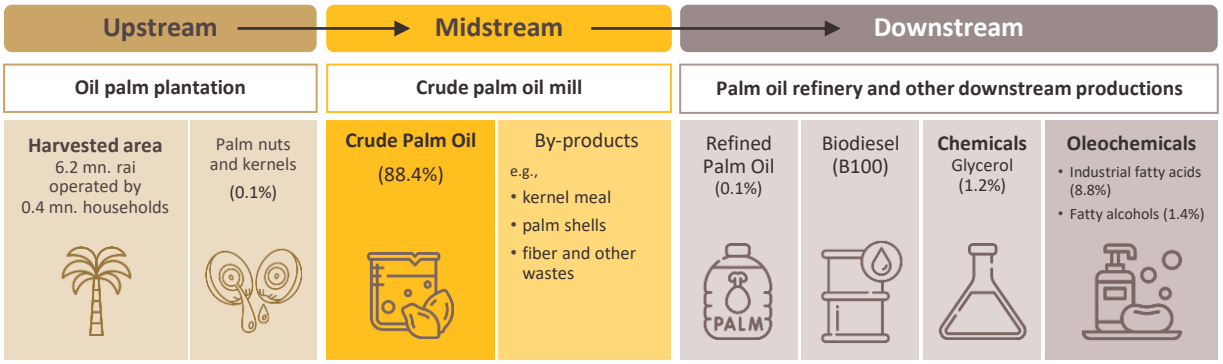
25/ Source : Rubber Intelligence Unit (Office of Industrial Economics), http://rubber.oie.go.th/file/1_EU%20Timber%20Regulation.pdf
26/ Source : Thai-EU FLEGT Secretariat Office (TEFSO), https://tefso.org/th/ความพร้อมของอุตสาหกรรม/
27/ Source : Office of Industrial Economics, https://www.oie.go.th/assets/portals/1/fileups/2/files/ArticlesAnalysis/rubberwood19.pdf
28/ Source : Rubber Intelligence Unit (Office of Industrial Economics), https://rubber.oie.go.th/file/PEFC.pdf

Oil palm

Following the rubber and wood industries, players in the oil palm industry will be the next most heavily impacted by the introduction of the EUDR. **Upstream** industrial production involves the growing of oil palm, with a total of 407,225 households cultivating 1 million hectares (6.2 million rai) of this across the country, though this is concentrated in the South. The number of farmers active in the industry has increased steadily, but these are overwhelmingly small independent operations. In **midstream** positions in the supply chain, fresh palm fruit is pressed to extract crude palm oil, with value generated from by-products (e.g., palm meal, oil cake and palm shells) that are processed into a range of secondary goods. **Downstream** production consists of purifying crude palm oil into refined palm oil, though in addition to this, other downstream industries include the manufacture of biodiesel, chemicals, and oleochemicals (e.g., soap and margarine).

Figure 9:

Thailand Oil Palm Supply Chain and Proportion of Oil Palm Exports Going to Europe



Source: Office of Agricultural Economics, International Trade Centre, Krungsri Research
Note: ( ) displays the share of total oil palm exports to the EU in 2022, and darker areas represent larger shares.

Although Thailand is, after Indonesia and Malaysia, the third most important supplier of palm oil products to global markets, **exports of EUDR palm products to Europe are fairly low**, and in 2022, these brought in just USD 22.2 million. **The vast majority of this (USD 19.6 million, or 88.4%) was of crude palm oil**[29/], though exporters of palm oil-derived chemicals will also be affected by the new rules. Chief among these will be **fatty acids and fatty alcohols that are used in the oleochemicals industry (e.g., to produce soap and cleaning agents)**, which account for respectively 8.8% and 1.4% of exports of oil palm products. Because the value of exports to Europe of oil palm-derived chemicals is more stable than those of crude palm oil, the impacts for players in this segment should be more predictable, although supply chain checking and verification will be more complicated. For other oil palm products such as refined palm oil and palm seeds, impacts will be negligible due to the fact that exports of these amount to just 0.1% of the total.

29/ The value of exports of crude palm oil from Thailand to the EU can be highly volatile, and while this was significant in 2022, in 2021, it was very slight. Domestic palm outputs have an important role to play in determining overall export volume.

For the oil palm industry, the challenges posed by the EUDR will be broadly similar to those faced by the rubber industry. Thus, the majority of Thai palm plantations are sited on land previously used for other agricultural purposes rather than having been recently deforested, and growers typically have legal right to this land. However, around 80% of the land given over to oil palm cultivation is managed by small, independent growers, and these are generally lacking in knowledge about how to farm sustainably, for example how best to apply fertilizer and how to re-use processed palm fruit bunches. Given this, only **around 2% of growers have met the sustainability standards set by the Roundtable on Sustainable Palm Oil (RSPO)**[30/]. The latter certifies oil palm plantation practices across a range of areas including respect for the environment, conservation of natural resources and biodiversity, fair labor practices, respect for local communities impacted by oil palm cultivation, and compliance with relevant laws[31/]. These align closely with the EUDR, and so it is reasonable to conclude that because so few producers are accredited by the RSPO, a considerable amount of work remains to be done to prepare for the introduction of the EUDR.

The authorities have tried to accelerate the uptake of sustainable farming techniques. As part of this, the German international development organization (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH: GIZ)[32/] has worked with around 1,000 Thai palm oil growers to help these meet the RSPO standards. The GIZ has also helped to develop the i-Palm app, which can be used by growers to store data on the location of their plantations and the growing and harvesting period of their palm. By aligning on-farm practices with the RSPO standards, growers will be well prepared for the implementation of the EUDR, and so although links between Europe and the Thai palm oil industry are fairly weak, the latter has the potential to adapt well to new circumstances and to deepen its penetration of European markets.

Other industries

Beyond rubber, wood, and oil palm, exports from Thailand to the EU of goods covered by the EUDR are very limited and therefore the impacts on Thai industry, which are summarized in Table 4, will be slight. Nevertheless, most of those involved in these supply chains are small farmers, and because they may have difficulty providing the documentation required to show that production has not involved deforestation, in the future, they may face difficulties trading in Europe.

However, the current low level of exports to the bloc also reflects the fact that sales into the EU have significant room for growth. In particular, sales of cocoa have strong growth potential because while exports are low, the EU is still an important export market for Thai producers. Given the existence of receptive markets at home and abroad, the Thai authorities are also trying to extend **cocoa** cultivation. The industry will, though, face challenges arising from the need to adapt to the EUDR as well as from competition from major suppliers, such as Côte d'Ivoire, and regional competitors, including Vietnam, Malaysia, and Indonesia.

30/ Source: Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), https://www.asean-agrifood.org/palm-oil-thai/

31/ Source : The British Standards Institution (bsi.), https://www.bsigroup.com/th-TH/RSPO-for-Sustainable-Palm-Oil/rspo-principles-and-criteria/

32/ GIZ assistance was made through the Sustainable and Climate-Friendly Palm Oil Production and Procurement project (SCPOPP). For more details, see: https://www.thai-german-cooperation.info/th/eudr-a-trade-barrier-or-an-opportunity-for-the-thai-palm-oil-industry/

Table 4:

Impacts of the EUDR on Thai Producers of Cattle, Cocoa, Coffee, and Soy

Commodity	State of the Industry	Exports to the EU	Opportunities/Challenges
Cattle 	Around 1.4m farmers were involved in cattle rearing in Thailand in 2022, but domestic production is not sufficient to meet demand, and 10,000-20,000 tonnes of beef (by carcass weight) has to be imported annually. Cattle raising provides hides that are used as inputs to the leather industry and the production of rawhide, tanning, and processing into leather goods.	USD 4.3m was earned from exports of cattle products, mainly of **hides** but due to competition on quality and the gap between domestic production and demand, no beef is exported to the EU.	Operators active in leather supply chains will likely be familiar with provenance issues since shoe manufacturers (e.g., Nike, Timberland and Adidas) already have purchasing policies that only allow for inputs to be sourced from companies that engage in supply chain checking and verification[33/]. However, small beef farmers may face problems relating to the infringement of forest land and the provision of data on where their cattle are raised. In addition, expanding exports will require that players overcome significant challenges relating to the development of new breeds, meeting international standards for production and processing, and strong competition on price and quality.
Cocoa 	As of 2020, 1,300 households were farming 946 hectares (5,913 rai) of cocoa[34/]. This is mostly contract farming managed by cocoa processors and chocolate producers.	Thai cocoa exports brought in USD 2.9m, almost all of which was for **chocolate** and **other preparations containing cocoa**, and **unsweetened cocoa powder**. Japan is the main export market for this, though there is significant potential for growth in Europe.	Because they are able to sell both to domestic processors and to overseas buyers, especially in Europe (a major global consumer of cocoa), growing cocoa offers farmers the possibility of earning additional income if prices for other crops (e.g., rubber) fall. However, growing cocoa is a new development for Thailand and so registering growers and plantations is still at its initial stage, and this may be a problem for those trying to meet the EUDR standards.
Coffee 	27,836 households farm 38,400 hectares (240,000 rai) of coffee plantations (data for 2022), tilted slightly in favor of robusta and away from arabica. However, domestic production (10,000-20,000 tonnes/year) is dramatically lower than consumption (93,000-95,000 tonnes/year).	Exports of Thai coffee are almost entirely of **unroasted, non-decaffeinated beans**, and sales of this brought in just USD 0.32m. The main export markets are Japan and the US, though 8.8% of exports go to Europe, making coffee the most dependent of the EUDR commodities on European buyers after rubber.	Most exports to Europe come directly from coffee plantations and so supply chains are simple and direct, but most growers are small-scale farmers. Moreover, most growers of arabica beans are from minority groups in the North, who often grow coffee in locations surrounded by reserved forests[35/]. This will make it difficult for these growers to provide evidence that they have not infringed forest areas and that they have legal right to their land. Exports are also limited by the imbalance between domestic supply and demand, the many diseases that threaten local producers, the high cost of Thailand-based production, and the long harvest waiting period.
Soy 	12,493 hectares (78,080 rai) of soy is grown in Thailand by 14,442 families (as of 2022), but almost all domestically consumed soy is imported.	Exports of soy are the least significant of all EUDR commodities, and these generated income of just USD 5,000. This was from (in order of importance) sales of **soy oil, soybeans** and **soy flour**.	The introduction of the EUDR will have very limited impacts on soy farmers. However, most exports are downstream goods (e.g., soy oil) that are largely produced from imported soy, supply chain checking and verification will thus be problematic.

Source: Office of Agricultural Economics, Department of Agriculture, Department of Internal Trade, International Trade Centre, Bank of Thailand, Krungsri Research

33/ Source : Thai-EU FLEGT Secretariat Office (TEFSO), https://tefso.org/th/อุตสาหกรรมหนังและอาหาร/

34/ Source : Bank of Thailand, https://www.bot.or.th/content/dam/bot/documents/th/research-and-publications/article/regional/2564/2564_RL_07_unlock_coco.PDF

35/ Source : The 101 .World, https://www.the101.world/gastro-politics-ep-3/

It is possible to rank the impacts arising from the EUDR and to evaluate how urgent responding to these challenges is by evaluating differences in the production and export capabilities of the industries affected by the EUDR, variations in the extent to which Thai players are dependent on overall exports to the EU, and their level of sales into particular EU member states. The results of this analysis are summarized in Figure 10, which ranks **product priorities (i.e., the product's share of overall exports) on the horizontal axis and the market priority (i.e., the market's share of overall exports) on the vertical axis. This shows that by far the most heavily affected product-market combination is exports of rubber to the top five EU markets of Germany, the Netherlands, Spain, France and Italy**, which with a 59.6% share of exports of EUDR goods to the EU should be the primary focus of adaptation measures (number 1, Figure 10). Exports of rubber to the rest of the EU (i.e., the EU excluding the top 5 markets) account for a further 34.1% of EUDR exports to Europe, placing these in second place in the rankings of importance (number 2, Figure 10). Combined, exports of rubber across the bloc thus account for 93.7% of the value of all EUDR exports, and so rubber will be by an enormous margin the industry most severely impacted by these new rules.

Figure 10:

Industries and Markets Most Seriously Impacted by the EUDR



Source: International Trade Centre, Krungsri Research
Note: % is the share of exports in each industry and each EU market as a percentage of total EUDR exports to the EU, and darker areas represent larger shares.

By comparison, other industries will be much less seriously affected, and the 6.3% of export value remaining for EUDR goods once rubber's contribution has been deducted are split between wood and wood-derived goods (4.6%), oil palm products (1.3%) and in order, cattle products, cocoa, coffee, and soy, though with the last four, there are no significant differences between the value of exports to the top five markets and the rest of the EU, which are in any case very minor. However, it should be emphasized that this analysis considers only goods exported directly from Thailand to the European Union and the consequences arising directly from this. Indirect impacts that will be felt as a result of the export of agricultural goods, raw materials, or intermediate products to third party countries for conversion into downstream goods that are sold on to European markets are not included in this assessment.

Krungsri Research view: How should Thailand respond to changes in the rules governing world trade?

Preparing stakeholders for change

The EUDR came into force in June 2023, sending a clear signal that Thailand needs to rapidly understand and adapt to a changing environment within which trade rules and the drive to sustainability have become much more closely intertwined. It is true that at present the regulations are in a transitionary stage and how these will be enforced should become clearer in 2024, but at least initially, **Krungsri Research sees the impacts of the EUDR on Thai industry being somewhat limited.** As demonstrated above, **the most significant consequences will be for rubber supply chains, and to a lesser extent, the wood and oil palm industries**, and so Thai exporters shipping these products to Europe will need to shoulder higher costs arising from data collection and processing, supply chain checking and verification, and applying for international accreditation. Failure to do this will result in non-compliance with the EUDR standards, and thus potentially being excluded from EU markets and global supply chains.

Over the longer term, the impacts of the EUDR are likely to deepen as a result of: (i) assessing and classifying countries according to the risk of their continuing to engage in deforestation and of infringing other relevant regulations; (ii) the broadening of the rules to encompass other products, which are likely to include a wider range of agricultural produce, livestock, and downstream goods; and (iii) the introduction of similar measures in areas beyond the EU.

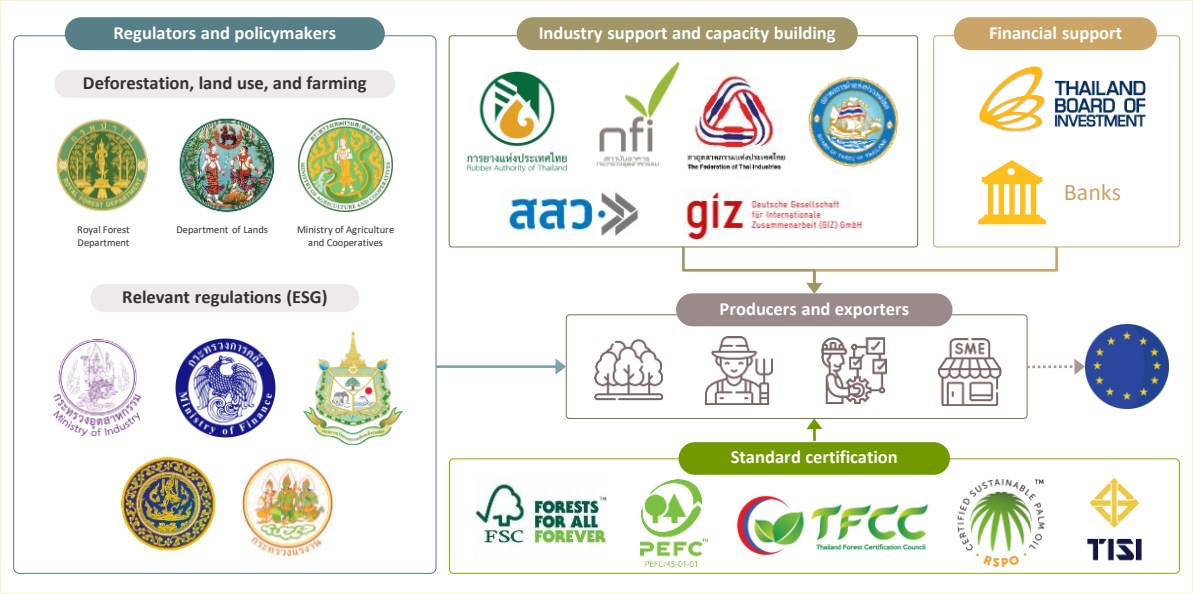
To prepare for these changes and to alleviate any negative consequences that may arise from this over both the short and long term, it is important that stakeholders in both the public and private sectors undertake the following.

- **Ensure that Thailand is categorized as a low-risk country**: This will reduce the administrative and financial burdens associated with carrying out due diligence checks prior to the export of EUDR goods to the European Union and obviate the need for European importers to switch to alternative, lower risk suppliers. Both during the EUDR's transitionary phase, when the EU is assessing individual country's risk status (due to be announced in 2024), and in future, when the risk categories will be reviewed, it is imperative that Thailand makes clear its readiness to meet the EUDR requirements. This will include: (i) revising the procedures for permitting and licensing for, e.g., land ownership, commercial use of forested areas, and logging to make these quicker and more responsive; (ii) developing agricultural and business data gathering and storage systems that will allow for provenance and supply chain checking; and (iii) effectively enforcing laws and regulations relating to environmental, social and governance (ESG) issues. With regard to the latter, laws are in fact already on the statute book covering land usage, labor rights, the environment, taxation, and corruption, but enforcement can be patchy and irregular, and so checking for compliance needs to be tightened. It is also important that in addition to work in the public sphere, awareness of these issues is improved across the private sector.
- **Extend support for SMEs**: SMEs will find it more difficult than large companies to adjust to the EU's new requirements, and so these will be disproportionately heavily impacted by the risk of being excluded from domestic and international supply chains. Independent farmers and SMEs, which constitute the greatest share of participants in EUDR value chains, should therefore be offered assistance to help understand these changes and to prepare the required documentation (e.g., to show that they have the right to use the land that has been farmed and its location). Farmers should also be trained on how to farm according to international sustainability standards.

- **Promote sustainability accreditation**: Although the EUDR does not specify that successful completion of the due diligence checks requires that suppliers be accredited, doing so provides additional evidence that goods being imported into the EU have been produced in line with recognized international environmental and social standards. For example, the FSC and PEFC standards offer assurances that wood and rubber products originate from responsibly managed forests or plantations, while the RSPO offers similar assurances that palm oil products have been produced sustainably. The authorities should therefore support efforts to educate farmers and businesses about these standards and to build capacity in these areas. This should include financial support as part of the Board of Investment's Smart and Sustainable Industry project, which helps with the costs entailed in developing operations to meet international sustainability standards[36/]. Businesses will also need to take responsibility for educating themselves about the importance of these issues and for investing in the changes needed to align their operations with international trends in improving sustainability.

Figure 11:

EUDR Stakeholders



Source: Krungsri Research

36/ The Smart and Sustainable Industry project began at the start of 2023, and for the period January-September 2023, applications for assistance for 223 sustainability projects with a total value of THB 12.33bn had been received https://www.boi.go.th/th/smart_sustainable

Opportunities for business and the financial sector

While it is true that the EUDR regulations will apply equally to suppliers in countries around the world, the latter will have markedly different abilities to respond to these challenges. This means that **if Thailand is able to steal a march on its competitors by preparing to meet these changes swiftly and efficiently, Thai exporters will be well placed to expand their share of European markets.** Moreover, this need not be limited to areas where Thailand already exports in volume (e.g., rubber, wood, and oil palm products), since opportunities will certainly present themselves in markets where Thailand has demonstrable growth potential (e.g., cocoa). Thai companies will also have the opportunity to expand their presence in global value chains by stepping up exports of intermediate goods where Thailand has a competitive advantage (e.g., processed rubber and wood products), which will be processed into downstream goods in third-party countries and then exported into Europe. Other, less direct business benefits that will flow from increased attention to issues connected to sustainability will include improvements to corporate or brand image, and this may then make it easier for companies to expand their business or to raise funds, for example by being included in the Thailand Sustainability Investment index (THSI). More broadly, deepening concerns with sustainability across society will help to improve forest conservation efforts and to accelerate the accomplishment of net zero goals.

The EUDR will also generate new opportunities and open up markets for new services, including for example the development of systems to help with supply chain checking and verification, consultancy services relating to potentially complicated and involved due diligence requirements, and international sustainability accreditation. Thus, **while it is true that on the tails-side of the EUDR coin, the introduction of new regulations will add to the burdens faced by exporters, for those who correctly call heads, the EUDR will open the door to a wealth of new possibilities.**

Beyond its effects on the real economy, the EUDR also has the potential to impact the **financial system**. The EU will review the implementation of these rules after two years, and these may then be expanded to include blocks on the financing or investing in operations connected to deforestation. However, if players in the financial system become more alert to these issues, they will be able to place themselves at the center of moves to deepen business sustainability and to become drivers of environmentally and socially sustainable growth, which would ultimately establish a new set of global practices.

The EU has a history of breaking new regulatory ground that the rest of the world then follows, and as with the introduction of the CBAM, which many countries are now considering using as a model for their own cross-border carbon taxes, the EUDR will likely serve as a global prototype for further measures to tackle ongoing deforestation and address environmental issues. If, as seems likely, the EUDR has an outsize influence on the development of global trade and environmental regulations, Thailand should use the time it has to prepare as fully as possible for these changes, and through this, position itself to seize future trade and investment possibilities.

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