Akin

Singapore Budget 2022: Scaling up Decarbonisation

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Budget 2022

On Friday 18th February, Singapore's Minister for Finance, Mr Lawrence Wong, delivered the country's 2022 Budget Statement, setting out the Government's spending plans for the current year and beyond. One of the key themes of this year's Budget is the Government's continuing commitment to advancing Singapore's green transition, including implementation of the Green Plan 2030 (Singapore's Green Plan and Hydrogen)**.** In this context, perhaps the most notable aspect of the Budget is the ambitious plan to gradually ramp up Singapore's existing carbon tax from the current level of $5 per tonne of emissions to $25 per tonne in 2024; $45 per tonne by 2026; and increasing to between $50 and $80 per tonne by 2030. The scheduled increases are expected to set a higher bar for Singapore's peers in Asia with World Bank data from April 2021 showing that Japan currently levies $3 per tonne, while Indonesia (whose carbon tax applies from 1 April this year for coal-fired power plants) will levy $2.10 per tonne[1].

Introduced in 2019, Singapore's carbon tax, the first in Asia, is seen as a critical tool in Singapore's drive to decarbonise and fulfil the country's new net-zero target of "*by or around mid-century*"[2] as announced by Mr Wong during his Budget speech, with a formal revision of Singapore's Long-Term Low-Emissions Development Strategy (**LEDS**) scheduled for later this year. The carbon tax applies to all facilities producing 25,000 tonnes, or more, of greenhouse gas emissions in a year and accounts for between 30 to 40 large emitters, such as oil refineries and power generation plants, which contribute approximately 80 per cent of Singapore's greenhouse gas emissions[3]. The 2018 Budget, implemented prior to the introduction of the carbon tax, originally envisaged a target price of between $10 and $15 per tonne of emissions by 2030[4] - the new targets give a clear indication that the Government has identified a need to ramp up its efforts in order to achieve Singapore's net-zero ambitions.

It should be noted that the Government does not intend to impose an additional carbon tax on the use of petrol, diesel and compressed natural gas on the basis that they are already subject to excise duties that encourage users to moderate fuel consumption and, consequently, reduce emissions. However, the Government has stated that it will continue to review and adjust the fuel excise duties periodically[5]. In addition, the Government, recognising the fact that businesses may require support to adjust to the increase in carbon tax, indicated that a "*transition framework*" would be introduced in order to give existing emissions-intensive trade exposed (**EITE**) companies support as they adjust (noting that new facilities and businesses will not be eligible for such support). The Government proposes that existing EITEs will receive transitory allowances for part of their emissions, with such allowances to be determined based on efficiency standards and decarbonisation targets[6]. Consultations with relevant stakeholders transition framework are currently ongoing, with details due to be shared in 2023, ahead of the implementation of the revised carbon tax framework in 2024[7].

Mr Wong stated that the Government does not anticipate deriving additional revenue from the increase in carbon tax and that sums raised will be directed towards two areas, namely:

1. cushioning households and businesses from the impact of the tax; and
2. supporting a decisive shift towards decarbonisation through investments in new low-carbon and energy efficient solutions with the aim of reducing emissions and bringing Singapore closer to its net zero goal.[8]

Trading carbon credits

In addition to announcing the increase in carbon tax, the Government has determined that, from 2024, businesses will be permitted to use "*high-quality*" international carbon credits to offset up to 5 per cent of their taxable emissions in lieu of paying carbon tax. In delivering his budget statement, Mr Wong indicated that, in addition to moderating the impact of the increase in carbon tax, utilisation of carbon credits would "*help create local demand for high-quality carbon credits and catalyse the development of well-functioning and regulated carbon markets.*[9]"

This is a significant development given that, while Singapore is not the first country to permit businesses to offset carbon tax liability by way of carbon credits, many nations with similar schemes only permit trading in domestic credits[10]. By permitting trade in international carbon credits, the Singapore Government appears to be acknowledging that the volume of domestic carbon credits is likely to be relatively small, at least in the short to medium term.

Moreover, the Government's belief that permitting the use of carbon credits can catalyse the development of regulated carbon markets serves as a further indicator of its belief in the sector and Singapore's ambition to establish itself as a global leader in carbon trading (Singapore: COP26 and Creating a Center for Carbon Trading). Carbon trading was the focus of much attention in Australia last month, as representatives from the Singapore Government met with their Australian counterparts in order to work on establishing the Green Economy Agreement (**GEA**). The GEA intends to build on the Singapore-Australia free trade agreement by facilitating investment and business opportunities that promote green growth sectors, reduce barriers in the flow of environmental goods and services, and accelerate the transition to net zero emission economies[11]. Scheduled to be finalised by the end of 2022, the GEA has the potential to open up Singapore as a market for Australia's growing supply of carbon credits. While the Singapore Government has yet to release the criteria for classifying "*high-quality*" international carbon credits, the likelihood is that credits generated in Australia will be one of the primary sources for Singapore-based companies looking to offset their carbon tax liabilities.

Carbon Border Adjustment Mechanism

Questions have been raised in Singapore as to the potential impact that the impending increase in carbon tax will have on Singaporean exporters of carbon intensive products in the context of the European Union's Carbon Border Adjustment Mechanism (**CBAM**).

In July 2021, the European Commission announced a proposal to implement a CBAM initially focused on energy-intensive products in five sectors, namely: electricity, iron and steel, fertilisers, aluminium and cement with the potential to expand the scope of the CBAM to include indirect emissions, as well as other goods and services. The CBAM (which is expected to enter into force as early as 2023 in a transitional form and fully apply from 2026 onwards) provides that EU importers will be required to purchase carbon certificates corresponding to the carbon price that would have been applicable had the relevant goods been produced under the EU's carbon pricing rules[12].

On 15 March 2022, the EU Council announced that it had reached agreement on a common approach on the CBAM (a key milestone in the proposal becoming adopted under law). In the announcement, the Council stated that its view was broadly aligned with the EC's CBAM proposal of July 2021, with limited differences (e.g. the Council opted for a greater centralization of the CBAM governance, with a new registry of CBAM importers to be centralised at the EU level, rather than by individual member states).

While the aim of the CBAM is prevent carbon leakage and incentivise the uptake of cleaner technologies in countries exporting to the EU, there is speculation that the charges imposed on imports could impact the export competitiveness of countries in the Asia-Pacific region and, consequently, hinder their economic development. In Singapore, the potential impact of the CBAM was raised in Parliament by Mr Louis Chua Kheng Wee, Member of Parliament, in September 2021. With Singapore's exports to the EU being primarily comprised of products in the chemical or allied industries and machinery and appliances[13], there were concerns that Singaporean exporters would suffer under the proposed CBAM. In response, Mr Gan Kim Yong, Minister for Trade and Industry, commented that the Singapore Government expects that the CBAM will have a limited impact on its exports to the EU based on the fact that, between 2016 and 2020, the average annual value of domestic exports to the EU was around S$19 billion, of which products affected by the CBAM comprised only around 0.08 per cent or S$14 million[14]. In addition, the wording of the CBAM proposal states that, once a non-EU producer can show that they have already paid a price for the carbon used in the production of the imported goods in a third country (i.e. a country that is not a member of the European Union as well as a country or territory whose citizens do not enjoy the European Union right to free movement), then the corresponding costs can be fully deducted for the EU importer[15]. If implemented, this could help to ensure the security of the EU export market for Singaporean manufacturers, on the basis that the exporters would already be subject to payment of the local carbon tax on emissions associated with manufacture of the relevant products.

However, any broadening of the scope of the CBAM to include other products may have greater implications for Singapore. In a draft report submitted to the European Parliament in January 2022, Mohammed Chahim, a Dutch centre-left Member of the European Parliament, called for the CBAM to apply to a wider range of imports, including organic chemicals, hydrogen and polymers[16]. The message from Singapore, as indicated by Mr Gan in his response to Parliament, is that measures such as the CBAM should be *"consistent with WTO principles and not raise barriers to international trade. In particular, the CBAM should be applied in a non-discriminatory manner. It should also take into account existing carbon taxation or other mitigation mechanisms implemented by exporting countries.*[17]*"* Singapore's Ministry of Trade and Industry is expected to maintain an ongoing dialogue with its counterparts in the EU regarding implementation of the CBAM.

Ongoing efforts to decarbonise

Singapore has gone further than its Association of Southeast Asian Nations (**ASEAN**) peers in its efforts to decarbonise and this trend looks set to continue. We previously covered the numerous initiatives being implemented by Singapore, ranging from those set out in the Green Plan 2030 (Singapore's Green Plan and Hydrogen), to the efforts being made to establish the Red Dot as a centre for carbon trading. The 2022 Budget sets out an ambitious vision of the Government and the scheduled ramp up of the carbon tax is likely to accelerate efforts of Singapore-based companies to decarbonise. While clarification is still required on the definition of "*high-quality*" international carbon credits, we expect that Singapore will soon become a key market for credits generated in countries with established legal frameworks in this area, such as Australia.

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[1] https://asia.nikkei.com/Spotlight/Environment/Climate-Change/Singapore-carbon-tax-gallops-ahead-of-Japan-and-Indonesia-levies

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[5] Ibid.

[6] https://www.nccs.gov.sg/singapores-climate-action/carbon-tax/

[7] Ibid.

[8] https://www.mof.gov.sg/docs/default-source/default-document-library/singapore-budget/budget-archives/2018/fy2018_budget_statement.pdf?sfvrsn=55b42e95_2

[9] Ibid.

[10] https://www.spglobal.com/commodity-insights/en/market-insights/latest-news/energy-transition/022822-analysis-singapores-carbon-tax-will-help-develop-trade-flows-price-discovery-for-offsets-market#:~:text=Companies%20will%20be%20allowed%20to,on%20carbon%22%2C%20Pazos%20said.

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[13] https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_singapore_en.pdf

[14] https://www.mti.gov.sg/Newsroom/Parliamentary-Replies/2021/09/Written-reply-to-PQ-on-Exports-and-Trade-with-the-European-Union

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