

ASSESSING SINGAPORE'S CARBON TAX

RASTISLAV VASILISIN TAKES A CLOSE LOOK AT SINGAPORE'S PROPOSED CARBON TAX AND HOW IT COULD PAVE THE WAY FOR A TRADING SYSTEM IN THE SOUTHEAST ASIAN ISLAND CITY-STATE

Singapore's National Energy Agency (NEA) recently released a draft version of its carbon tax system, proposing to impose a S\$10-20 (US\$7-14) tax on CO₂ emissions from around 30-40 major emitters. Under the proposal, the NEA would issue credits that liable companies would have to buy at a fixed price and then surrender to the government to show their compliance.

The first compliance date is set for 30 September 2020, covering 2019 emissions. Any facility emitting more than 2000 tonnes of CO₂ equivalent (CO₂e) of emissions for the previous year would have to submit an emissions report to NEA; however the tax only applies to installations which emit more than 25,000 tonnes.

For context, Singapore emits around 48 million tonnes of CO₂e per year and has pledged to cut its carbon intensity to 36% below 2005 levels by 2030 – a target which Climate Action Tracker has concluded is highly insufficient, given that Singapore is already poised to achieve that this year. Towards the end of this year's UN climate talks in Bonn, Singapore became the 20th government to sign the New Zealand-led Ministerial Declaration on Carbon Markets, which commits signatories to work together to create standards and guidelines for robust emissions market and ensure environmental integrity.

There is no question that putting a price on carbon has been, and continues to be, a good thing for the world. Carbon pricing has been good for renewable energy investment and has led to continuing decarbonisation of the energy industry around the world. The carbon tax story began in the 1990s, when Finland became the first country to introduce a CO₂ tax. As

a top-down approach to curbing man-made climate change, a carbon tax offers many social and economic benefits: it increases government revenues while promoting awareness of climate change policy.

However, carbon mitigation in Singapore is not a straightforward issue and it is necessary to evaluate the pros and cons of the proposed carbon tax before drawing to any conclusions.

PROS

Supporters of carbon tax in Singapore argue that it has a potential to decrease the emission and become a great platform for innovation.

1. It lays the foundation for an Emissions Trading Scheme (ETS), in creating awareness of the cost of carbon emissions.
2. Proponents say a carbon tax helps develop the measurement, reporting and verification (MRV) guidelines. As well as monitoring GHG emissions, this will force polluters to submit an emissions report every year.
3. It facilitates a one-time seamless registration of all polluters under the new Carbon Pricing Act.
4. In a future ETS, the tax can serve as a reliable price floor, protecting against manipulation of carbon price downwards by speculators.

CONS

1. The biggest problem with the carbon tax in general is that it does not put a cap on carbon emissions. In fact, polluters can emit as much as they want as long as they pay the tax.
2. The most common complaint about the carbon tax is that it acts as a form

of punishment and does not stimulate research and development of green technologies.

3. The cost of the tax will typically be transferred to the end customer; this is general practice in every country which has implemented a carbon tax. We could already observe this phenomenon in Singapore, when SGX Electricity Futures spiked immediately after the announcement of the carbon tax. The market has already priced in the cost of the carbon tax, assuming that electricity producers will pass it on to end customers through higher tariffs.
4. The proposed carbon tax mechanism will take the form of a fixed price credits-based (FPCB) mechanism. The credits will be issued by NEA at a fixed price, determined by the government. Let's call things by their proper name: the FPCB mechanism is just another name for a carbon tax, and the fixed price credit is nothing else but a simple prepayment on the future carbon tax. Emitters will first buy the credits at the fixed price, then surrender them on the compliance date. Similarly, a surrender date does not actually represent the true surrender, but a simple tax payment date. Even penalties associated with non-compliance are just regular late payment fees for not paying taxes.
5. Market-based price discovery is completely absent. Compliance clients acquire carbon permits but not from an exchange or brokers, but directly from the government at a fixed price set by the government.
6. Lastly, we believe the proposed draft is a hybrid of tax, ETS, incentives and initiative that does not belong in carbon mitigation systems. Each component of the proposal undermines the others.



WHAT IS MISSING?

Linkage potential: With China postponing the full implementation of its national ETS for two years, Singapore has a unique opportunity to become a leader in emissions trading in the region.

Together with smaller countries in the region like South Korea, New Zealand and Japan which have already implemented emissions trading, Singapore could lead the sector and become a global emissions trading hub. The proposal does not encourage any linkage with existing ETSs in the region. With the proposed FPCB, Singapore will not be taken seriously in ETS linkage initiatives between Korea, Japan, New Zealand or China.

Tax revenue use: Use of revenue from the tax is unspecified, meaning it will likely be consumed by the annual budget. If the government allocated only fraction of the SG\$500 million annual revenue to create a emissions trading hub, it could curb emissions more efficiently while generating thousands of new jobs in emissions trading, MRV, and the clean energy industry.

Offset provision: Even though the National Climate Change Secretariat had mentioned that it was considering letting emitters use offsets as part of their compliance

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requirements, there is no mention of this in the proposal. This raises questions about whether an offset provision has been permanently written off or if it might be reconsidered later.

Absence of carbon price enhancing mechanism: According to the World Bank's Carbon Pricing Leadership Coalition, the world needs much higher carbon prices, in the range of US\$40-80, to incentivise polluters to decrease emissions. It is unimaginable that a government which relies on oil and gas revenue would increase a carbon tax to these levels anytime soon.

Almost all carbon tax initiatives pioneered by European countries in the 1990 eventually lead to the creation of an ETS. Carbon taxes are being overtaken by an avalanche of emissions trading systems globally. By the end of 2017, ICAP estimated that economies accounting for half of the world's GDP would feature an emissions trading system¹; this sends a

positive signal to 100 other countries which are either considering or developing cap-and-trade programmes. Singapore should try harder to swim in the snow and stay on top. As a major financial, commodities and legal litigation global center, Singapore has the opportunity to create its own ETS with potential to link the rest of the world.

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(1) ICAP. (2017). Emissions Trading Worldwide: Status Report 2017. Berlin: ICAP