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Singapore’s Carbon Pricing and Carbon Markets Policies

Submitted by: Singapore

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MTI MINISTRY OF TRADE AND INDUSTRY SINGAPORE

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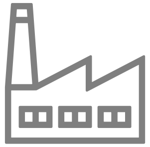
Carbon pricing policies can facilitate the transition to a low-carbon economy

Carbon pricing achieve two objectives:

1. Provides a <u>price signal</u> to guide behaviour (e.g. investment decisions) and induces emission reductions in an economically efficient manner
2. <u>Generates revenue</u> that can be used to fund mitigation measures and support transition to low-carbon future

Individuals and households will have greater incentive to adopt more sustainable lifestyles



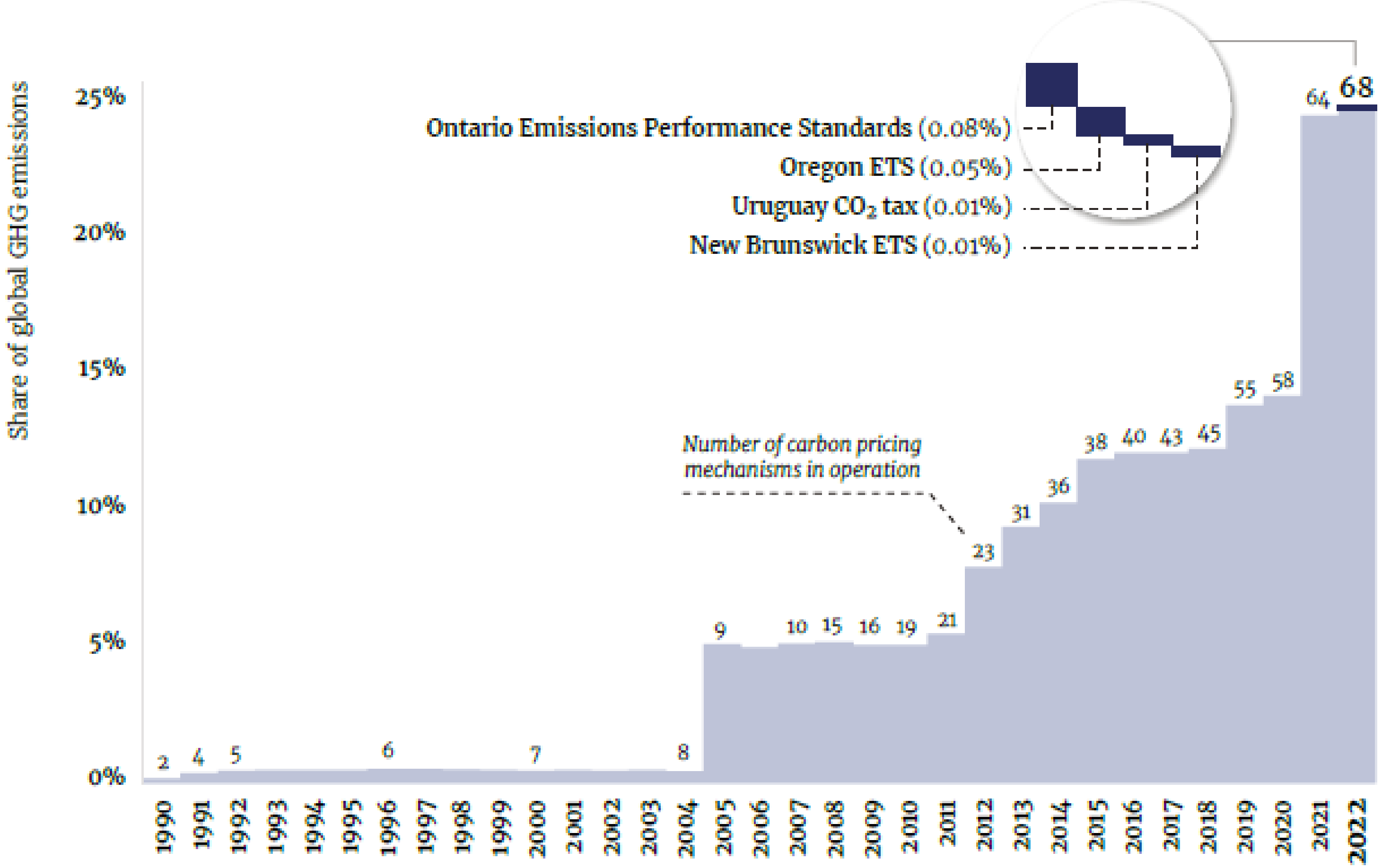
Businesses will be incentivised to adopt carbon/energy efficient investments, ensuring their long-term viability in a carbon-constrained world

Revenue from carbon tax is used to fund mitigation measures which reduces emissions

Global momentum on carbon pricing is growing

Governments are putting in place more stringent climate policies

- Carbon pricing policies (e.g. carbon tax, cap-and-trade scheme) more common, and prices are higher than ever
- Differences in carbon price levels among trading partners raise concerns over carbon leakage, leading to proposals for Carbon Border Adjustment Mechanism/Carbon Border Taxes



Source: States and Trends of Carbon Pricing 2022, World Bank

Map of carbon pricing policies

Please refer to page 16 of World Bank's State and Trends of Carbon Pricing 2022

https://openknowledge.worldbank.org/bitstream/handle/10986/37455/9781464818950.pdf?sequence=10&isAllowed=y

Source: States and Trends of Carbon Pricing 2022, World Bank

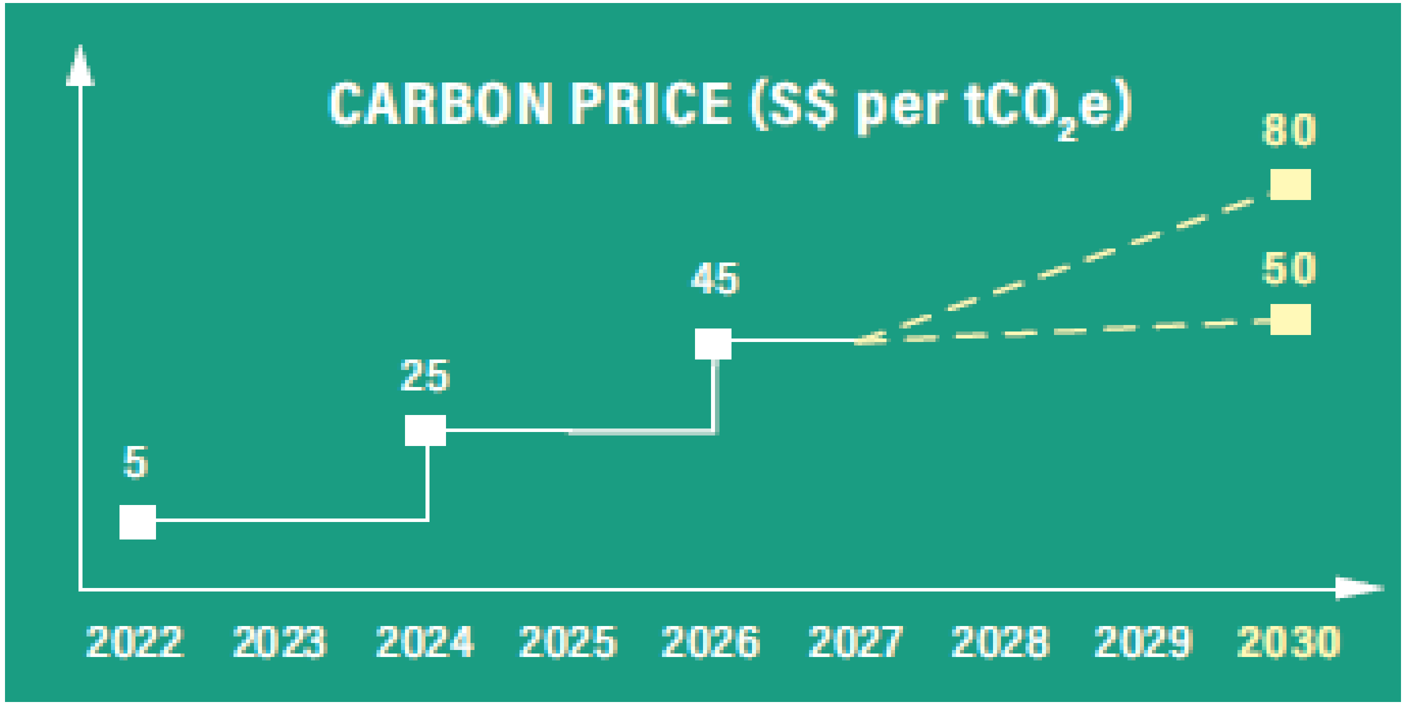
Singapore introduced a carbon tax in 2019

- Singapore implemented carbon tax early in 2019
  - First in South-East Asia to do so
  - Started at a modest level at S$5/t (~US$3.70/t) to give companies time to adjust and implement low-carbon transition initiatives

- There is no exemption on any sector
  - Applied on all facilities that directly emit at least 25kt CO_2e of GHG emissions annually
  - Economy-wide price signal minimises distortion on the economy
  - This covers 40-50 large emitters that contribute ~80% of Singapore's total emissions

Budget 2022: Revised carbon tax trajectory to support enhanced net zero ambition

- Singapore will raise our climate ambition to achieve net-zero by or around mid-century
- Carbon tax will be raised from current S$5/t (USD 3.60/t) to:
  - **S$25/t (US$18/t)** in 2024 and 2025
  - **S$45/t (US$32.30/t)** in 2026 and 2027
  - With a view to reaching **S$50-80/t (US$35.90-57.50/t)** by 2030
- Transition framework will be introduced to help firms manage near-term impact on competitiveness
- Companies may surrender high-quality international carbon credits offset up to 5% of their taxable emissions



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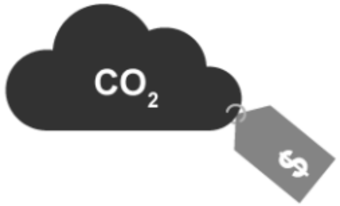
Singapore will link our carbon tax system to international carbon markets aligned with Article 6 from 2024

- Companies may surrender high-quality international carbon credits to offset up to 5% of their taxable emissions from 2024
  - These carbon credits need to meet Singapore's environmental integrity criteria, aligned to Article 6 of Paris Agreement
  - Singapore Government is actively engaging host governments to set up arrangement to facilitate Article 6-compliant carbon trading

- Cushions the carbon tax impact for companies that are able to source for credible credits in a cost-effective manner
- Domestic emissions reduction remain our priority
- Catalyse Singapore's development as a carbon services and trading hub
  - A sufficiently high carbon tax can help activate the demand for high-quality carbon credits

Carbon markets are another way to set a carbon price; critical to realising global emissions reduction potential



Carbon markets enable parties to cooperate on their climate targets – while financing carbon projects that reduce or remove GHGs, and trading of carbon credits

Market efficiencies reduce the cost of climate change mitigation – economies can achieve emissions reduction in the most effective way possible, and advance global climate action by accessing emissions reduction potential globally

A robust and effective global carbon market could:

- Reduce the cost of implementing National Determined Contributions (NDCs) by more than half, and as much as US$250b by 2030
- Facilitate removal of 50% more emissions per year by 2030 at no additional cost

Source: International Emissions Trading Association, 2019

Developments in the compliance carbon markets can also drive voluntary carbon markets

- Activating compliance carbon markets can also grow the voluntary carbon markets; the voluntary markets are looking to the compliance markets for best practices and environmental integrity standards
- Carbon markets are a key component of the green economy; estimated to grow to US$50b in 2030
- Singapore seeks to support the development of an ecosystem for the trading of high-quality credits
- Participation in the Voluntary Credits Market Initiative (VCMI) and Integrity Council for the Voluntary Carbon Market (IC-VCM) to support development of standards for high-quality credits

Anchoring of companies in the carbon services ecosystem including carbon exchanges, i.e. South Pole, Climate Impact X (CIX) and AirCarbon (ACX)

Supporting World Bank-initiated Climate Warehouse initiative to enhance transparency and reduce risks of double counting of credits

Globally, demand for carbon credits increasing; however, concerns with integrity of credits

- Greater demand for carbon credits in both voluntary and compliance markets, given increased climate ambition
  - Voluntary market transactions exceeded US$1 billion in 2021
- However, a key concern is with integrity of carbon credits
  - E.g. double-counting, over-claiming amount of emissions removed, poor governance
  - Currently, oversupply of low quality credits and undersupply of high quality credits
- International efforts to strengthen integrity of carbon markets
  - Article 6 of the Paris Agreement governs carbon credits use and quality to meet NDCs
  - Voluntary efforts to set guidelines on integrity and use

the integrity council
for the voluntary carbon market

- Provides some guidance on EI criteria, but it leaves several EI issues (e.g. corresponding adjustment, vintages) open

VCMI Voluntary Carbon Markets Integrity Initiative

- Demand-side:
  - Differentiates the various claims for carbon offsetting
  - For companies to claim offset, corresponding adjustment needs to be done

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

- Allows credits for use only if company goes beyond their SBTi targets
- Does not set EI criteria on the credits

ISO

- Provides guidance on how credits should be accounted to achieve carbon neutrality goal, but does not set EI criteria on the credits

Supply-side
(i.e. environmental integrity)

Demand-side
(i.e. credible use towards target)

To ensure confidence in carbon markets, environmental integrity is critical

- Environmental integrity is critical to **prevent greenwashing** and ensure that the use of these high-quality international carbon credits can truly advance global climate action and ambition

- Use of international carbon credits towards Singapore's tax should **align with Paris Agreement Article 6.2 Guidance**
  - Article 6 guidance adopted at COP-26 in November 2021 provides the framework and building blocks for a well-functioning and credible international carbon market
  - Carbon credits surrendered will be used towards Singapore's Nationally Determined Contribution (NDC) achievement

- EI principles that guide the development of the EI criteria:

Real	Independently verified	Permanent	Additional	No net harm
No leakage	Measurable	Strong governance and MRV system	No double counting (corresponding adjustments)	

Cooperation is essential to enable carbon markets

Singapore is working with like-minded partners and are pursuing bilateral agreements with various governments:

- Signed MOU with Colombia, Morocco, Indonesia and Letter of Intent with Ghana
- Developing a legally-binding bilateral framework agreement to enable transfer of carbon credits