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NCCS Seeks Feedback on Raising Singapore's Climate Ambition to Achieve Net Zero by 2050

Introduction

Joining international efforts in fighting climate change, Singapore has earlier in 2020 submitted its Nationally Determined Contribution ("**NDC**") pledging to "*peak emissions at 65 MtCO2e around 2030*" and its Long-Term Low-Emissions Development Strategy ("**LEDS**") to "*halve emissions from our 2030 peak to 33 MtCO2e by 2050, with a view to achieving net zero emissions as soon as viable in the second half of the century*". As countries around the world intensify their decarbonisation efforts and bolstered by critical global developments such as the Glasgow Climate Pact, Singapore announced in Budget 2022 that it intends to significantly raise its climate ambition to achieve net zero by 2050.

Raising our climate ambition requires a concerted effort from the entire nation and has wide-ranging impact. Against this background, the National Climate Change Secretariat ("**NCCS**"), Strategy Group, Prime Minister's Office (PMO-SG) is conducting a public consultation exercise from **5 September 2022 to 26 September 2022** to obtain comments on raising Singapore's climate ambition to achieve net zero by 2050 and how Singapore can attain this goal. Views garnered from the public consultation will be taken into account when Singapore formally revises its LEDS and NDC before the end of 2022.

In the public consultation, NCCS seeks views on: (i) whether the timeline to achieve net zero by 2050 is suitable; (ii) whether Singapore's current pledge to "*peak emissions at 65 MtCO2e around 2030*" should be enhanced; and (iii) what the stakeholders in Singapore (including the Government, businesses and industries) can do to support Singapore's low-carbon transition.

In this Update, we provide a summary of the key discussion points in the consultation paper and highlight the practical impact of these strategies on businesses.

Timeline to Achieve Net Zero by 2050

More than 60 countries have already pledged to achieve net zero emissions by 2050, including Australia, Japan, Malaysia, South Korea, the United Kingdom, the United States and Vietnam. As a corollary to these net zero commitments, low-carbon solutions are expected to become more technologically and economically viable as increased investments are channelled towards them to attain the net zero targets. In addition, there are global developments that avail Singapore with opportunities to attain this enhanced climate goal, for instance, access to global mitigation opportunities through international carbon credits with the finalisation of the Paris Agreement Article 6 rulebook for international carbon markets.

Pros and Cons of Enhancing Singapore's 2030 NDC

With the international emphasis on sustainable financing and corporate net zero targets, raising our climate ambition to attain net zero by 2050 will cement our position globally as a preferred hub to attract more green economic activities in various sectors, such as industry, services, and finance. The decision to attain net zero by 2050 will provide Singapore with an early mover advantage and create more valuable jobs for Singaporeans in the future low-carbon global economy.

Apart from the benefits, Singapore must be aware of the costs and trade-offs that will accompany raising our climate ambition. Among other things, businesses and their operations will be impacted. For instance, existing business models will be disrupted, and business development and plans must be undertaken in a sustainable fashion. Businesses may also incur additional compliance costs, face heftier rates of carbon tax, or be required to make their operations more energy efficient. Employees too must acquire new skillsets to align with and keep abreast of this paradigm shift. These costs and trade-offs have to be managed carefully.

These costs and trade-offs will be relatively more obvious than those of other countries due to Singapore's restraints in terms of alternative energy resources, land and manpower. To successfully implement many of our strategies and measures to attain net zero, Singapore would need to rely on several external factors, such as international cooperation and the state of development of decarbonisation technologies. Examples include importing renewable energy, the availability of Carbon Capture and Storage sites and the sourcing of green hydrogen.

Singapore's Low-Carbon Transition Strategy

Singapore has taken and is continuing to take action on various fronts in its decarbonisation efforts. The consultation document highlights three main areas, namely: (i) an effective carbon tax regime; (ii) transformation of our industries and economy; and (iii) decarbonisation of our energy grid.

Effective carbon tax regime - Progressive increment

The present carbon tax is S$5/tCO2e. To support our raised climate ambition, Singapore has proposed to raise the carbon tax progressively to $25/tCO2e in 2024 and 2025, and $45/tCO2e in 2026 and 2027, with a view to reaching $50-$80/tCO2e by 2030.

Increasing the rate of carbon tax is an integral part of the government's measures to achieve net zero by 2050. A higher rate of carbon tax will spur businesses to reduce their carbon emissions whilst also prompting individuals to be mindful of their own emissions. For a discussion on the proposed changes to carbon pricing and carbon tax, please refer to our earlier Client Update on "Consultation on Changes to Carbon Pricing Act 2018 to Revise Carbon Tax Regime", available here.

What it means for businesses

Although carbon tax only applies to facilities which produce more than 25,000 tCO2e annually, a higher rate of carbon tax is likely to have a wider, indirect impact on a broad spectrum of businesses. To begin with, approximately 40% of Singapore's carbon emissions stem from the power sector. Accordingly, an increase in carbon tax could potentially result in short-term and medium-term price increases in the cost of electricity, as power companies pass on higher rates of carbon tax to businesses and consumers pending the transition to greener energy sources.

Coupled with increased investment into green alternatives, it is likely that the increased rates of carbon tax will neutralise the price disparity between green alternatives and traditional counterparts in the long run. Existing carbon-intensive industries in Singapore, such as power production, transport and waste management, will likely bear the most direct impact of the increased rate of carbon tax. However, businesses outside of these industries would do well to scrutinise their supply chains and operations for areas which could potentially incur additional cost overheads as a result of the passing-on of carbon tax by directly-affected industries.

Transformation of industries and economy

Singapore is focussed on making our industries and economy greener. For example, Singapore aims to facilitate sustainable production in the Energy & Chemicals sector. A couple of the measures include enhancing energy efficiency, employing Carbon Capture, Utilisation and Storage, and utilising renewable energy in company operations. Singapore targets to have the Energy & Chemicals sector "*achieve more than six million tonnes of carbon abatement per annum from low-carbon solutions by 2050*". To read more about this, please refer to the Sustainable Jurong Island Report which sets out plans for the conversion of Jurong Island (the centre of Singapore's Energy & Chemicals sector) into a sustainable energy and chemicals park for a low-carbon future. Apart from the Energy and Chemicals sector, Singapore also implements various energy efficiency measures for the industry sector, details of which can be found here.

What it means for businesses

Businesses, especially those identified as high carbon emissions sectors, such as industry, power and transport sectors, will potentially be greatly impacted. Industry watchers anticipate that an expedited hard deadline to meet net zero by 2050 will prompt more intense and stringent governmental policies and measures to ensure that businesses improve their energy efficiencies. In view thereof, apart from reviewing business models and plans and implementing operational changes, businesses must also keep up to date with the latest legal and regulatory changes that may be introduced to support the nation's enhanced decarbonisation goals, for instance the recent proposed changes to the carbon tax regime (discussed above).

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Decarbonisation of energy grid

As power generation is a significant source of carbon emissions, Singapore will be taking more action to make our energy supply cleaner, namely through four switches:

1. Tapping on solar energy – Solar energy is regarded as Singapore's "most promising renewable energy source". By 2030, Singapore aims to achieve its target of at least 2 gigawatt-peak (GWp) of solar to meet the annual electricity demands of 350,000 households.
2. Drawing upon regional power grids - By 2035, Singapore targets to draw upon the regional power grids to import up to 4 GW of low-carbon electricity. At present, Singapore is performing tests and working to develop technical and regulatory frameworks to this end.
3. Exploring emerging low-carbon alternatives and solutions to reduce overall emissions - Examples include Carbon Capture, Utilisation and Storage and hydrogen technologies.
4. While ramping up on other renewable energy switches, Singapore will employ natural gas - the cleanest form of fossil fuel - as the main energy source to generate electricity.

For more details on the four switches, please refer here. Other than the four switches, Singapore has also employed decarbonisation measures which you may read more about here. NCCS seeks feedback on these measures and suggestions on what else can be done.

What it means for the power and energy sector

Experts have confirmed that Singapore's enhanced climate ambition of achieving net zero by 2050 is feasible.[1] However, it is not without challenges and the power sector must be prepared for rapid and paradigmatic shifts impacting the whole energy value chain. Relevant businesses must be poised to adapt their business operations and plans to address certain predetermined trends, namely: (i) the need to meet an increased demand for power in a sustainable manner; (ii) reinforced development of alternative renewables and associated solutions allowing more energy and cost efficient solar power generation and battery energy storage systems ("**ESS**"); and (iii) an increased demand and use of distributed energy resources (such as solar generation systems, battery ESS, and electric vehicles), and the accompanying metamorphic changes in the design and management of the grid.

Businesses must be primed to manage certain "critical uncertainties" that are largely contingent on the geopolitical environment and the state of technological advancement generally, namely: (i) how developed low carbon energy technological solutions are; (ii) the speed and feasibility of digital technology advancement; and (iii) international cooperation and alignment of national interests and efforts regarding carbon trading.

In reviewing existing business models and strategising for future development, businesses may find it instructive to refer to the Energy 2050 Committee Report on Charting The Energy Transition to 2050 by the Energy 2050 Committee which outlines strategies and recommendations that Singapore can employ to attain net zero by 2050.

[1] Please refer to Energy 2050 Committee Report on Charting The Energy Transition to 2050 commissioned by the Energy Market Authority.

Concluding Words

Feedback to the public consultation must be submitted by **26 September 2022**, and can be submitted on the REACH website or through the following link: https://go.gov.sg/climate-consultation-22-feedback. The public consultation document is accessible here on the REACH website.

How We Can Help

Raising our climate ambition has wide-ranging impact and alongside the indelible rise in sustainable financing and corporate net zero targets, we strongly encourage businesses to carefully consider these developments and assess the practical impact and opportunities they afford to your operations.

If you have any queries regarding the above development, please feel free to contact our team below.

In full support of the Singapore Government's efforts to champion green and sustainability practices in Singapore and the region, Rajah & Tann Singapore has a Sustainability Practice which comprises multi-disciplinary specialist teams who can advise you on the adaptation of your business to take into account sustainability and ESG (environmental, social and governance) issues.

Our Tax Practice is well placed to assist with appeals under the Carbon Pricing Act, including appeals against refusals to deregister business facilities as taxable facilities, refusals to approve emissions reports or monitoring plans, refusals to refund tax, or refusals to revise any assessment. Working closely alongside our Sustainability Practice, we bring a holistic edge and will be able to guide you comprehensively along each step of the appeal process.

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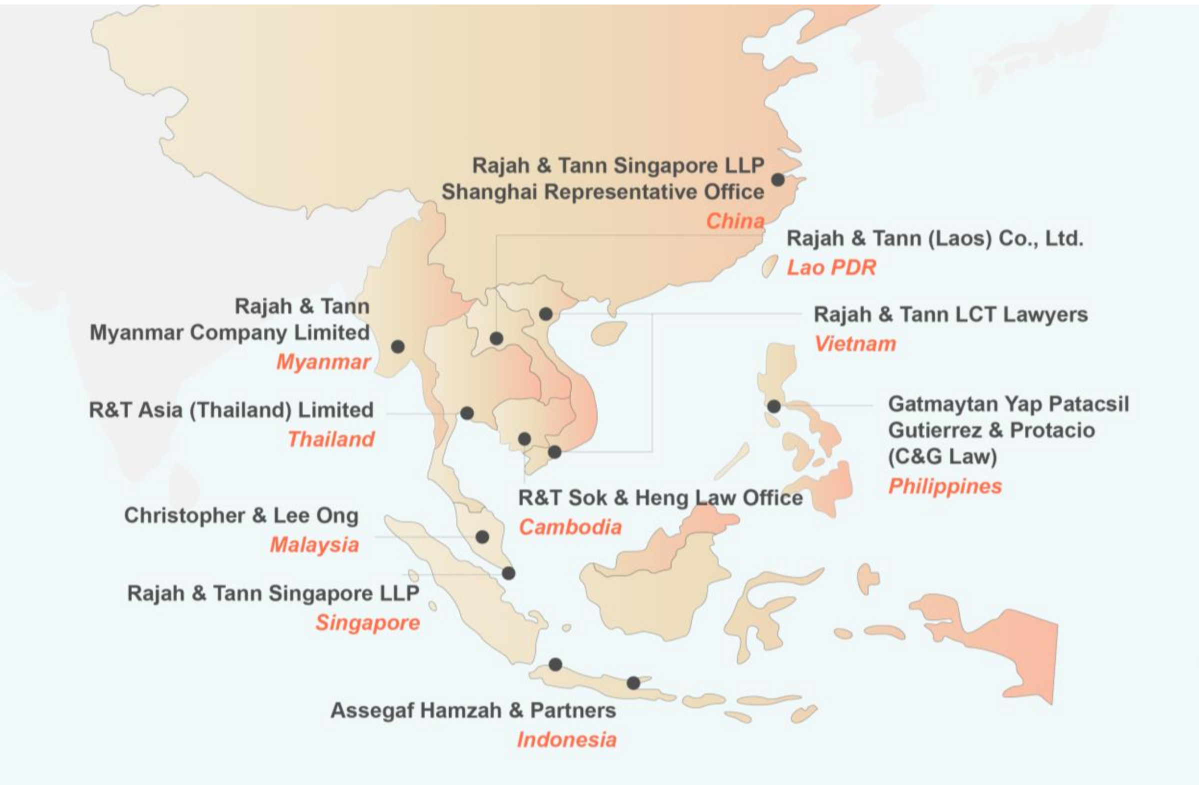

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