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Coal to Green Transition: Consultation on Criteria for Early Coal Phase-Out under the Singapore-Asia Taxonomy

Introduction

The coal to green transition plays a vital role in reducing global greenhouse gas emissions. The transition will not be possible without adequate financing. However, challenges lie in crafting credible and just coal phase-out guidance that sufficiently allays concerns among financial institutions regarding the financing of such projects.

Seeking to meet this challenge, on 28 June 2023, the Monetary Authority of Singapore released the [Fourth Green Finance Industry Taskforce \("GFIT"\) Taxonomy Consultation Paper](#) ("**Consultation Paper**") which sets out the criteria for financing the early phase-out of coal fired power plants ("**CFPPs**") under the Singapore-Asia Taxonomy. The criteria are aligned to global science-based 1.5°C-aligned decarbonisation pathways, and take into consideration other guidance such as the ASEAN Taxonomy, and the "The Managed Phaseout of High-Emitting Assets" report by the Glasgow Financial Alliance for Net Zero.

By way of background, the Singapore-Asia Taxonomy was developed by GFIT for Singapore-based financial institutions to identify and classify green and transition activities, and thereby catalyse green and transition finance flow. GFIT has conducted three earlier rounds of public consultations on the proposed Singapore-Asia Taxonomy. Our Legal Updates covering the earlier consultation papers are available [here](#), [here](#) and [here](#). After this fourth and final public consultation, the Singapore-Asia Taxonomy will be finalised and issued.

Interested parties can submit their feedback regarding the Consultation Paper [here](#) by **28 July 2023**. Feedback can cover, among others, usability and operationalisation challenges posed by the criteria and which aspects of the criteria require further guidance.

This Update provides a summary of key features of the early coal phase-out criteria contained in the Consultation Paper.

The Hybrid Approach to Early Coal Phase-Out

Due to the complexities surrounding the assessment of the credibility of early coal phase-out, it is proposed that early coal phase-out is not classified using the Singapore-Asia Taxonomy's traffic light system.

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Instead, the Consultation Paper proposes:

- A hybrid approach that marries the taxonomy approach with a transition planning approach.
 - Facility level criteria (taxonomy approach) apply to the CFPP facility and determines the level of ambition for the early coal phase-out process.
 - Entity and system level criteria (transition planning approach) apply to CFPP owners and provides the necessary safeguards to protect against undesirable outcomes.
- Only if all the criteria are met will the managed coal phase-out process be considered aligned with the Singapore-Asia Taxonomy and eligible for transition finance.

A summary of the criteria is provided below:

Facility Level Criteria – Taxonomy Approach	
1.	Financial close or final investment decision of the CFPP was made prior to December 2021.
2.	The CFPP has positive fair value at the time of the proposed coal transition.
3.	Early coal phase-out results in positive absolute emissions savings over the expected total lifetime of the CFPP. Emissions savings to be independently verified or acknowledged by internationally recognised bodies or programmes.
4.	Phase out of unabated coal combustion at the CFPP following 1.5°C-aligned coal phase-out deadlines or earlier. In advanced economies, the CFPP must be retired by 2030, and in other countries by 2040.
5.	Operation duration of the CFPP is capped at 25 years from the commercial operation date.
6.	Investments made as part of the early coal phase-out process do not extend the expected lifetime for coal combustion.
7.	The CFPP's generation is replaced one-for-one with a portfolio of clean resources that provides equivalent electricity services within the electricity system. The clean resources must meet the green category in the Singapore-Asia Taxonomy and it must be proved that it would be dispatched at a similar level as the retired CFPP.
8.	CFPP has a just transition plan to mitigate social impacts on key stakeholders. The just transition plan must be designed in line with global best practices based on principles in the Paris Agreement and the International Labour Organisation's Guidelines as well as local laws and regulations.
Entity and System Level Criteria – Transition Planning Approach	
Entity Level Criteria	
1.	The CFPP owner has an entity-level commitment to no new CFPP development or procurement globally.

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2.	The entity has a 1.5°C-aligned transition plan that is aligned with the principles of transition finance outlined by the International Platform on Sustainable Finance. Full alignment to 1.5°C must be reached by 2030.
Power System Level Criteria	
3.	If facility level criteria 7 is not met, then long-term emissions savings are demonstrated through 1.5°C-aligned, science-based power-sector-level decarbonisation commitments and plans at a national or sub-national level. The 1.5°C ambition must be achieved by 2030.

Detailed rationale, main drivers and methodological discussion behind each of the criteria can be found in "[Guidelines for financing a credible coal transition: A framework for assessing the climate and social outcomes of coal transition mechanisms](#)", a working paper by Climate Bonds Initiative, Climate Policy Initiative and the Rocky Mountain Institute (RMI), upon which the criteria are based and adapted from.

It is proposed that after 2025 a revised criteria accounting for new developments in the field should be adopted.

Concluding Words

The Consultation Paper's proposed addition to the Singapore-Asia Taxonomy is the latest regional guidance in support of early coal phase-out being eligible for transition finance. The ASEAN Taxonomy was the first regional taxonomy to introduce coal phase-out as an activity eligible to be classified as sustainable. You may read our Legal Update titled "ASEAN Taxonomy V2: Enabling a Just Transition Towards Sustainable Finance Adoption by ASEAN" [here](#). Recently, Glasgow Financial Alliance for Net Zero also launched a public consultation on its proposed set of [voluntary guidance](#) for financing the early retirement of CFPPs in Asia Pacific.

As the demand for energy transition mechanisms is gaining momentum, a financing framework that provides clear guidance for a credible and just transition is crucial to push climate action. A credible and just framework will enable an acceptable ambition level and the right level of technicality to be set to prevent greenwashing, and which will help transition financing to be scaled up with confidence.

Given the institutional support to turn coal green, financial institutions should carefully consider the Consultation Paper and take the opportunity to review their policies towards the funding of early coal phase-out. For the financial institutions which are also listed on the Singapore Exchange, this may potentially have an impact on their sustainability reporting and disclosures (including as to its sustainability strategies, goals, and targets) to the market.

For corporations with CFPPs in their portfolio, this is a good opportunity to review their strategies on the phasing out of these assets as well as access to transition financing to facilitate a potential move to renewable energy production systems. Companies that manufacture or service low carbon power

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generation could also be involved in the transition through strategic partnerships to help corporations with CFPPs meet the one-to-one replacement criteria.

If you have any queries on the above development or wish to submit any feedback to the Consultation Paper, please contact our team members below who will be happy to assist.

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.

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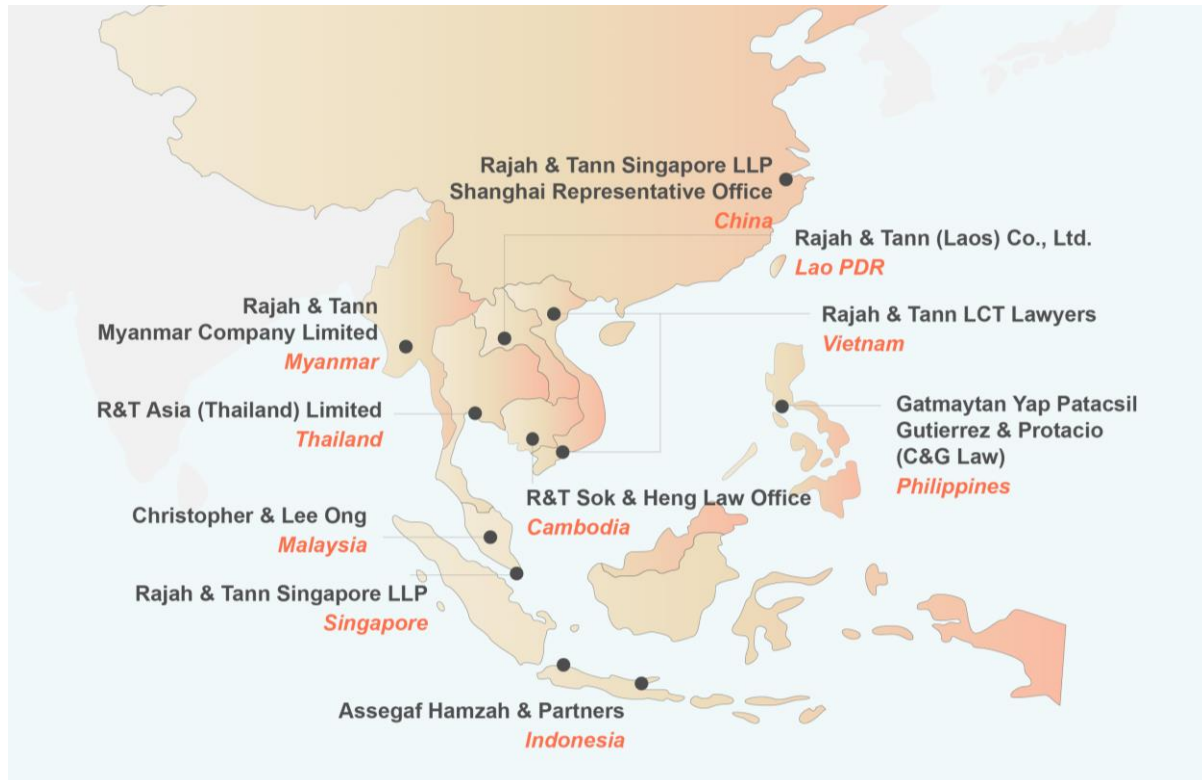
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