NUS National University of Singapore
Source: *The Busines Times,* p18
Date: 25 May 2021

Singapore should get ready with a carbon border tax

By Ed Araral and Vinod Thomas

AS the world's most trade-dependent high-income economy, it is in Singapore's interest to be a powerful voice for decarbonising the global economy. After all, the sustainability of globalised business as we know it depends on the success of the global economy in switching to low carbon energy and economic growth. Actions within a country's borders are not enough, as the carbon content of international trade can be high. Therefore, coupled with a U-turn in the Republic's own carbon emissions, Singapore will do well to nudge other major economies into action – specifically with the design and implementation of tariffs on the carbon content of imports.

It should be noted that import tariffs, levied on a common source of harm like the carbon emissions embodied in traded items, is more welfare-enhancing than trade-restricting. When trade in carbon-intensive goods and services inflict vast climate damages, encouraging a shift to less-polluting fuels in the traded commodities promises global benefits more than any trade losses. Economies with a prominent position in regional or global trade such as China, Japan, and Singapore can influence how climate-friendly future trade will be.

Today, the fight against climate change needs all the help we can muster. For the first time in recorded history, carbon emissions have reached 420 parts per million (ppm), on track to surpassing the catastrophic threshold of 450 ppm in 15 years, at which point we would be living in an ice-free planet.

For Singapore, precarious increases in sea levels are on the line. Furthermore, the Republic's neighbourhood presents a conundrum of the worst kind: McKinsey labels South-east Asia as the most vulnerable region to climate dangers while the International Monetary Fund (IMF) finds it with the biggest jump in burning fossil fuels.

Singapore has introduced an array of sustainability initiatives, some as part of the Green Plan, but there is a distance to go. On the positive side of the ledger, it has enacted a carbon tax; announced a gradual phase-out of fuel cars; increased petrol duties; plans to build 60,000 electric vehicle charging points; increased the share of renewable energy in its portfolio; and is investing more in research and development on sustainability. Plans have also been announced to build Singapore as a hub for green finance with the government taking the lead in the issuance of green bonds and Temasek making a commitment to sustainability.

Although Singapore's carbon footprint is only 0.1 per cent of the global total, the switch to a low-carbon path is an imperative, not only for its own salutary effect on the nation, but also for the demonstration signal and technological solutions it will pass to others, especially in South-east Asia, to change behaviour.

As most of the world's major economies – the United States, China, Japan, the European Union (EU) – declare carbon neutrality by 2050, Singapore can do the same, or choose an earlier date, and fast track for when carbon emissions will peak. In addition, Singapore can help to discourage carbon-intensive trade by implementing a carbon border tax (CBT) on imports that draw on production based on fossil fuel energy.

USING MONOPSONY POWER

The Biden administration and the EU are studying the idea for major importers to use their monopsony power – the influence of a major importer – to tax the carbon content of imports to motivate others to reduce carbon footprints. Thus, imports of aluminium, steel, palm oil, beef and other products would face carbon taxes designed to send a credible signal to producers and exporters to reduce their carbon footprints.

The analytic work on CBT is at its early stages, and academics at the Lee Kuan Yew School of Public Policy are doing their part. The crucial issue concerns the determination of the desirable carbon tax rate that changes producer behaviour without imposing too high a burden on consumers. Related are questions of how the carbon content of imports is to be measured, and which imports ought to be taxed. There is also the issue of how a CBT would be treated under the World Trade Organization regime.

Invited to participate in President Joe Biden's recent Climate Summit along with leaders from 40 other major economies, Singapore clearly has a seat at the table. It is also a time when a decarbonisation drive has political appeal in the US, China, EU, Japan, and even South-east Asia. Multilateral development banks such as the IMF, World Bank and Asian Development Bank are also likely to welcome efforts to move away from coal, oil, and gas towards renewables.

CBTs are analogous to domestic carbon taxes. Though the rate of S$5 a tonne is low, Singapore, like Canada and Sweden, has precious experience in running a domestic tax on carbon. It would be a logical extension, one that will have great political appeal leading up to the United Nations Climate Change Conference in Glasgow in November 2021, to champion a tariff on high carbon imports.

The writers are from the Lee Kuan Yew School of Public Policy, Singapore. Ed Araral is associate professor and director, and Vinod Thomas is visiting professor, at the School.

Source: The Business Times © Singapore Press Holdings Ltd. Permission required for reproduction.