NUS National University of Singapore
Source: *The Straits Times*, pB2
Date: 15 July 2021

S'pore can be competitive even if carbon taxes rise

Singapore is an "outlier" among countries that have introduced a carbon price, and carbon taxes here must go up to help the Republic meet its climate commitments, said Singapore's central bank chief.

Speaking at an Institute of Policy Studies lecture yesterday, Monetary Authority of Singapore managing director Ravi Menon said a meaningful price for carbon is the cornerstone for a successful transition to a green economy.

"Without getting the price of carbon right, most sustainability efforts will not make economic sense and thereby not gain traction.

"The right price of carbon is the social cost it imposes on the environment," he said, adding that the lower end of the estimates, at US$75 (S$102) a tonne of carbon dioxide equivalent, is above the carbon taxes of most countries.

"Among jurisdictions that have introduced a carbon price, Singapore is an outlier at US$3.75. Carbon taxes here will have to move to a steeper trajectory, to help us meet our climate commitments," he said.

He said the Government is reviewing the trajectory and level of the carbon tax, to ensure they provide sufficient impetus for emissions reduction and restructuring towards a greener economy.

"Early forward guidance of the future trajectory in carbon taxes will give businesses time to start restructuring towards less carbon intensity and avoid sharper and more painful adjustments later on."

While higher carbon taxes will impose a short-term drag on the economy, he said, fears of a loss of competitiveness are overstated.

Sweden's experience, he added, shows that it is possible to reduce emissions while maintaining economic growth.

The Swedish carbon tax is the highest in the world, but from 1990 to 2017, its gross domestic product increased by 78 per cent, while its domestic greenhouse gas emissions decreased by 26 per cent.

The country ranked eighth in global competitiveness in 2019.

"Of course, while Sweden also had real alternatives to fossil fuels, such as nuclear and hydro-electric power, Singapore does not have these options, so the trade-off will be sharper. But we don't need to go anywhere near a carbon tax of US$100," said Mr Menon.

The important point, he said, is that Singapore can afford significantly higher carbon taxes than currently envisaged and still remain competitive as an economy.

Carbon taxes should also be designed equitably so that they do not adversely affect lower-income households, he said.

Likening a carbon tax to the goods and services tax (GST), he said the fact that the GST is regressive does not make it a bad tax, as Singapore has found a novel way of giving GST offsets to lower-income households to mitigate the impact of the tax on them.

Similarly, part of the proceeds of carbon taxes could be distributed to lower-income households through carbon dividends, he said.

He added that carbon taxes must be complemented by more stringent environmental regulation – otherwise, the taxes would be "untenably high".

"Stricter environmental regulation will deter environmentally harmful behaviour in the first place, so that the carbon tax does not need to do the heavy lifting."

Grace Ho