Singapore Carbon Tax Needs to Be Raised at Faster Pace, MAS Says

Selina Xu

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Singapore's low carbon tax makes it an "outlier" and the city-state needs to boost the levy at a faster rate to meet its commitments to climate change, the head of the central bank said Wednesday.

The original plan to gradually raise the tax to S$10-$15 a ton by 2030 may no longer be a sufficient impetus for emissions reduction and a successful restructuring to a greener economy, Ravi Menon said in a speech to the Institute of Policy Studies at the Lee Kuan Yew School of Public Policy in Singapore.

"Higher carbon taxes will of course impose a short-term drag on the economy but I think fears of a loss of competitiveness are sometimes overstated," said Menon, managing director of the Monetary Authority of Singapore. With the government now reviewing the post-2023 trajectory of carbon taxes, early guidance "will give businesses time to start restructuring towards less carbon intensity and avoid sharper and more painful adjustments later on."

Almost 30 nations have carbon taxes, ranging from less than $1 a metric ton in Mexico to about $140 in Sweden. Though Singapore was the first Southeast Asian nation to introduce a carbon tax in 2019, its rate of S$5 ($3.75) per ton is on the low end of the spectrum. A price range of about $40-$80 a ton is needed to achieve the 2015 Paris Agreement's main goal of limiting warming to 2 degrees Celsius (3.6 degrees Fahrenheit) above preindustrial levels, according to a 2021 World Bank report.

"Singapore can afford significantly higher carbon taxes than currently envisaged and still remain competitive as an economy," he said.

Singapore's approach of starting with a low carbon tax makes sense only if it increases steadily over time, said Menon, citing Sweden as an example. In addition, "carbon taxes will have to be complemented by more stringent environmental regulation." Parts of the proceeds of carbon taxes could be distributed to lower-income households through carbon dividends, much like how Singapore distributes its goods and services tax offsets, he added.

Commenting on the labor force, Menon said the four digital banks that MAS has granted licenses to are expected to hire around 1,000 employees over the next three years. While the banks will need to bring in expertise in areas of shortage in Singapore, they will be required to "transfer knowledge and skillsets to locals over the initial startup period, so that the teams will be mostly made up of Singaporeans eventually," he said.