

Singapore shouldn't sprint ahead on carbon tax as the world drops off

Moderating the carbon tax climb can help ensure ambition drives innovation, rather than pushing emissions and investment offshore.

Musa Fazal

Around the world, governments that once embraced carbon taxes are adjusting pace, scope and support as costs bite.

Canada has paused part of its carbon tax on home-heating fuels. Sweden has eased fuel-related levies despite having one of the world's highest carbon prices.

The European Union continues to cushion industry through free allowances and electricity cost

compensation.

Even Australia's shortlived carbon tax shows what happens when carbon pricing runs ahead of public consent.

Singapore, by contrast, has moved early and decisively. Our economy-wide carbon tax rose to \$25 in 2024, reached \$45 in 2026 and is signposted to climb to \$50-\$80 by 2030.

Our carbon price now sits among the highest in Asia, higher even than those faced by firms in China, South Korea and Japan in effective terms.

Indeed, data from the OECD shows that only about 16 per cent of global emissions face an effective carbon price above €30 (\$45.20) per tonne, and barely 11 per cent above €60, once exemptions, free allocation and compensation are taken into account. Singapore is moving rapidly into that top tier, well ahead of most of the world's industrial base.

This matters especially for energy-intensive and trade-exposed (EITE) industries such as energy and chemicals, semiconductors and electronics that are central to our economy.

THE CASE FOR SLOWING DOWN

The manufacturing sector as a whole employs more than 200,000 workers in skilled technical and professional roles. These are good, high-productivity jobs built around long-lived assets, deep industrial capabilities and global value chains.

Within this base, the energy and chemicals sector is critical. It contributes about 23 per cent of total manufacturing output and around 3 per cent of gross domestic product, and supplies essential feedstocks to electronics and biomedical manufacturing. It is also closely intertwined

with aviation fuel supply, maritime bunkering, logistics and energy security. Decisions affecting the competitiveness of this sector have consequences far beyond Jurong Island.

These sectors are particularly exposed when carbon costs imposed on power generators are passed through into electricity prices.

Industry analysis by the Singapore Chemical Industry Council suggests that by 2028, total energy costs for energy-intensive manufacturers could rise by around 12 to 20 per cent at higher carbon tax levels.

Unlike many European jurisdictions, Singapore does not provide indirect cost compensation for electricity prices inflated by carbon costs. Without such compensation, globally competing firms face higher power costs than rivals in countries with similar climate ambitions but stronger competitiveness buffers.

Singapore's situation is further complicated by what might be called an "implicit" carbon cost.

Our power system relies largely on imported natural gas rather than coal. It is cleaner, but significantly more expensive. As a result, electricity here already embeds a substantial cost

disadvantage compared with coal-based power in parts of Asia, even before any explicit carbon tax is applied.

Neutralising this electricity price disadvantage helps keep production and jobs anchored here, preserves incentives to decarbonise power supply and improve efficiency, and avoids shifting emissions to jurisdictions with weaker climate rules – a phenomenon known as carbon leakage.

The Government has not been blind to these risks. A transition framework exists that provides partial allowances for EITE sectors, calibrated against efficiency benchmarks and decarbonisation plans.

But these allowances cover only part of emissions, do not extend to electricity consumption, and come with uncertainty over duration and trajectory. For investments with 20- to 30-year horizons, that uncertainty matters.

That uncertainty is compounded by the state of available decarbonisation options. This is where sequencing becomes critical.

PACING IT WISELY

Many of the technologies needed to cut emissions in heavy industry

– such as carbon capture and storage, hydrogen-based fuels and next-generation high-temperature heating – are advancing, but still remain at mid-range levels of technological readiness.

They are not yet deployable at scale, or at costs that make commercial sense, without public risk-sharing and supporting infrastructure. Raising costs faster than the rate at which solutions can be adopted does not accelerate decarbonisation; it accelerates relocation.

The experience elsewhere is instructive. High energy and carbon costs have already contributed to declining industrial output in parts of Europe.

Shutting efficient plants reduces local emissions, but when production shifts to less efficient facilities elsewhere, global emissions do not fall. That is carbon leakage in practice.

None of this argues for retreating from climate ambition. It argues for pacing wisely.

Moderating the near-term climb of the carbon tax, bringing the wide \$50-\$80 band for the late 2020s closer to the lower end, and giving firms clearer visibility on future costs would reduce policy uncertainty and anchor investment decisions at a critical point in capital planning.

Recycling carbon tax revenue into serious, targeted support for industrial decarbonisation – focused on emissions-intensive, trade-exposed sectors where abatement is hardest and carbon leakage risk is highest – would help turn higher prices into real emissions cuts.

Prioritising carbon capture, shared infrastructure and first-of-a-kind process-heat projects – that focus on optimising

thermal energy for industrial manufacturing – would de-risk investment and accelerate deployment.

A temporary expansion in the use of high-quality international carbon credits could cushion near-term costs while domestic solutions scale up.

Firms are currently allowed to offset up to 5 per cent of taxable emissions using eligible international credits. Raising this

cap modestly to 10 per cent for a limited period would give firms added flexibility as carbon prices rise.

These are among the suggestions that the Singapore Business Federation and PwC have put forward in our Budget 2026 recommendations, taking industry feedback into account.

Singapore's advantage has always been pragmatic execution and careful sequencing.

A short pause in the sprint, combined with heavier investment in the hard work of industrial decarbonisation, would not weaken our climate resolve. It would make it far more likely to succeed, while keeping high-skill jobs and strategic capabilities anchored here.

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