

SINGAPORE CARBON INITIATIVES: THE CARBON TAX AND THE ELIGIBILITY LIST

Singapore's eligibility list for international carbon credits (**ICCs**), published shortly after the announcement of its successful Article 6 Paris Agreement collaborations with Papua New Guinea, is expected to be extended over time – most recently, to reflect further collaborations with Ghana. In this briefing we take a closer look at Singapore's ICC Framework and eligibility list which provide opportunities for businesses wishing to offset carbon tax liabilities.

Singapore's eligibility list for ICCs under its ICC Framework (the **Eligibility List**) published by Singapore's Ministry of Sustainability and the Environment (**MSE**) and National Environment Agency (**NEA**) sets out the eligible ICCs that an entity may use to offset up to 5% of its taxable emissions under Singapore's carbon tax (**Eligible ICCs**).

BACKGROUND

Singapore's carbon tax was introduced on 1 January 2019 under the Carbon Pricing Act 2018. There are two thresholds to be aware of for an in-scope facility that produces carbon dioxide or equivalent greenhouse gas emissions (**GHG Emissions**): (i) the first threshold is if it produces 2,000 tonnes or more of reckonable GHG Emissions, which will require that facility to register itself as a reportable registered person or reportable facility (as appropriate); and (ii) the second threshold is if it produces 25,000 tonnes or more of reckonable GHG Emissions, which will subject all reckonable GHG Emissions of that facility to the carbon tax.

In-scope facility: A site (including activities across multiple parcels of land) where business activity is conducted in one or more of the following industries: (i) manufacturing and related services; (ii) supply of electricity, gas, steam, compressed air and chilled water for air-conditioning; and (iii) water supply and sewage and waste management.

Reckonable GHG Emissions: Being all direct emissions of carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, nitrogen trifluoride, hydrofluorocarbons and perfluorocarbons, from fuel combustion and industrial processes and product use, excluding emissions defined as a non-reckonable (a "non-reckonable GHG emission" being any greenhouse gas specified in the first column of Part 2 of the Second Schedule to the Carbon Pricing Act 2018 that is emitted in the circumstances described in the second column of Part 2 of that Schedule opposite the relevant greenhouse gas).

There has been an increase in Singapore's carbon tax rate under the Carbon Pricing (Amendment) Act 2022 from SGD 5 per tonne of taxable emissions from its introduction to SGD 25 per tonne of taxable emissions as of 1 January 2024. Furthermore, this carbon tax rate is set to increase further – to SGD 45 per tonne from 1 January 2026 and, based on statements from the Singapore Government, is likely to increase to between SGD 50 to SGD 80 per tonne by 2030.

THE ELIGIBILITY LIST

At the date Singapore's carbon tax was introduced, carbon tax-liable entities only had one method to make any carbon tax payment – applying for, paying for and surrendering "fixed-price carbon credits" via (and issued by) the NEA at the prevailing tax rate. However, the ICC Framework, introduced in November 2022 pursuant to the Carbon Pricing (Amendment) Act 2022 (that also introduced the above-mentioned progressive increase in carbon tax rate), adds another method for a carbon tax-liable entity to satisfy its carbon tax payments. The framework allows an entity to use Eligible ICCs to offset up to 5% of an entity's taxable emissions under Singapore's carbon tax from 1 January 2024. This limit has been set to ensure that Singapore companies continue to prioritise domestic emissions reduction and is aligned with comparable jurisdictions with similar climate ambitions, such as South Korea and California. However, at the time the framework did not explicitly state what might qualify as an Eligible ICC.

This only became clearer in October 2023, when the MEA and NEA published seven criteria that an ICC generated by a project will, at a minimum, need to meet for their eligibility for offsetting to be considered (the **Eligibility Criteria**). The Eligibility Criteria are designed to align with international recognised principles to demonstrate high environmental integrity and are as follows:

1. Not double-counted – each ICC must only be counted once towards achieving any emissions reductions or removals targets;
2. Additional – the certified emissions reductions or removals must have been additional to what would have otherwise occurred or be required in a conservative, business-as-usual scenario had that project not been carried out;
3. Real – the certified emissions reductions or removals must have been calculated on a realistic, defensible and conservative basis, against the scenario had that project not been carried out;
4. Quantified and verified – the certified emissions reductions or removals were calculated in a conservative and transparent manner and subject to independent third-party verification before the ICC was issued;
5. Permanent – the certified emissions reductions or removals must not be reversible, or if there is a risk of such reversibility, there must be monitoring, mitigation and compensation of any such material reversal;
6. No net harm – that project must not violate any applicable laws, regulatory requirements or international obligations of the host country; and
7. No leakage – that project must not result in a material increase in emissions elsewhere, or if there is a risk of such material increase, there must be monitoring, mitigation and compensation of any such material increase.

Furthermore, the related emission reductions or removals will need to have occurred between 1 January 2021 and 31 December 2030 to comply with the Paris Agreement. However, the Eligibility Criteria still did not explicitly set out what might qualify as an Eligible ICC.

The Eligibility List explicitly sets out what ICCs will qualify as an Eligible ICC. This includes a list of eligible host countries, carbon crediting programmes and methodologies that in sum total, will generate ICCs which adhere to the Eligibility Criteria. The list will be reviewed annually which may result in the addition or delisting of carbon crediting programmes and methodologies from the list.

An eligible host country, in relation to an ICC, the country or territory in which the certified GHG Emission reductions or removals to which such ICC relates, were generated. At present, there are two host countries set out in the Eligibility List, Papua New Guinea and Ghana. Furthermore, only carbon credits issued with:

1. Papua New Guinea as a host country pursuant to several programmes – Gold Standard, VCS, American Carbon Registry or the Global Carbon Council; or
2. Ghana as a host country pursuant to one of two programmes – Gold Standard or VCS,

in each case, under a limited number of methodologies – being active methodologies published before 31 March 2023 except for certain specified exclusions – are considered by the MSE and NEA to have met the Eligibility Criteria and to be Eligible ICCs. Indeed, the first iteration of the Eligibility List was published shortly after the announcement that Singapore and Papua New Guinea signed an Implementation Agreement on carbon credits cooperation under Article 6 of the Paris Agreement on 8 December 2023. The Implementation Agreement between Singapore and Ghana was signed on 27 May 2024, and the Eligibility List was accordingly updated. This means the scope of the Eligibility List, and the offsetting mechanism under the ICC Framework, is not extensive at this point in time.

WHAT NEXT?

Other than the commitment for an annual review of the Eligibility List, there is no timeline for when the list might be further updated, or when the conditions may be in place for it to be updated, at this stage. However, there are broad observations that can be made on potential further developments.

Singapore has concluded substantive negotiations on Implementation Agreements with Bhutan, Paraguay and Vietnam, and has signed MOUs/Letters of Intent on carbon markets collaboration with Bhutan, Cambodia, Chile, Colombia, Costa Rica, Dominican Republic, Fiji, Kenya, Laos, Mongolia, Morocco, Papua New Guinea, Peru, Rwanda, Indonesia, Vietnam and Sri Lanka.

Many of the media announcements relating to these negotiations or documents suggest that Singapore and the relevant country may enter into collaborations that create ICC offsetting mechanics in relation to Singapore's carbon tax which are similar to those entered into with Papua New Guinea. The broad goal is for Singapore to collaborate with the relevant country on carbon markets, aligned with Article 6 of the Paris Agreement. To the extent these discussions progress and result in Singapore and one or more countries

signing Implementation Agreements similar to that signed with Papua New Guinea or Ghana, it is possible that the Eligibility List will be updated to include that country as a host country, specifying the specific carbon crediting programmes and methodologies from which Eligible ICCs may be issued. Given discussions already had with the countries stated above, these countries may be considered likely candidates for the next countries to be added to the Eligibility List.

This all suggests that the ICC Framework is expected to be extended over time, which is good news for those looking to use ICCs to offset a portion of an entity's carbon tax liabilities, and a promising example of Singapore's continued commitment to promoting Article 6 mechanisms.

LOCAL CONTACTS



Lena Ng
Partner,
Singapore

T +65 6410 2215
E lena.ng
@cliffordchance.com



Leland Hui
Senior Associate,
Singapore

T +65 6410 2239
E leland.hui
@cliffordchance.com



Sheena Teng
Professional Support
Lawyer, Singapore

T +65 6506 2775
E sheena.teng
@cliffordchance.com

GLOBAL CONTACTS



Jonathan Castelan
Partner,
Houston

T +171 3821 2831
E jonathan.casetelan
@cliffordchance.com



Mathias Elspaß
Partner,
Düsseldorf

T +49 211 4355 5260
E mathias.elspass
@cliffordchance.com



Cameron Hassall
Partner,
Hong Kong

T +852 2825 8902
E cameron.hassall
@cliffordchance.com



Adam Hedley
Partner,
London

T +44 207006 3381
E adam.hedley
@cliffordchance.com



Nigel Howorth
Practice Area Leader
Real Estate, London

T +44 07006 4076
E nigel.howorth
@cliffordchance.com



Moritz Keller
Partner,
Frankfurt

T +49 69 7199 1460
E moritz.keller
@cliffordchance.com

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www.cliffordchance.com

Clifford Chance, 10 Upper Bank Street,
London, E14 5JJ

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GLOBAL CONTACTS CONTINUED



Paul Landless
Partner,
London

T +44 207006 2368
E paul.landless
@cliffordchance.com



Ty'Meka Reeves-Sobers
Partner, Houston

T +171 3821 2837
E tymeka.reevessobers
@cliffordchance.com



Kirsty Souter
Senior Associate,
London

T +44 207006 478
E kirsty.souter
@cliffordchance.com



Robert Tang
Partner,
Sydney

T +61 2 8922 8502
E robert.tang
@cliffordchance.com



Anneke Theelen
Senior Associate,
London

T +44 207006 3045
E anneke.theelen
@cliffordchance.com



Adam Wood
Legal Consultant,
Perth

T +61 8 9262 5505
E adam.wood
@cliffordchance.com



Emily Yung
Senior Associate,
Sydney

T +61 2 8922 8507
E emily.yung
@cliffordchance.com