

**SPEECH BY MR S ISWARAN, SENIOR MINISTER OF
STATE FOR TRADE AND INDUSTRY, AT THE OPENING
CEREMONY OF CARBON ASIA FORUM (CFA) 2009 ON
MONDAY, 26 OCTOBER 2008, 9AM AT RAFFLES CITY
CONVENTION CENTRE, SINGAPORE**

Mr Henry Derwent
President and CEO
International Emissions Trading Association (IETA)

Mr Edwin Khew
Chairman of the Sustainable Energy Association of Singapore (SEAS)

Distinguished guests
Ladies and Gentlemen

I am very pleased that IETA and Koelnmesse have continued to partner SEAS in Singapore to host this annual conference for the third time. Carbon Forum Asia is the leading trade fair and conference on carbon markets in the Asia-Pacific region. The UNFCCC Clean Development Mechanism (CDM) DNA (Designated National Authority) Forum is being held in parallel with this forum, and our Singapore International Energy Week will be held in November. These initiatives and the support they have received are a validation of

Singapore's position as a thought leader on energy issues. I am particularly pleased to see the continuing strong support for Carbon Forum Asia.

Beyond Copenhagen

2 We have a collective interest to act together in an expedited and sustained manner to combat climate change. Many countries have already experienced the adverse effects of climate change such as more frequent and intense weather-related disasters. As a low-lying country, Singapore is not immune to the risks of climate change and will do its fair share as part of a global deal. However, even as we direct our negotiating efforts towards an outcome in Copenhagen, let us not lose sight of the fact that this is a formidable and unprecedented global challenge. Copenhagen is but the first step in a long road as we adjust our mindsets and lifestyles to a new carbon constrained world.

Challenges and Opportunities

3 The past twelve months have been challenging, especially so for the carbon markets as credit tightened and CDM projects were put on the backburner. The economic slowdown and the flight to safety have caused carbon prices to collapse by nearly 75% over a period of 7 to 8 months. (EUA prices fell from €28.73 in July 2008 down to €7.96 on February 12, 2009)

4 The international carbon market has recovered significantly since then. However, the next year or so will be critical in ensuring that this momentum is sustainable. The pace of CDMs has slowed somewhat, given the uncertainty as to how this regime will function post 2012. There is little incentive for companies to invest now and have the game change in 2 years' time. Hence, there must be greater clarity on the direction and prospects at the UNFCCC going into 2010. In particular, the way forward for carbon markets will depend critically on the scale of emissions targets for Annex I countries, and the structure and scale of available international offset mechanisms. I understand that the market is also seeking improvements to the current processes. For example, there could be enhancements to further streamline the assessment and approval process while continuing to ensure environmental integrity.

5 While the CDM process may have its shortcomings, let us not lose sight of the fact that the carbon and CDM markets have been successful on many counts. They have helped provide a sound economic basis for carbon reductions. The EU ETS has put carbon awareness squarely on the agenda of the boards of many major companies. In future, all Governments and companies will have to internalize and optimize carbon, just like other conventional factors of production such as land, labour and capital. Furthermore, carbon markets have created a very clear economic incentive for private finance to work actively in

developing countries to develop domestic mitigation measures. Having the mechanisms to monetize these measures will prevent high carbon infrastructure lock-in and help developing countries make the transition to lower carbon growth which would otherwise have not taken place. The pipeline of potential projects has slowed down but I expect this to pick up as the global economy improves.

6 That said, given the magnitude of the task ahead - the UNFCCC has estimated the cost in the range of US\$200 billion (US\$100 billion each for mitigation and adaptation) annually - we cannot rely solely on private finance to effect change. While market-based finance has an important complementary role, the developed countries listed in Annex 2 of the Kyoto Protocol must meet their obligations to provide the primary source of funds for mitigation and adaptation.

7 I am sanguine about the prospects of the global and regional carbon markets. It is encouraging that major Annex 1 countries are taking the lead. The successful passage of the US climate change legislation with binding reduction targets will significantly shape both the US domestic and international carbon markets. According to a World Bank economist, if the U.S. bill is passed, and the European Union increases its emissions reduction target to 30% by 2020, future demand could well be in the range of 600 million tons of offset credits per year.

Within the Asia-Pacific, Australia and New Zealand have developed detailed plans to implement domestic cap and trade systems. These are tectonic shifts and will provide immense opportunities for players in the carbon marketplace, even if a comprehensive global deal is not reached at the UNFCCC.

8 On the supply side, Asia is poised to be the largest supplier of Certified Emissions Reductions (CERs) to the global carbon market. 70% of CDM projects are located within the Asia-Pacific. While China and India remain the world's largest suppliers of CERs, the rest of Asia, including the ASEAN countries, also has immense potential to explore CDM projects.

9 Taken together, we will see increasing depth and liquidity in the international carbon market, paving the way for a possible global carbon price in the future. These are the initial steps towards the optimization of carbon on a global basis – allowing for cost-effective reductions for the activities of Annex 1 countries, while providing much-needed finance for improvements in developing countries.

Singapore as an Asia-Pacific Carbon Hub

10 Climate change is a long term global challenge, and I believe there will be an enduring role for carbon markets to help the world meet this challenge. Hence, we in Singapore are gearing ourselves up to participate actively in this dynamic new sector. Given our strategic location, Singapore can play an important role, particularly for companies looking to expand their CDM activities into the region. We have well-established legal, regulatory and financial institutions, a business-friendly environment and modern infrastructure and communications.

11 Despite the cautious economic outlook, I am glad to say that in the last two years, Singapore has seen an influx of new entrants in the carbon space, to serve both Southeast Asia and the larger Asian region. Many of these companies are involved in project development, consulting, professional services, financing and trading. For instance, Caspervandertak Consulting, one of the largest developers in the global CDM market, has set up a regional office in Singapore to develop carbon projects in South-East Asia. The Carbon Neutral Company (TCNC), a carbon management consulting leader from UK, has recently established a base in Singapore to work with clients in this region to manage and reduce their carbon footprint. They have since collaborated with local real estate developer, City Developments Limited, on a commercial building project. As a result of that collaboration, the Tampines Concourse building is now among the first few carbon neutral buildings in Asia.

12 In addition, Singapore has been able to leverage on our strong commodities trading base to support carbon trading. We have seen some progress since we granted concessionary tax rates to companies with carbon trading activities in Singapore under International Enterprise Singapore's Global Trader Programme. For example, Sweden-based Tricorona, the second largest buyer of emission allowances, set up its global trading hub in Singapore this year. It will be using Singapore as a major hub to manage sales and marketing activities on carbon credits, as well as its risk management functions.

13 Similarly, the scope of MAS' incentive schemes for commodity derivatives trading and fund management were expanded earlier this year. Where previously these were limited to tangible commodities, such as oil, metals and agri-commodities, these incentive schemes have since been enhanced to include emissions derivatives. Also, the Financial Technologies Group's plans to establish the Singapore Mercantile Exchange (SMX) are on track for launch at year-end. SMX will offer an electronic trading platform for futures and options trading on a diversified range of commodities including energy, metals, agricultural commodities, currencies, commodity indices and carbon credits.

14 We will continue to develop the entire carbon industry ecosystem in Singapore, including carbon management services, emission-reduction project

development and financing, verification services and other professional services with an interest in the clean technology space. Given that carbon is a highly complex subject, we will also continue to build professional capabilities. In 2007, the Singapore Management University (SMU), in collaboration with IE Singapore and players from the trading industry, launched the International Trading Institute (ITI) to further enhance sectoral knowledge, capabilities and talent pool in the arena of international trading. These are all a part of our effort to grow the Cleantech cluster as a new growth industry for Singapore.

15 We have also set aside close to S\$700 million to build R&D and manpower capabilities in various cleantech areas, including clean energy and environmental and water technologies. Hence, we strongly encourage companies to use Singapore as a test-bed for emerging technologies like smart grids and green building technologies under our Urban Solutions programme.

Conclusion

15 To conclude, the prospects for emissions trading remain promising. Singapore is well-placed to exploit the opportunities emerging from the Asia-Pacific region. All eyes will be on the UNFCCC negotiations, countries' domestic climate-related legislations, and the response of industry incumbents to these changes. As Asia's premier carbon market event, Carbon Forum Asia has an

important role to play in this process, by bringing together key representatives from the global carbon services sector, industry players and government officials.

16 I understand that a fully-packed and exciting two-day program lies ahead, and I wish you all a successful and productive conference. Thank you.