Singapore Offers Carbon Tax Rebates to Refineries in the Short Term

Singapore is offering refineries and petrochemical companies tax rebates of up to 76% on its planned carbon tax for 2024 and 2025. This move aims to alleviate cost pressures and maintain competitiveness against international rivals, according to four sources familiar with the matter.

These tax concessions will provide significant relief to refinery profit margins amid rising competition from newer plants in China and the Middle East.

The carbon tax costs for refineries are estimated to range from 80 cents to 1 dollar per barrel of crude input, based on the $25 per ton emission rate, according to consultants FGE and Wood Mackenzie. This would account for nearly a quarter of the current refining margins in Singapore.

Under Singapore's new carbon emissions tax rate, which came into effect on January 1, companies emitting more than 25,000 metric tons of carbon annually will pay $25 per ton until 2025, up from $5 per ton from 2019 to 2023.

The rate will then increase to $45 per ton in 2026-2027 and to $50-80 per ton by 2030, as announced by the government in 2022.

Key companies in the refining and processing sectors have been granted temporary rebates to ease the added fiscal burden, reducing final costs to between $6 and $10 per ton of emissions, according to three sources.

These refineries and processing companies will still need to pay the $25 per ton carbon emissions tax and subsequently apply for the rebates, according to the terms and conditions set by the government, said a fifth source.

Singapore has three refineries with a combined capacity of 1.119 million barrels per day, currently operated by Shell, Exxon Mobil Corp, and Singapore Refinery Co (SRC), a joint venture between Chevron and Singapore Petroleum Co, fully owned by PetroChina.

Although the disruption of Russian oil trade following the Ukraine war and post-COVID demand boosted refining margins between 2020 and 2022, these profits have halved from their peak levels in February.

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Shell declined to comment, while an ExxonMobil spokesperson said, *"As a matter of practice, we do not discuss confidential matters."*

"The Singapore Refining Company remains committed to supporting the Singapore government's policies through close collaboration and ongoing dialogue," an SRC spokesperson stated.

The concessions are likely to remain in place at least for 2024 and 2025, said one source, adding that the "rebated" rate would be revisited for discussion in 2026 or later.

Last year, Singapore introduced a transition framework to support companies in trade-exposed emission-intensive sectors (EITE), such as chemicals, electronics, and biomedical manufacturing, in their energy transition.

"Emission allowances will only be provided for a portion of the companies' emissions and are based on internationally recognized efficiency benchmarks when available, or the ambition and robustness of companies' decarbonization plans," a Ministry of Trade and Industry spokesperson told, *"The remaining emissions will still be subject to prevailing carbon tax rates."*

The duration of this transition framework will depend on international carbon price developments and the progress of decarbonization technologies, with sufficient advance notice of changes provided to facilitate business planning.

Overall, the carbon tax will need to be paid in the year following the base year "due to the time required to gather emission data and independently verify total emissions for the base year," a spokesperson for the National Environment Agency (NEA) previously stated.

Currently, companies also have the option to offset up to 5% of their taxable emissions using international carbon credits purchased or accumulated elsewhere, according to the NEA.

This significant increase in carbon taxes has been a hot topic in Singapore's refining sector, following the sale of Shell's flagship petrochemical and refinery assets on Bukom and Jurong Island amid intense competition.