

Speech by Mr S Iswaran, Minister of State for Trade and Industry during the Committee of Supply Debate (Ministry of Trade and Industry), on Monday 5th March 2007, in response to cuts (k) to (o) under Head V

1. Mr Chairman, I would like to thank Members for their suggestions and views on energy and tourism.

Energy

2. Allow me to first touch on the bread and butter energy issues, before moving on to the more colourful tourism related questions that have been raised. Energy, like land and manpower, is a critical economic resource. The key objective of our energy policy is to ensure that we have sufficient and secure energy supplies at affordable prices, and to make sure that we accomplish that objective in a manner that is sensitive to our environment.

3. We have established an inter-ministry Energy Policy Group to formulate and coordinate our energy policies. Led by MTI, and comprising several key agencies, the Energy Policy Group adopts a “whole-of-government” approach in addressing energy issues from the four perspectives of energy security, economic competitiveness, environmental sustainability and the development of the energy industry itself. These are all points that many of the Members have touched on in different ways.

Energy Costs

4. The establishment of competitive markets is the cornerstone of our energy policy. And in the contestable segments of the energy value chain, we want to implement contestable markets. We have, therefore, liberalised the electricity market and, going forward, we will be taking steps to open the natural gas market to further enhance competition. The point Mr Inderjit Singh raised earlier.

Electricity tariff vis-à-vis fuel oil prices

5. Mr Low Thia Khiang asked how has the consumer benefited from this liberalised electricity regime. And that’s a fair question. Since 2001, we have liberalised the electricity generation and retail market in stages. Consequently,

there is now greater competition in the electricity market, and this has led to downward pressure on price and it forces players to be more cost competitive. And this has helped to cushion the impact of high oil prices on our electricity tariffs. For example, although fuel oil prices increased by 80% over the last six years from January 2001 and January 2007, from nearly S\$42/bbl to S\$75/bbl in January 2007; over the same period, household electricity tariffs have increased by only 8% from 18.5¢/kWh to about 20¢/kWh. What is particularly noteworthy is that this is despite the fact that the major cost component of electricity generation is fuel, and that accounts for 55%. So notwithstanding the fact that more than half the cost of generating our electricity comes from fuel oil, and the fact that the cost of fuel oil has gone up by 80%, the price of electricity tariffs is actually quite steady at about 8%. So that is clear proof that the policy is working and the market structure is working in favour of our consumers.

6. Therefore, competition in the market has certainly helped to keep electricity prices at about the same level since 2001, despite sharp increases in fuel oil price. This is the clearest demonstration of how consumers have benefited from the liberalised electricity market.

Mitigating price impact

7. Nevertheless, the other point really is that the Government does recognise that lower income households may still feel the impact of rising electricity and other utility bills – even if the increases are modest. This is why we have the Utilities Save (U-Save) scheme, which disbursed about \$600m over the past five years. And in this Budget, it has again been renewed for a further five-year period. That will provide additional cushion.

8. On top of that we have the ComCare Fund and other schemes. So I would say that in general, the market structure and regime favour our consumers and there are other schemes to help those that might have slipped through the cracks.

Full Retail Contestability

9. Mr Low also asked the question about retail contestability. We have taken steps to liberalise the electricity retail market. This is to provide more competitive pricing and choice to consumers and businesses. Since 2003, about 10,000 large consumers, accounting for 75% of total electricity demand, have already become contestable. This means that retailers compete to sell electricity directly to these consumers.

10. The remaining 1.2 million small customers are basically households who account for the 25% of total electricity demand, and they are not yet contestable and continue to buy electricity from SP Services Ltd. The reason is simple. This is because the economics of catering to this vast group of small consumers is very different. It is more expensive for electricity retailers to service a large number of small customer accounts, than to serve a single customer with a large amount of electricity demand. For small consumers to enjoy the true benefits of contestability, there is a need to reduce the cost of the supporting infrastructure.

11. EMA is currently studying an Electricity Vending System (EVS) which allows retailers to post their electricity supply schemes and prices at various points-of-sale such as the internet and convenience stores. An EVS will help reduce the back-end administration and business costs associated with serving small consumers. As the EVS has not been tried elsewhere, EMA is developing the technology and testing the prototype, and that will take the next two to three years to stabilise and to make sure that this works. If the EVS is found to work and it stabilises, then there is a very high chance that the real benefits will accrue to the consumer in a switch to contestability.

12. Mr Sam Tan asked about the number of household accounts in utilities arrears, and whether there has been some masking of the numbers. Let me first deal with the arithmetic. In January 05, there were 9,859 accounts in arrears. These are consumers whose payments are overdue for at least 3 months.

13. Subsequently, in May 2005, the Pay-As-You-Use Scheme (PAYU) was implemented. Following this, accounts in arrears are distinguished between

those on the PAYU scheme and those who aren't. In January 07, there were a total of about 6200 accounts in arrears – about half on the PAYU scheme, and half not on PAYU. This is a decline of 37% from the 9000 odd accounts in arrears in January 05.

14. The more basic question that Mr Sam Tan is asking is whether this, by some magic, has masked the numbers. And the answer is simple. There is no magic. This is a simple account management process that SP Services uses to decide who are the accounts in arrears. So as in any commercial practice, when an account in arrears reschedule his debt by moving to PAYU, then they are no longer treated as cases in arrears but moved into a new category. And thereafter they only re-enter the arrears account if they default on their payments again over the three-month period.

15. Now, Mr Sam Tan has a very legitimate concern. Does this somehow deprive those who really need help from getting that in order to meet their utilities costs? It is not SP Services' job to take care of the welfare, although they do take a very considered approach in dealing with arrears accounts. They give them several chances, they counsel them on their usage of electricity before they go to more extreme steps. But at the same time, as Mr Sam Tan is aware, there is nothing stopping any of the individual account holders from approaching their MPs or any other agencies for help. And help is available through the ComCare and other facilities. We can take care of them. And as far as SP Services' accounting is concerned, it is designed to manage it from a commercial point of view.

Energy Security

16. Mr Alvin Yeo has raised the important issue of Energy Security. We need policies and strategies on both the demand and supply side to safeguard our energy security. Demand management is key as using energy more efficiently will help reduce our energy dependence and emissions. We are, therefore, working closely with MEWR and NEA to develop programmes and measures on energy efficiency.

17. On the supply side, Mr Alvin Yeo has highlighted the need to diversify our fuel sources. In that regard, we are planning to develop a terminal to enable the import of liquefied natural gas (LNG) so as to diversify our gas supply sources. To guard against a disruption in fuel supplies, our power generation companies are also required to stockpile fuel reserves. If our natural gas supply is disrupted, our gas turbines can switch to using diesel instead.

Alternative Energy

18. I agree with Mr Alvin Yeo on the importance of developing alternative energy sources and keeping ourselves open to the different options, including coal. These alternatives can help us diversify away from our dependence on oil and gas, which account for nearly 90% of our electricity supply. We keep an open mind on the use of coal power as long as it is cost effective and can meet our environmental standards.

19. At present, waste-to-energy is our largest source of renewable energy. The incineration of wastes generates 2-3% of our electricity supply. Due to our geographic limitations, other sources like hydro, geothermal, wind and tidal energy sources are not viable. Solar technology and biofuels appear to be the main renewable energy options that are feasible in Singapore. However, solar power is still about twice as expensive as our household electricity tariff due to the high upfront cost of photo-voltaic systems. Similarly, ethanol and biodiesel are costlier than their petroleum counterparts. In fact, this is a key consideration – cost. Quite apart from it is the issue of infrastructure for fuel supply and refuelling. These need to be taken into account. Biofuels are new, and we need to understand their impact on car engine performance, reliability and tailpipe emissions as well.

20. The Government is stepping up R&D efforts to produce commercially viable alternative energy technologies. A*STAR and EDB will be investing more than \$100 million over the next five years in various energy research and testbedding programmes.

21. One new initiative is the S\$17 million Clean Energy R&D Platform under the EDB. This R&D Platform will allow us to evaluate the performance of various clean energy technologies in our tropical context. Through this programme, we hope to install around 2 MW of power generation capacity from solar and other clean energy sources.

22. Our efforts on biofuels are ongoing. The Institute of Chemical and Engineering Sciences (ICES) under A*STAR is conducting research into new methods to produce biofuels, such as from cellulosic materials. The EDB and the NEA have brought together a group of companies including Robert Bosch, Shell, Nexsol and DaimlerChrysler, to test and evaluate the use of biodiesel in our local setting. If the trials are successful, we can consider introducing biofuels into the market on a pilot scale.

Tourism

23. Mr Chairman, let me now touch on our tourism strategy. The World Tourism Organisation has projected that global tourist arrivals will grow at about 4% per annum, and that the Asia-Pacific region will experience even higher growth exceeding 6%, by 2015. This presents Singapore with significant opportunities, especially given our location. At the same time, our competitors are not standing still. Many countries have been aggressively investing in new tourism products. We must be prepared to respond swiftly and make bold changes to avoid being left behind.

24. To capture our fair share of the growing tourism pie, the Singapore Tourism Board (STB) aims to triple tourism receipts to \$30 billion, and double visitor arrivals to 17 million, by 2015. This means that our tourism receipts have to grow at about 10.3% annually and our visitor arrivals by 6.4%. These are ambitious targets, but they are essential to spur our efforts to ensure Singapore remains an attractive destination for visitors.

Developing a wide range of tourism products and attractions

25. I am pleased to inform the House that we are on track to achieve our 2015 targets. The strong performance of our tourism sector in 2006 was very encouraging. Several new record highs were set – we generated an estimated \$12.4 billion in tourism receipts, that's about a 15% growth year-on-year; and welcomed 9.7 million visitors, that's about a 9% growth. The Average Occupancy Rates and Average Room Rates in our hospitality industry reached an all time high of 85% and \$164 respectively.

26. The next few years promise to be quite exciting for our tourism industry with the opening of several large attractions. The development of the Singapore Flyer observation wheel is progressing well and it is expected to open in the 1st quarter of next year. In addition, the opening of the two Integrated Resorts (IRs) at Marina Bay and Sentosa is anticipated in 2009/2010. These three products will give a major boost to our tourism industry.

27. But borrowing a line from our population policy - why stop at three when we can afford more? To keep ahead, STB aims to develop a wide range of tourism attractions and product offerings to enhance our appeal as a leading destination to a diverse group of business and leisure visitors.

28. In this respect, Mr Ang Mong Seng has asked how we can enhance the attractions in Geylang. I agree with Mr Ang that aside from the high-end tourists, we also want to develop offerings which appeal to other market segments including the mass markets. The ethnic precincts are an integral part of Singapore's tourism offerings. STB has been working with other government agencies to develop and rejuvenate various ethnic tourism precincts like Little India and Chinatown. STB will do the same to further develop Geylang and Geylang Serai and continue to actively involve the local business associations and other key stakeholders in the effort. The key is to be able to enhance the infrastructure and amenities in these areas without losing their charm, character, street life - and even their intrinsic "messiness", which many visitors find quite attractive.

Singapore – A Truly Global City

29. In addition to developing attractions and products, STB will actively pursue other tourism initiatives - such as branding, marketing and pursuing new market segments - to position Singapore as a truly global city and to capture our fair share of the growing Asia-Pacific tourism pie.

30. Singapore is widely acknowledged as a financial centre with a conducive environment for business. But as Mr Teo Ser Luck has pointed out, we need to enhance our range of leisure and lifestyle events. Singapore must have the X-factor – to be a place that is vibrant and buzzing with energy, and a place where it is fun to live and work.

31. Take London, as an example. London has been ranked the top European city for business for the 16th year in a row by the European Cities Monitor - a well-known survey, conducted annually of European business locations. It is also famous for a myriad of leisure and lifestyle events, such as West End musicals, the London Fashion Week and Wimbledon. London, and other global cities like New York, are renowned business hubs which are also on the list of “must-visit” leisure destinations for tourists. They are widely mentioned in both business and leisure media – cities that are equally at home in The Economist or Vogue magazines.

32. Our aspiration is for Singapore to join the ranks of these global cities with its own unique and sustainable positioning. Mr Christopher de Souza has passionately expressed his ethical concerns, and wanting an assurance that we will remain within certain boundaries. Let me assure Mr de Souza that we have not lost, and will not lose, our ethical bearings in this journey. The fact is opinion is somewhat divided on why the Crazy Horse cabaret in Singapore came to an end, and a good many may not agree with Mr de Souza’s analysis. But that’s besides the point. The key thing I would caution is that we do not extrapolate too much from this single episode and draw general conclusions. More importantly, what is our approach? It is to clearly define the boundaries, based on our social mores, so that investors are fully aware of our requirements and the limits. And we make no apologies for it. We make it very clear these are the boundaries. We

then leave it to the market to judge whether there is a commercial case. Or in Mr de Souza's language, whether it is "mission impossible" or "mission possible".

33. That is why, in proceeding with the Integrated Resorts (IRs), we put in place a robust and stringent regulatory regime to keep casino and other activities under control. All shows staged in Singapore are subjected to the guidelines for public entertainment and censorship set out by Police and MDA. The entertainment in the IRs will be subject to the same rules – no more and no less.

Need to anchor more lifestyle and leisure events

34. Singapore's reputation as a business and Meeting, Incentives, Conventions and Exhibitions (MICE) destination was further burnished by the recent successful hosting of the IMF/World Bank Meetings. We have also been nurturing and growing leisure and lifestyle events. The Barclays Singapore Open, World Gourmet Summit and Singapore Fashion Festival, for example, have grown in stature and popularity with each passing year.

35. Our efforts in creating more "buzz" in Singapore seem to be producing results. Recently, the Global Country Brand Index ranked Singapore second in the world for nightlife and dining. I think it came as a mild surprise to even some Members of this House that we had achieved such a high ranking. But the fact is that our leisure and entertainment scene is thriving and was given an added boost with the opening last year of Saint James Power Station and the more recent launch of the world's largest Café Del Mar in Sentosa. In January this year alone, Singapore hosted seven high-profile concerts including Eric Clapton (which I had the pleasure of attending), Korean sensation Rain (I didn't attend that) and the classical pop group IL Divo.

36. But as Mr Liang Eng Hwa has rightly pointed out, more can and needs to be done. While we continue to do well in international business competitiveness rankings, we fall short when it comes to leisure. In Travel and Leisure Magazine's Best City awards, Singapore is not even in the top 10 list of cities to visit in Asia.

37. To be known and seen as a truly global city, we must have an exciting and fun living environment offering not just a wide variety of quality lifestyle, leisure and entertainment options but also world class events.

Singapore may host Formula One Grand Prix

38. This is why we are taking a very serious look at hosting a Formula One Grand Prix in Singapore – an idea that both Mr Teo Ser Luck and Mr Liang Eng Hwa have raised. The F1 is the highest echelon of motorsports, and is said to be the 3rd-most watched sporting event in the world, after the Olympics and World Cup. It is also a glamorous event – one which is attended by sports and entertainment celebrities alike. In fact, the Formula One drivers themselves - such as Schumacher, Alonso and Raikkonen – and even the cars are celebrities in their own right.

39. Mr Teo Ser Luck asked whether we are willing to look at the long term strategic impact of events like F1, to take calculated long term risks rather than just short term gains (ROI) in deciding whether to bring them into Singapore. He said he gets “shivers”. I wish to assure him that there is no need to.

40. Mr Chairman, the answer is definitely “Yes”. We do and will continue to assess our tourism projects on the long term strategic benefits – economic and non-economic, tangible and intangible - that they bring to Singapore. In fact, the F1 is a prime example. The attention and buzz that it generates will expose Singapore to a very different audience from that in the business and financial world. It is a group we currently do not reach out to. An F1 race could also bring about broader tourism benefits and spill-over gains for associated industries such as hospitality, retail and travel.

41. For these reasons, Ministry of Trade and Industry has been studying, with various agencies, the feasibility of an F1 race in Singapore. An F1 race is a major financial undertaking for any business venture. It will require the Government’s financial and other support to be commercially viable. The Government is willing to support such a venture up to a level commensurate with the broader benefits to the economy. It is not a venture that we will support at all

cost and certainly, Government cannot do this alone without the strong support of key stakeholders and interested businesses, including hoteliers. In response to Mr Teo and Mr Liang, I would say that the prospects are good but there are still issues such as the commercial terms to be struck between a potential race promoter and the F1 Group, the level of support required from government, and the extent to which other stakeholders come forward with their support.

Conclusion

42. Mr Chairman, allow me to conclude by saying that the outlook for our tourism industry is good. To capture the growing opportunities in the Asia-Pacific region, we must be responsive to the needs of the industry, be prepared to revisit old assumptions, and dare to take risks where necessary. To achieve our aim of being a global city, we will need to transform Singapore into a vibrant and exciting lifestyle destination - a city that commands “top-of-the-mind” awareness amongst travellers as a place where locals and tourists alike want to live, work and play. Thank you.