

SPEECH BY MR S ISWARAN, SENIOR MINISTER OF STATE FOR TRADE AND INDUSTRY, DURING THE COMMITTEE OF SUPPLY DEBATE (MINISTRY OF TRADE AND INDUSTRY) UNDER HEAD V, ON MONDAY, 9 FEBRUARY 2009

“WORKING TOGETHER TO WEATHER THE DOWNTURN”

INTRODUCTION

1. I will supplement Minister's response by addressing some specific questions raised by Members which pertain to three broad issues, which are managing resource costs, boosting demand, and building capabilities for the future.

MANAGING RESOURCE COSTS

Energy: Keeping Costs Low Through Competition

2. Managing the cost of resources is an important concern for businesses, especially so in a recession. Let me start with the cost of energy, which Mr Heng Chee How has raised. As we import virtually all our energy supplies, Singapore is vulnerable to volatility in global energy prices. Competition in our power sector has been a bulwark against rising energy prices. Competition motivates efficiency and exerts downward pressure on prices.

3. Our experience since 2001, when we began to liberalise the electricity market, vindicates this approach. While fuel oil prices have risen by 143%, tariffs have risen by only 15%¹. More recently, household electricity tariffs fell by 25% in the first quarter of 2009 after peaking in the last quarter of last year. We can expect a further reduction in April for the second quarter, in tandem with global fuel oil prices.

¹ This compares the domestic electricity tariff in January 2009 over April 2001, when the electricity market was first liberalised. Figures do not include the impact of GST. The increase for the domestic electricity tariff inclusive of GST between April 2001 and January 2009 is 19.9%.

4. EMA will continue to study measures to inject more competition into the market. One example is the Electricity Vending System (EVS) which would allow households to purchase electricity direct from competing providers. EMA has commenced a pilot of the system which, if successful, will lead to its eventual implementation on a national scale.

5. In the interim, EMA is considering other steps to bring more benefits of competition to small consumers and households. One idea is for the power generation companies to bid for a portion of the domestic electricity load on a competitive basis. EMA expects to complete a detailed study of this proposal by the end of the year.

6. In October last year, I informed the House of EMA's plan to review the formula for setting household electricity tariffs. The current formula has served us well over the years by providing relative certainty and stability in an era of less volatile oil prices. The aim of the review was to enhance the formula given the greater volatility in global energy prices in recent times.

7. At present, fuel oil prices in the first month of the previous quarter are used to set the electricity tariff for the current quarter. Going forward, EMA intends to revise the formula by using the average of fuel oil prices in the preceding 3 months to determine the tariff for the current quarter. For example, the new formula would have used average fuel oil price from October to December last year, rather than just October, to set the tariff for the first quarter of 2009. This change will entail material adjustments to the hedging operations and processes of industry players.

8. The new approach has two advantages. First, it will help to reduce the volatility of the electricity tariff by averaging fuel oil prices over a longer period. Second, with a 3-month average, more recent fuel price data will be used to determine the tariff. This will allow the tariff to be more reflective of the prevailing market prices of fuel.

9. EMA will use the revised formula to set the electricity prices for the third quarter of 2009 and beyond, after consulting key stakeholders and industry players.

Land: Alleviating Costs, Enhancing Flexibility

10. I will now move on to land-related costs. Several Members, including Mr Heng Chee How and Mr Seah Kian Peng, have asked the Government to ensure that the savings from the 40% property tax rebate are passed on to current tenants. Some private-sector landlords like CapitaLand, Lend Lease, Mapletree, City Developments and Frasers Centrepoint have committed to pass on the property tax rebate in full or in part to their tenants. This will exert competitive pressure in the market and I urge more landlords to follow their good example.

11. Government has taken the lead by providing a 15% rental rebate for HDB, JTC and SLA tenants. Mdm Ho Geok Choo asked if the Government can double the rental rebates to 30%. Mr Chairman, a 15% rental rebate is, in fact, quite significant. It is more than 3 times what other lessees and tenants would enjoy even with a full passing through of the property tax rebate. This 15% rebate will provide savings of over \$300 million to some 31,000 companies in 2009.

12. Besides the rebates given by the Government, businesses are likely to obtain additional relief as rentals ease from their peak in the past one to two quarters.

13. Mr Ahmad Mohd Magad has suggested that JTC revive the construction of Ready Built Facilities (RBF). The private sector is well equipped to provide multi-user space, including RBF. About 80% of all new multi-user space is provided by a diverse group of players. They provide generic factory spaces of varying sizes in different localities, and at competitive price points. Market projections indicate that the multi-user space to be released over the next two years will be more than adequate to meet the net increase in demand. JTC will continue to monitor this closely to ensure that there is sufficient supply, which is I think Mr Ahmad Magad's concern.

14. I would like to assure Mr Inderjit Singh that JTC regularly reviews and benchmarks our industrial land costs against locations that compete with us. We stressed that our value proposition here is not just premised on cheap rental, but on the overall total system, cost and value. As a principle, JTC aims to lag the market for upward revisions and lead the market for downward adjustments. In fact, JTC proactively reduced its posted rents and prices by 5% to 10% in January this year. Combined with the rental rebates, all except 0.1% of JTC's tenants, who are on very short term tenancy agreements, will benefit from lower rents in 2009.

15. Mr Inderjit Singh and Mr Seah Kian Peng asked if JTC could relax the rule that allows JTC lessees to sub-let only up to 50% of their built-up space. First to clarify, this is not a new rule as Mr Inderjit Singh said. In fact, in 2003, this rule is already pre-existing and JTC relaxed this policy and allowed lessees to sub-let their entire gross floor area (GFA) as a short term measure to assist companies in financial difficulties because of the economic downturn. The policy was then re-instated in September 2008.

16. I think the rationale for the policy itself is self-evident. Mr Inderjit Singh identifies with it. JTC has to ensure that our limited industrial land is allocated and optimised to support our economy and its key industries. This is why majority-owner occupation must be the norm. At the same time, we want to give companies some flexibility: first, to put to productive use vacant space that may occasionally come about; and second, to facilitate co-location of related business activities where it makes economic sense. A 50% sub-letting cap enables JTC to achieve these twin objectives in a balanced manner.

17. However, I agree with Mr Singh and Mr Seah that in the current exceptional operating environment, the strain on a company's cash flow will be exacerbated if it is unable to sub-let any unutilised space. For this reason, JTC will temporarily lift the 50% sub-letting cap until 31 December 2011 as a relief measure to help businesses ride out the current downturn.

BOOSTING DEMAND: THE TOURISM INDUSTRY

18. Mr Heng and other Members have highlighted the problems posed by the sudden fall in global demand. I would like to use the tourism industry to illustrate how government agencies will partner the private sector to seek opportunities to boost demand where possible, a vertical approach which Minister talked about.

Facing a Challenging Environment from a Position of Strength

19. In 2009, the global tourism industry faces a difficult year. For Singapore, the Singapore Tourism Board (STB) forecasts total visitor arrivals to be in the range of 9 to 9.5 million, a year-on-year decline of 6% to 11%. The total tourism receipts generated is also expected to fall to a range of \$12 to \$12.5 billion in 2009², that's around a 15 – 18% decline.

20. Nevertheless, our tourism industry approaches this challenging period from a relative position of strength. Tourism projects secured in recent years will generate an estimated 3,000 new jobs this year. This is on top of the 9,000 jobs from the IRs in 2009, building up to 20,000 when the two IRs are completed. Our successful hosting of the world's first Formula One (F1) night race has captured the attention of the world and the international media with more than 110 million television viewers worldwide. The event also drew more than 40,000 overseas visitors and generated \$168 million in incremental tourism receipts, which exceeded our initial estimate of \$100 million. As expected, hotels across all tiers benefited substantially in terms of revenue per available room during the F1 race weekend. I would like to inform Mr Heng that the review of the plans for 2009,

² This is a year-on-year decline of 15.5% to 18.9%.

including the levy, is in its final stages and it will take into account this year's tourism outlook.

BOOST – Building On Opportunities to Strengthen Tourism

21. To secure demand for our tourism sector in the immediate to short term, and to build capabilities to capture the growth opportunities in the upturn, STB will roll out a \$90 million initiative. The acronym is BOOST - Building On Opportunities to Strengthen Tourism.

“2009 Reasons to Enjoy Singapore” Campaign

22. In the near term, STB will partner stakeholders in a targeted marketing campaign with the theme - “2009 Reasons to Enjoy Singapore” – which is a key initiative under BOOST. Travel patterns are expected to change in the current climate with a switch from long-haul to shorter haul trips. The campaign will target this potential higher intra-regional traffic from our key regional markets. STB will also reach out to our resident population as a complementary strategy to generate additional demand for our tourism sector.

Attracting Tourism Events

23. STB will also increase its support to strengthen bids to attract events to Singapore over the next two years. This will generate demand and yield spin-offs for the wider tourism sector, including our hotels and F&B businesses. STB will leverage on Singapore's reputation as a global business centre to target MICE³ events that are aligned to Singapore's economic priorities, such as digital media and environmental technology.

³ Meeting, Incentive, Convention and Exhibition

Some examples include the Anime Festival Asia and the inaugural Clean Energy Expo Asia, which are expected to attract more than 11,000 visitors.

BUILDING CAPACITY AND CAPABILITIES FOR THE FUTURE

24. Let me also elaborate how we intend to build our capacity and capabilities in the tourism sector - in terms of human capital, infrastructure, new growth areas, and R&D.

Investing in Tourism Manpower

25. As part of BOOST, STB will complement SPUR by providing more support for businesses to train and upgrade the skills of their employees under the TIP-iT scheme which already exists.

26. STB also strives to foster a business culture in the tourism sector that prioritizes service quality. Mr. Low Thia Kiang raised a question on dishonest retail shops. This, I agree, can tarnish the image of Singapore and undermine visitors' confidence. STB works closely with CASE to address such issues. In the first instance, STB takes a preventive approach to warn tourists against such retailers by publishing a list of errant retailers on STB's website and other marketing material. Now inevitably, some tourists will still fall prey to such errant retailers and STB investigates such complaints thoroughly and will also mediate on behalf of the tourist for refunds or exchanges, and if necessary, represent them at the Small Claims Tribunal. But I think if we can prevent it, it is far better.

Enhancing Tourism Infrastructure

27. STB also aims to rejuvenate our existing tourism infrastructure to enhance Singapore's attractiveness. Mr Low raised an example of Chinatown which highlights the balance that STB has to strike in developing tourism precincts – meeting the development and economic objectives on one hand without losing the charm and character, and I suppose the inherent “messiness” of the place, which many tourists and locals find quite attractive. STB actively engages key stakeholders in these precincts both on the development of the infrastructure and also on the softer aspects like activities to try to preserve the balance and keep it lively. In the case of Chinatown we work closely with the Kreta Ayer-Kim Seng Citizens Consultative Committee, and the celebrations we have for Chinese New Year is a good example of how this collaboration can be very successful.

28. Besides the IRs and Gardens by the Bay there are also plans to develop new tourism projects to augment our infrastructure in the two to three years. The new International Cruise Terminal will allow Singapore to tap opportunities in the Asia-Pacific region to grow our cruise sector. Wildlife Reserves Singapore will also be announcing a first-of-its kind attraction in the Mandai precinct, which will re-create river habitats from around the world. It will complement the existing attractions and strengthen the draw of Mandai as a destination for families.

Seizing Opportunities Clean Technology and Urban Solutions

29. As Ms Jessica Tan has mentioned, we do need to build capacity in new areas to support the future growth of Singapore's economy. Mr Edwin Khew has also enquired about our medium to long term plans to grow Singapore into a global Clean Tech centre.

30. As Mr Khew noted, many countries have moved aggressively into the Clean Tech space, and this will mean greater competition in our bid to attract globally mobile CleanTech investments to Singapore. At the same time, the increased global focus on environmental sustainability will create an even larger market share which we can access.

31. Singapore is well positioned to be a global leader in the CleanTech space. We are already recognised as a leader in the environment and water sectors. Our experienced and skilled manpower from existing clusters, particularly in electronics and precision engineering, have enabled Singapore to venture successfully into the clean energy space.

32. We have already attracted significant investments from major players like REC and Vestas. In addition, homegrown companies are also riding the Clean Tech wave. One example is Alpha Biofuels. Formed by three entrepreneurs, Alpha Biofuels collects and converts waste vegetable oil into biodiesel. Since its formation in 2004, it has grown significantly and now partners more than 100 establishments to convert their waste cooking oil into biodiesel. Despite the current downturn, Alpha Biofuels has recently moved from their research facility in ITE College East into a bigger factory at Tanjong Penjuru and has plans to expand beyond its current 3 retail outlets.

33. So, I would like to assure Mr Khew that Government takes a long term view of the clean energy sector. We have set ourselves an ambitious target to grow this sector to a \$1.7 billion industry in Singapore by 2015. Our plan for the clean energy sector has three thrusts: First, to develop a cluster of strong local and foreign companies; second, to build strong technological and manpower capabilities; and third, to help Singapore based

companies internationalise. In line with this, the Government will continue to invest heavily in R&D and test-bedding, to better position Singapore to capture the enhanced business opportunities that will arise with technological progress.

34. Our strategies will evolve in tandem with the competition from around the world in this space. First, we will ensure our regulatory regime keeps pace with developments. This will ensure that new technologies can be easily integrated into our energy ecosystem. Second, we will position Singapore as a “living laboratory” for test-bedding Clean Tech-based solutions applicable to urban settings. EDB will collaborate with government agencies to develop platforms that the private sector can use to test-bed cutting-edge urban solutions. Solar test-bedding, which Mr Khew mentioned, is one such example and once proven feasible in Singapore’s context, these solutions can be replicated on a commercial scale and exported to other cities.

CONCLUSION

35. Mr Chairman, I have highlighted some of the efforts we are undertaking with some key verticals and we are confident that our measures which are targeted at very specific sectors and their needs will help businesses manage both the immediate challenges, and also position them well for the eventual upturn, when it comes.