SPEECH BY MR LIM HNG KIANG,

MINISTER FOR TRADE AND INDUSTRY,

AT THE GLOBAL TRADER SUMMIT 2009,

TUESDAY, 26 MAY 2009, 9.15 AM

RAFFLES CITY CONVENTION CENTRE

Distinguished Guests,

Ladies and Gentlemen,

Good Morning.

It is my pleasure to join you at the Global Trader Summit 2009.

Global economy remains fragile

2 The global economy is facing one of the biggest challenges in history. The IMF estimates global GDP to have fallen by an unprecedented annual rate of 6.25 per cent in the final quarter of 2008[1]. It expects a further drop of 1.3 per cent this year before the global economy starts to recover in 2010.

3 Commodity prices have also seen acute correction as a result of the crisis. WTO announced in March that global trade volumes will fall 9 per cent this year, the strongest contraction since WWII. Reduced credit availability and higher cost of debt have affected demand and dragged down global growth drastically.

[1] Source: World Economic Outlook for April 2009

Asia's role in energy demand and supply

4 Despite the current economic climate, the Asian growth story remains intact. On a purchasing power parity basis, China, India and ASEAN together represent a quarter of the world's economy[2]. From being export-led, regional trade and consumer consumption are now an integral part of Asia's growth. The regional economic integration of Asia presents new opportunities for all of us.

5 Increasingly, consumer consumption in Asia is changing the landscape of the global commodities market. Just take a look at the consumption of energy. The Asia Pacific region will see a significant growth in its energy consumption in the years ahead. On the other hand, energy production in the Asia Pacific is expected to decline from 8 per cent of global output to just 5 per cent. As such, with demand exceeding supply, trade will play an important role to ensure sufficient and efficient distribution of energy to this region.

Singapore's position as Asia's oil hub

6 Singapore intends to capitalise on this projected growth to further strengthen our position as Asia's top oil trading centre. Our strengths include being the world's top bunkering hub, with close to 35 million tonnes of marine fuel delivered in Singapore[3] in 2008 as well as the expansion of our storage capacity to 8.3 million cubic metres.

7 The Approved Oil Trader (AOT) Programme was started in 1989 to encourage global companies to locate their trading activities in Singapore. Now known as the Global Trader Programme (GTP), it has not only consolidated Singapore's position as an oil trading centre, but has also enabled several companies to grow together with us.

[2] Source: World Bank International Comparison Programme
[3] Source: http://www.mpa.gov.sg/sites/global_navigation/news_center/mpa_news/mpa_news_detail.page?filename=nr090422b.xml

8 One example is international player Vitol Asia. Established in Singapore in 1979, Vitol Asia has since grown exponentially, with turnover increasing over 40-fold to reach some 30 billion US dollars. Another example is home-grown company Hin Leong Trading. Since starting operations in 1973, it has expanded its business in oil storage, and is responsible for building Asia's largest oil storage facility with PetroChina.

9 Twenty years on, we have made significant progress. Last year, the oil trading sector remained robust, with companies under the GTP transacting some 509 billion US dollars of physical oil products, a 31 per cent increase from 2007. We have also crossed the 100 mark for companies trading in energy products under the GTP this year.

New companies in the oil sector

10 Although 2009 will be a challenging year, Singapore's oil sector continues to grow in dynamism and depth as new global companies come onboard. I am pleased that three leading oil players have recently set up their Asian oil trading operations in Singapore. They are Opet Trade, Sahara Energy International, and Socar Trading. Opet is part of Turkey's Koc (*pronounced "Coach"*) Group, which is the country's leading conglomerate with extensive interests in energy, retail and consumer goods. Sahara is one of the largest privately-owned oil producers in Nigeria, which is the 4th largest oil producer in OPEC. Socar is a unit of Azerbaijan's state-owned oil and gas company which produces nearly one million barrels of crude oil per day. In all, these three companies are expected to contribute 30 billion US dollars in turnover, 1.1 billion Singapore dollars in business spending and employ over 60 people in the next five years.

Building on our lead

11 Buildling on our position as Asia's top oil hub, we hope to strengthen our standing as the ideal commodities trading base as well in the areas of energy, carbon and commodity derivatives.

Energy

12 In the area of energy, in Aug 2006, Singapore announced that it would be importing liquefied natural gas (LNG) to diversify our energy sources. The import of LNG creates greater opportunities for LNG trading in Singapore, boosted by our strategic location along the major shipping lanes. With LNG, our gas-using companies could potentially arbitrage between PNG and LNG prices to unlock value for themselves. Companies will also have the opportunity to conduct LNG trading. Then in May 2007, Singapore announced that for the next 10 years, there will be a special tax rate of 5% specifically on LNG trading income. We recognise the economic potential of LNG trading which is why we hope that the fiscal measures such as the introduction of the special tax rate of 5% specifically on LNG trading income will also facilitate the development of Singapore's LNG project.

13 Apart from establishing the necessary infrastructure, we also need to deepen our knowledge base. The CWC Group, which organises the annual World LNG Summit, will be hosting the first Next Generation LNG Conference in Singapore next month. Supported by the Energy Market Authority and IE Singapore, this LNG event will look at Global Trading, Pricing, Innovation, Supply and Demand with a focused interest on Asia. It will provide senior executives the opportunity to network and exchange insights on the Asian LNG trading and supply landscape.

Carbon

14 Second, in the new area of carbon trading, the global carbon market was estimated at more than 60 billion US dollars in 2008[4]. Former World Bank environmental policy Chief Ian Johnson predicted that this market could be worth 500 billion US dollars by 2020[5].

[4] Source: State and Trends of the Carbon Market, World Bank 2008
[5] Source: IDEA Carbon

15 With clear trends in the growing importance of carbon and emissions trading, Singapore hopes to participate in this dynamic new sector by leveraging our strong financial infrastructure and oil trading environment to attract companies to set up their carbon trading operations in Singapore under the GTP. In that context, the GTP was enhanced in 2007 to include emissions under the list of qualifying physical commodities that companies can transact in under the GTP.

16 I am pleased that we are making some headway. Sweden-based Tricorona, the second largest buyer of emission allowances[6] has set up its global hub in Singapore. Amongst other functions, the company will manage all sales and marketing activities on carbon credits out of Singapore. Key personnel will be relocated to Singapore to oversee procurement and risk management functions.

17 Similarly, energy major BP recently commenced emissions trading out of Singapore. BP's carbon trading team here will set the strategy for the development and growth of emissions trading activities, trading policies, and provide management guidance in this region. This development reinforces Singapore's position as one of BP's key global trading hubs alongside London, Chicago and Houston.

Commodity Derivatives

18 Third, there is scope for Singapore to embark on a broader strategy to develop the commodity exchanges and clearing facilities in Singapore, both of which contribute to our risk management infrastructure. The rapid development of China and India has increased demand for basic commodity products in recent years, resulting in a proliferation of domestic commodity exchanges in both countries.

[6] Ranked by the United Nations' Environment Programme Risoe Centre on Energy.

19 One would have expected Asia to benefit substantially from the brisk activities in China and India. However, the highly fragmented nature of Asian markets, characterised by diverse domestic laws and regulations, coupled with the speculative nature of the domestic exchanges, limits the effectiveness in price discovery, risk management and hedging. Hence, despite having some of the fastest growing economies and being the largest producer and consumer of a number of key commodities, Asia still does not have a commodity exchange to rival the likes of ICE and CME. Many producers, buyers and trading companies in Asia still transact and make reference to established contracts in Europe and the US.

20 A commodity exchange based in Asia with contract specifications and delivery tailored to Asian requirements will boost trading within the Asian time zone. We have seen developments on this front in Singapore recently. For example, Financial Technologies is establishing the Singapore Mercantile Exchange (SMX) to be Asia's first multi-product global commodity derivatives exchange. Another boost will come from the collaboration between the Singapore Commodity Exchange (SICOM) and the Indian National Commodity & Derivative Exchange (NCDEX) for initiatives such as cross listing of products.

21 There are obviously opportunities here for Singapore to take advantage of. IE Singapore and Monetary Authority of Singapore will continue to support the development of the commodity derivatives market here, such as continued support of the exchanges' efforts in developing and launching new products, training and manpower development, research & development, as well as infrastructure & technology development.

22 The Singapore Exchange has been active in the development of new commodity products. Recently, it launched the world's first over-the-counter iron ore swap for clearing on its AsiaClear platform. To date, it has attracted strong interest from investors, with over 23 million US dollars of contracts cleared.

23 I am also pleased to announce that the Singapore Exchange will launch a fuel oil futures contract in the second half of 2009. This will further develop the fledgling commodity derivatives sector in Singapore and strengthen our commodities trading hub status. This contract will offer fuel oil and marine fuel buyers, sellers, investors and traders a new instrument to hedge and participate in the fuel oil derivatives market. Given Singapore's position as the world's largest marine port, this new contract will complement our physical trading and boost our risk management infrastructure.

Talent Development

24 Even as the trading infrastructure and product range are continuously enhanced, the development of talent cannot be neglected. To encourage companies to continue training and upgrading manpower during difficult times, IE Singapore will launch the International Trader Development Fund to partially defray course fees for companies that send their staff to the International Trading Institute for professional education courses. Under this fund, trainees can enjoy up to 70 per cent support in course fees. Some 260 trainees are expected to benefit from this initiative over one year.

Conclusion

25 Even as we grapple with the challenges of the current environment, our vision for Singapore to be a global commodities trading hub remains unchanged. We will continue to work in positioning Singapore for a strong recovery and build our foundation for long-term growth.

26 Now in its third run, the Global Trader Summit continues to be a key platform to engage industry leaders and share the latest developments in the industry. I encourage all participants to tap on this event to exchange ideas and seek partnership opportunities. I wish all of you a fruitful and rewarding conference.

Thank you.