



**Speech by Ms Kathy Lai, Assistant Chief Executive Officer,
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Developing Singapore as a Coal Trading Hub in Asia

1. Distinguished guests, ladies and gentlemen, good morning. I am honoured to be at Coaltrans 2012. I would like to express my appreciation to the event organiser for bringing this prestigious forum to Singapore and for inviting me to join you today.
2. We are glad that Coaltrans has decided to choose Singapore as the location for the inaugural Asia Coal Trading Forum. For Singapore is at the heart of 'Asia's New Coal Trading Frontier' – the theme of your conference this morning.
3. Today, we are operating in a new and uncertain environment where global shifts and fundamental changes are happening as we speak.
4. The global economic outlook remains uncertain with Europe's prolonged fiscal crisis and America's weak resuscitation from the 2008 financial crisis. IMF is also likely to revise forecast for global economic growth downwards.
5. Regardless, Asia is expected to be the key engine to drive and sustain global economic growth in the mid to long term. Growing in tandem will be the consumption of energy in Asia. This growth has already had a tremendous impact on the global commodities market.
6. Coal is already the largest source of electricity generation globally. According to the International Energy Agency (IEA), global demand for coal will continue to

expand over the next five years due to surging power generation in Asia Pacific, particularly in China and India. Coal will remain an attractive fuel source to these emerging economies. It is one of the most abundant sources of energy as compared to oil and natural gas, and is also affordable when compared to other fuels.

Singapore's attractiveness as a coal trading hub in Asia

7. Singapore is in a unique position to participate in Asia's growth story and capture the growing coal trade flow. Given our proximity to the top 2 seaborne coal exporters, Australia and Indonesia, as well as demand markets of China, India, Japan and South Korea. Singapore is strategically situated at the centre of the coal demand and supply movements. Coal producers, trading companies and consumers who want to be close to their customers would find Singapore an ideal location to base their trading operations.
8. Singapore benefits from its long history as a trading centre. We are also a highly competitive economy supported by excellent trading infrastructure.
9. Singapore is well connected to major markets by air and strategically located at the crossroad of major sea shipping routes. There are around 100 airlines flying from Singapore to over 200 cities in about 60 countries and territories worldwide. We also have the second busiest port in the world which has won numerous accolades for its efficiency, competitiveness and reliability.
10. In just over four decades, Singapore has established a thriving financial centre of international repute, serving not only our domestic economy but also the wider Asia Pacific region. A key aspect of Singapore's financial centre is our deep and liquid capital market, which is one of the most well established capital markets in Asia Pacific. The Singapore Exchange (SGX) is also the preferred listing location of close to 800 global companies.
11. Beyond financing, another important aspect of commodities trading is risk management. The evolution of commodities trading market typically develops from an active physical market and often leads to an establishment of an over-

the-counter (OTC) paper market and finally a transparent and efficient exchange-traded futures market. In Singapore, we benefit from a sound and stable regulatory framework, a conducive business environment and a well developed financial centre have supported our development as a key hub for commodity derivatives trading and risk management. Singapore is well regarded as Asia's leading OTC commodity derivatives trading hub, accounting for more than 50% of Asian volumes.

12. Singapore continues to build our role as a risk management hub. There are currently two commodity derivatives exchanges in Singapore: the Singapore Mercantile Exchange (SMX) and the Singapore Exchange (SGX). The SMX, owned by India's Financial Technologies (FT) Group, is a multi-product commodity derivatives exchange offering a basket of commodity derivatives, including futures and options contracts on precious metals, base metals and indices.

13. Specifically on coal derivatives, SGX has launched contracts to cater to a growing need by industry participants to use an Indonesian sub-bituminous coal reference instead of the traditional Newcastle price index for physical and financial derivatives transactions. The SGX Indonesian Sub-Bituminous Coal Swap contract, a world's first, aims to help industry players mitigate counterparty risk, enlarge the pool of counterparties, and provide better liquidity and pricing, thereby facilitating market efficiency and growth. On top of that, SGX also launched the OTC CFR South China Coal Swap last month to meet the demand of the industry for an effective hedging tool with counterparty risk mitigation in China. The launch of the two OTC coal swaps for clearing on SGX's clearing platform, AsiaClear, has helped to reinforce Singapore as a derivatives trading and risk management centre in Asia. Besides coal, SGX AsiaClear also clears other bulk commodities. In fact, SGX launched the world's first OTC iron ore swap clearing in April 2009 and has remained the market leader in this space. I should also mention the existence of other trading platforms. Global Coal is here in Singapore offering an online coal trading platform to physical coal players.

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14. Singapore has also emerged as a major offshore insurance centre. Today, we have over 60 direct insurance and reinsurance brokers based in Singapore. They underwrite more general offshore insurance than general insurance for the domestic market. Singapore based insurers are increasingly offering specialised lines such as credit insurance, aviation, energy, terrorism and political risk.
15. Singapore also has an efficient and reliable legal system. The Singapore International Arbitration Centre (SIAC) is a well-respected arbitral institution with a record of enforcement. SIAC's arbitration awards have been enforced by the courts of Australia, Hong Kong, India, Indonesia and the USA.
16. Besides the supporting trade infrastructure and services, Singapore also offers a cosmopolitan, open and safe environment for global traders and executives to work and live in. In Mercer Quality of Living Survey 2011, Singapore is the top-ranked Asian country in terms of safety and quality of living, beating cities such as Tokyo and Hong Kong. Indeed, Singapore's quality of life, business certainty and connectivity to the rest of the world are some reasons that have attracted talents to Singapore.
17. Singapore has been chosen by many companies to be the location for their "control towers" from which they can manage their pan Asian operations. This is in part due to our extensive network of international agreements – There are 68 Double Taxation Agreements (DTA), 18 Free Trade Agreements (FTA) and 39 Investment Guarantee Agreements (IGA). These agreements render preferential treatment and a degree of protection and certainty to the operations and investments of companies domiciled in Singapore.
18. Our efforts have reaped results. Singapore has steadily built up a vibrant trading hub. Today, we have the largest trading community after New York, London and Houston. The community in Singapore are active across energy, metals and agricultural commodities.

19. Singapore has attracted some of the largest coal companies. For instance, Xstrata, BHPB and Noble Group have their coal operations here. American mining companies like Peabody Energy and Arch Coal have also positioned themselves here to take advantage of Asia's burgeoning demand for coal. Regional players such as Adaro from Indonesia and Adani from India; and even utility companies such as France's EDF and Japan's Chubu Electric have also set up their trading arms in Singapore. We therefore have a unique eco-system of coal players, comprising traders, producers, consumers and service providers. To make this eco-system more vibrant, we are continually courting more Asian players from China, Korea, India and Japan to base their trading operations here.

Players in Singapore

20. Interestingly, we are seeing the emergence of home grown players entering the coal sector. For example, KTC Group, established in 1988, is one of the largest earthwork contractors in Singapore. Given its strength in earthworks, KTC found an opportunity to venture into Indonesia as a mining contractor. KTC started to partner mine owners to whom they are providing mining services. Under such partnerships, KTC is often authorised to explore and mine from the concession, as well as to market the output.
21. Sembcorp Utilities is another Singapore company that has diversified into the coal industry. It has invested in a 1320 megawatts coal-fired power plant project in Andhra Pradesh, India. This power plant would require 5 million tons of coal per annum, of which 30% would need to be imported into India.
22. There are also other Singapore companies which are keen to service the mining industry. Companies such as Hyflux and GMAPS have the technology that offer much needed water solutions. Hyflux, capitalising on its patented membrane technology, has clinched several high profile projects in Algeria and China, including building the world's largest desalination plant in Magtaa, Algeria. For coal producers who are acquiring mining assets in neighbouring countries, these companies are keen to be partners for water and other environmental solution for mining operations.

23. To support the needs of the commodity players, the Singapore Government has invested in nurturing the next generation of trading talents and in R&D for the sector. IE Singapore initiated the International Trading Institute (ITI), with the Singapore Management University and a number of industry partners in 2006. Since then, about 400 industry executives have gone through training at the ITI; and over 100 young graduates of the SMU had taken modules designed by the ITI to merit a mention of their specialisation in international trading in their finance degree. These graduates have since joined the commodity trading and related industries.
24. Minerals, Metals and Materials Technology Centre (M3TC) is a department under the National University of Singapore with support from the Singapore Economic Development Board. M3TC supports R&D developments for the Minerals, Metals and Materials industrial sectors. The researchers have embarked on several projects related to the coal mining industry. For example, development of cost effective and energy efficient technique of drying low rank coal. Rio Tinto and BHP have plans to grow their Exploration teams in Singapore. We hope that the knowledge, experience and technological prowess of industry players as well as the local research institutes, will position Singapore as Asia's premier coal hub.

Developments in Singapore

25. Finally, it may be of interest for me to describe some of the developments in Singapore with regard to our energy needs.

26. As a small, resource-constrained country, Singapore is an energy price-taker and will continue to be exposed to shifts and fluctuations in global markets. On one hand, Singapore has to ensure that energy does not become a limiting barrier for Singapore's economic competitiveness and growth. On the other hand, we have to play our part in reducing carbon emissions as a responsible member of the global community. To balance these commitments, Singapore has to be innovative in our energy use.

27. At present, Singapore is heavily dependent on gas for electricity generation – About 80% of our electricity is generated by gas-fired power plants. In the medium term, Singapore is exploring alternative fuels as well as electricity imports to diversify our energy portfolio. While gas fired plants are among the most efficient and gas is the cleanest fossil fuel, Singapore's high level of gas dependency leaves us vulnerable to price fluctuations and supply disruptions. Furthermore, the indexation of Asian natural gas prices to the price of oil means that cost of electricity in Singapore will be affected by higher and volatile global oil prices.
28. The Energy Market Authority is looking at electricity imports of up to 600 megawatts starting from 2017. Electricity imports will allow Singapore to gain access to new energy options that may currently be unavailable to us such as coal and hydro. Moreover, since overseas power producers have access to lower cost fuels, labour and land, we would be able to buy electricity at competitive prices.
29. On another development, TUAS Power, the third-largest power generator here in Singapore, plans to build a \$2 billion steam and electricity production plant. It will be the first plant here to run on 80% clean coal and 20% biomass, ensuring the efficient and non-polluting use of coal to provide electricity to industries on Jurong Island. The company will procure around 13 million tons of coal over the next 15 years from Indonesia's PT Bayan Resources, and South Korea's Samtam Co. Ltd. The coal bio-mass plant would be operational next year. This is an exciting development because this plant will pave the way for usage of clean coal combined with other fuel sources.
30. We believe that technology can help us overcome energy challenges. Coal is the most important fuel producing electricity around the world, but it is also the most controversial since coal is the greatest source of CO₂ of all fuels. While coal is contentious, coal consumption is growing. However technology is reshaping its prospects. Carbon Capture and Storage (CCS) can potentially alleviate the environment impact of conventional coal fired power generation.

31. The Institute of Chemical and Engineering Sciences (ICES), under the purview of Agency for Science Technology and Research (A*STAR), is currently developing novel technology in the area of CCS. ICES is developing absorption-based technology for post combustion capture of CO₂ from power plant flue gas. They are also exploring cost and energy efficient methods for trapping CO₂ emissions at source. Lastly, ICES is developing catalysts for substitute natural gas (SNG) production from biomass and coal derived synthetic gas.

Conclusion

32. To conclude, we are indeed at an exciting phase in history and we would like you to participate in this Asia growth story through Singapore. Singapore is a great location for companies seeking to expand their Asian footprint.
33. I encourage all present today to use this excellent platform to network and explore collaboration opportunities. Lastly I would like to wish the organisers success for this conference.

Thank you.

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