Input IEA/IETA/EPRI-Workshop 27./28.09.05
Emissions Trading in Switzerland

The envisaged domestic emissions trading is a voluntary scheme based on the federal CO_2 law, which stipulates legally binding reduction targets for energy related CO_2 emissions. To comply with the overall reduction target of minus 10 percent by 2008-12 compared to 1990 emission levels, the Federal Council adopted an incentive tax of 35 Swiss francs (~23 €) per tonne of CO_2 on heating and process fuels. The tax rate, however, has yet to be approved by Parliament. To that aim, consultations are scheduled for winter 2005 and spring 2006.

To set up a cap and trade scheme based on existing legislation the introduction of the CO_2 tax is a precondition. It serves as a framework for commitments to be legally binding and to address non-compliance.

The emissions trading scheme is primarily designed for companies seeking exemption from the CO_2 tax by signing a legally binding commitment to reduce their energy related CO_2 emissions. Allowances are allocated gratis according to negotiated CO_2 caps for 2008-12, which are derived in a bottom-up approach. In a first step, the company's situation in the base year – preferably 1990, if possible – is analysed regarding energy consumption and technology used. Taking into account CO_2 relevant measures already implemented and output projections for 2008-12, the technically feasible and economically viable reduction potential is assessed. New entrants with state of the art technologies and no reduction potential are required to offset emissions by domestic mitigation projects and by CDM/JI credits (latter up to a maximum of 30% of their total emissions).

Negotiations with big emitters (> 250'000 t CO_2 p.a.) are carried out directly with government offices. All other entities submit their application via the privately run Energy Agency for the Economy. Applications are subject to a formal audit procedure consisting of desk reviews and random visits. To date, targets have been agreed with some 300 entities operating among others in the cement, ceramics, glass, pulp & paper, limekilns, chemical industry, sugar mills, food & beverage, appliances producers, graphic arts industry, textile finishing, foundries, aluminium, steel, plastics, solvents and machine industry. Applications of some 200 entities more are underway. The emissions trading scheme is expected to cover nearly 40 % of industry's total CO_2 emissions, amounting to 5 Mt CO_2.

As of 2008, emission allowances equalling the emitted amount of CO_2 are to be retired annually. An internet based monitoring system to submit energy and emissions data in a standardised format is up and running. Emissions allowances not needed for compliance can be sold or carried-over to future commitment periods. To cover excess emissions, allowances have to be acquired on the domestic or international market. In case of non-compliance retroactive payment of the CO_2 tax plus interest for each tonne of CO_2 emitted since tax exemption is imposed as a penalty.

Regarding an efficient emissions trading scheme, Switzerland is highly interested to enhance market liquidity and explore ways to link the Swiss system to other emerging and existing schemes. For this purpose, a technical meeting with experts from the EU Commission is planned for October this year.

In June 2005, the Federal Council decreed the use of the flexible mechanisms and the supplementarity rule. In total, project based credits and allowances from other domestic emission trading schemes (e.g. EU-ETS) should not exceed 50% of Switzerland's reduction commitment under the Kyoto protocol compared to 1990 emissions. Companies with binding reduction targets are allowed to cover up to 8% of their reduction target with credits. Sink projects using GMOs or invasive alien species are excluded from crediting.

The Swiss Government as of today has no intention to acquire credits using the flexible mechanisms. The major actor in the market is expected to be the private "climate cent" foundation launched by the Swiss Oil Association. The foundation will levy a surcharge on motor fuels (app. 0.01€/liter of gasoline and diesel). The revenues of this non-governmental surcharge (app. 65 m €/year) is intended to be used for project funding inside and outside Switzerland. The bulk of reductions will be achieved through the project based mechanisms. The "climate cent" foundation will be allowed to use credits from CDM/JI up to 8 $MtCO_2eq$ over the commitment period.