

Emissions trading in Switzerland

The Kyoto Protocol

On 11 December 1997, at the UN Climate Conference in Kyoto, Japan, 167 member states of the Climate Convention adopted a supplementary protocol to the United Nations Climate Framework Convention on Climate Change (UNFCCC). The so-called Kyoto Protocol which came into force on 16 February 2005, stipulates mandatory limits for the emission of greenhouse gases.

By the beginning of 2011, the Kyoto Protocol had been ratified by 191 states including the European Union. Apart from the USA and Canada, most industrialised nations have joined the Protocol.

The Kyoto Protocol aims at a reduction in the emissions of greenhouse gases in industrialised countries, as such emission is seen as being responsible for global warming. Within the first so-called first commitment period between 2008 and 2012, the Kyoto Protocol planned for an average reduction of emissions of 5.2% compared with 1990 levels. No reduction goals were stipulated for threshold and developing countries. After several rounds of negotiations at the Climate Conference in 2012 in Qatar, the participating states agreed to extend the Kyoto Protocol to 2020 ("Kyoto II"). However, within the framework of the extension the states did not commit themselves to binding reduction objectives. Only voluntary targets were registered. In addition, the states agreed to increase financial support for developing countries and to develop a new agreement by 2015 which is to come into force by 2020. This new agreement is to include the developing countries as well. Some of the big nations with high emissions values such as Japan, the USA, Canada and Russia are not involved.

The CO²-Act

For the first commitment period of the Kyoto Protocol, Switzerland had undertaken to reduce emissions of greenhouse gases by 8% below the level of 1990. Switzerland implemented its obligations in the CO²-Act which came into force in 2000. The CO²-Act provides for a reduction in the energy-related CO² emissions between 2008 and 2012 by an average of 10% compared to 1990 levels. For this, objectives for fuels (reduction of 15%) and for propellants (reduction of 8%) were stipulated.

The CO²-Act was totally revised by 1 January, 2013. In this way, Switzerland has voluntarily committed itself to a 20% reduction in the emissions of greenhouse gas by 2020 (against 1990).

Emissions trading in Switzerland

One of the measures which the CO²-Act provides for in relation to the reduction of greenhouse gas emissions is emissions trading. This is intended to promote as efficient a reduction of emissions as possible by reducing emissions where costs are low.

The emissions trade in Switzerland works on a "cap-and-trade" scheme: The amount of disposable emissions rights is limited by a "cap" which is set lower every year. The disposable emissions rights are distributed to the companies participating in the emissions trade which can then "trade" the rights. Companies emitting less than they have been allocated in emissions rights can sell dispensable rights on the market. Companies with higher emissions have to buy additional emission rights. Apart from those rights which are voluntarily sold by other companies, the Swiss Federal Office for the Environment (FOEN) auctions additional emission rights several times each year.

Large companies (from 20MW installed capacity) are obliged to participate in emissions trading. Medium-size companies (from 10MW installed capacity) may join on a voluntary basis. The companies affiliated to the emissions trading system are exempt from the CO²-levy.

Allocation of emissions rights

Annually, the FOEN allocates as many emission rights free of charge to the companies participating in the emissions trade as are necessary for the efficient operation of a particular company. Benchmarks define the maximum amount allocated per unit of a particular product produced (e.g. 1.514 emission rights per ton of aluminium, where 1 emission right equals the emission of one ton of CO²).

The benchmarks conform to the average emissions of the most efficient 10% of the plant. In order to guarantee the same competitive conditions as within the EU, the same benchmarks are used in the Swiss emissions trading system as in the EU emissions trading system.

In addition, the amount of emissions rights is multiplied by an adjustment factor. The adjustment is intended to prevent energy-intensive sectors from relocating their production to foreign countries due to high costs (so-called Carbon Leakage). The adjustment factor amounts to 1 for most of the companies within the Swiss emissions trading system. For some companies it is 0.8 (ref. 2013) and is reduced linearly to 0.3 in 2020.

Reduction of emissions in foreign countries

Companies which attain a reduction in emissions in a foreign country may, under certain circumstances, have this credited in Switzerland. However, the allowable amount is limited and a certificate for the reduction in emissions in accordance with the Kyoto Protocol must be issued. Apart from that, certain quality criteria according to the CO²-Act have to be fulfilled.

Link to the EU's emissions trade

The EU operates a different system of trade in emissions to which Switzerland has so far not been linked. Approximately 12'000 companies with annual CO² emissions of about 2 billion tons participate in the EU system. In Switzerland, about 50 companies with CO² emissions of approximately 6 million tons participate in the emissions trade.

Participation in the EU system of emissions trade clearly offers a more cost effective reduction potential due to the size of the market. The small Swiss market impedes trade and pricing which is subject to severe fluctuations. By linking the two trading systems, possible competitive distortions between Swiss companies and European market participants would be minimised. In order to facilitate a future link, the regulations of the revised CO²-Act were largely formulated so as to be compatible with the regulations of the EU emissions trading system.

Since 2011, Switzerland and the EU have been negotiating a link of their emissions trading systems. In December 2013, a fifth round of negotiations took place in this matter. The delegations to the negotiation have further refined the existing draft of a bilateral agreement on emissions trade, notably resolving numerous technical provisions. Originally, the next round of negotiations was set for March 2014.

After the EU stopped negotiations with Switzerland in various dossiers¹, it remains unclear at present when and whether the conclusion of an agreement can be expected.

Conclusion

Switzerland has committed itself to reduce greenhouse gas emissions by 20% against the level of 1990. In order to accomplish the planned reduction, Switzerland operates a system of emissions

¹ The Swiss electorate adopted the Popular Initiative "against Large-Scale Immigration" on 9 February 2014. The new constitutional provisions connected to this require that immigration is limited by quota. As a result, the EU has suspended negotiations in various areas.

trade. By being linked to the EU's emissions trading system, the Swiss system would profit from a bigger market with more stable prices and competitive distortions in comparison to European competitors could be minimised. Already, the negotiations for the conclusion of a pertinent bilateral agreement between Switzerland and the EU are well advanced. However, because of recent political developments in Switzerland, it is not possible to predict whether, and when, an agreement will be concluded.

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