



Linking the Swiss Carbon Market with the European Union Emissions Trading System: Risks and Chances

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In December 2011, the United Nations Climate Change Conference in Durban, South Africa, came to an end. After tough negotiations, the 195 Parties to the United Nations Framework Convention on Climate Change (UNFCCC) agreed on a few key outcomes. Besides the launch of a process that should give rise to a binding agreement to take effect in 2020 and the formal implementation of a Green Climate Fund, the European Union (EU) and other developed countries (including Switzerland) committed themselves under a second period of the Kyoto Protocol which starts next year and ends either in 2017 or in 2020.

As they did for several years, both the EU and Switzerland will rely predominantly on a cap-and-trade system to achieve their reduction targets for the second commitment period. Although the reduction targets are not finalized yet, the EU and Switzerland pledged to reduce their greenhouse gas emissions by 20% to 30% compared to 1990 levels.

The basic principle of the European Union Emissions Trading System (EU ETS) is similar to the Swiss Emissions Trading System (CH ETS): The overall greenhouse gas emissions of the covered installations may not exceed a defined cap. For this purpose, market participants receive emission allowances which they can sell to or buy from one another as needed. Yet, a more detailed analysis brings out several significant differences. While the EU ETS covers some 11.000 high-emitting installations, the CH ETS includes only around 400 businesses.* Contrary to the EU ETS, these 400 businesses participate in the cap-and-trade system on a voluntary basis. After all, the EU ETS applies to aviation which is currently not considered by the CH ETS.

* The 11.000 installations that are covered by the EU ETS are responsible for roughly half the 4.9 Gt CO₂ eq. emitted annually by the EU. The CH ETS applies to around 6.5% of the 52 m tons CO₂ eq. emitted annually by Switzerland.

In March 2011, the European Commission and the Swiss government entered into negotiations on the linking of the EU ETS with the CH ETS. Although, the linking is considered beneficial by both parties, it shall be taken into account that the project comprises risk potential as well. The talk at the CJEL Writers Forum 2012 aims at identifying the differences between the EU ETS and CH ETS as well as the risks and chances that come along with the linking of the two systems.