

CARBON MARKET BUSINESS BRIEF

SWITZERLAND

SWISS ETS AT A GLANCE

Years in operation	2008-12: Voluntary phase 2013-20: Mandatory phase 2021-30: Mandatory phase
Overall cap & trajectory	2020 cap for stationary installations was 4.9 million tCO _{2e} . The cap reduces by 130,747 tCO _{2e} each year, which is 2.2% of 2010 emissions. The 2020 cap for aviation was 1.3 million tCO _{2e} . It reduces annually by 2.2% with 2020 as the base year
Target(s)	N/A
Emissions Reduced to date	N/A
Sectors covered	<ul style="list-style-type: none"> • Combustion of fossil-fuel • Refining of mineral oil • Production of coke • Roasting or sintering, including palletisation, of metal ore • Production of pig iron or steel • Production or processing of ferrous metals including ferro-alloys • Production of primary and secondary aluminium • Production or processing of non-ferrous metals • Production of cement clinker • Production of lime or calcination of dolomite or magnesite • Manufacture of glass • Manufacture of ceramic products • Manufacture of mineral wool • Drying or calcination of gypsum • Production of pulp • Production of paper or cardboard • Production of carbon black • Production of nitric acid • Production of adipic acid • Production of glyoxal and glyoxylic acid • Production of ammonia • Production of bulk organic chemicals • Production of hydrogen and synthesis gas • Production of soda ash and sodium bicarbonate
GHGs covered	CO ₂ , NO ₂ , CH ₄ , HFCs, NF ₃ , SF ₆ and PFCs
# of covered entities	51 stationary installations plus six aircraft operators

Allocation method	<p>The design is similar to the EU ETS, with a list of sectors at risk of carbon leakage receiving free allocation, with annual adjustments from changes in activity levels. Switzerland has yet to implement the product benchmarks used in the EU, with alignment expected to be implemented by 2022 at the latest.</p> <p>Remaining allowances are auctioned, with auctions taking place two or three times a year. Auction results are reported in euros following the link to the EU ETS.</p>
Trading rules	There is a holding limit of 1 million allowances (CHUs and EUAs collectively). This is the maximum amount that each account holder can keep at any one time, whether in one account or spread across multiple accounts.
Use of offsets and linking	<p>Offsets cannot be used for compliance.</p> <p>The Swiss ETS linked to the EU ETS in January 2020, which means that CHUs are fully fungible with EUAs.</p>
Other features (eg banking, borrowing, reserves, etc)	<p>Banking within and across phases is allowed without limits, whereas borrowing is not allowed.</p> <p>Swiss legislation foresees the possibility of reducing auction volumes when there is a significant increase of allowances in the market. If this happens, unauctioned allowances will become invalid. The Swiss ETS will not adopt the EU ETS Market Stability Reserve.</p>
Penalties for non-compliance	The penalty for failing to surrender sufficient allowances is set at CHF 125/tCO ₂ . In addition, entities must surrender the missing allowances in the following year.
Use of revenues	Revenues from auctioning allowances are fed into the federal government budget.

MAJOR DEVELOPMENTS

On 1 January 2020, the link with the EU ETS became operational and marked the first international treaty to link emissions trading markets. For the link to happen, the scope of the Swiss ETS had to align with the EU and therefore had to expand to include power generation (even though Switzerland currently has no thermal generation plants) and civil aviation. The emissions from domestic flights within Switzerland and flights from Switzerland to member states of the European Economic Area are now included.

From 2020 onwards, installations in the Swiss ETS have been able to use allowances from the EU ETS for compliance, and vice versa. In order to transfer allowances between the two systems, a link between the EU and Swiss emission trading registries has been established. At present, a provisional solution is in place that allows transfers of allowances between the two registries to occur on certain predefined dates. The first of these was 29 September 2020, followed by a further nine dates in 2020. For 2021, transfers will generally take place twice a month, with some additional dates before the compliance deadline of 30 April and the delivery date of the most liquid derivative contract for allowances in December. A total of 29 dates have been chosen across the year. At some point, the provisional solution will be replaced by a permanent direct link which will allow the continuous transfer of allowances.

In line with the EU ETS, 2021 marked the start of a new phase of the Swiss ETS, the implementing legislation for which was adopted in November 2020. This enacted a number of changes to further align the system with the EU ETS, including a revised linear reduction factor of 2.2%, the implementation of updated EU ETS benchmarks by 2022 at the latest, and an indefinite extension of the system. The Swiss ETS is embedded in the partially revised “Federal Act on the Reduction of CO₂ Emissions (CO₂ Act).” This is the key piece of Switzerland’s climate legislation and entered into force in January 2021.

MARKET COMMENTARY

Due to the small size of the market, there is limited secondary market trading for CHUs. Instead, the main form of price

discovery comes from allowance auctions, which are held several times a year.

The first two auctions of 2020 were due to take place from 9–11 March and 8–10 June. However, both of these auctions were annulled because the clearing price differed significantly from the corresponding price in the secondary EUA market. At the time, prices in the EU ETS were experiencing significant volatility as the COVID-19 crisis was becoming apparent.

Since then, three auctions have occurred:

- November 2020: cleared at €23.31
- December 2020 (for aviation allowances): cleared at €26.50
- March 2021: cleared at €39.25

USEFUL LINKS

[ICAP Swiss ETS](#)

[Swiss Emissions Registry](#)

[World Bank Carbon Pricing Dashboard](#)

REFERENCES

[Factsheet: Linking the Swiss and EU emissions trading schemes](#)

[Federal Act on the Reduction of CO₂ Emissions \(CO₂ Act\)](#)

[Ordinance on the Reduction of CO₂ Emissions \(CO₂ Ordinance\)](#)

[FOEN: Swiss ETS](#)

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