Key facts

The CO_2 tax has been levied as an incentive fee on fuel since 2008. Its objective is to promote the economical use of fossil fuels. Two thirds of the annual tax revenue of approximately CHF 1 billion is redistributed to households and companies. Around one third goes to the building programme and the technology fund.

Fixed production facilities which produce large amounts of greenhouse gasses can be exempted from the tax by means of exemption arrangements. Exemption was introduced as a measure so that the CO_2 tax would not endanger jobs in Switzerland, in particular due to the relocation of production abroad. Exempt companies must in return either take part in the Swiss emissions trading scheme (ETS) or make emission reduction commitments to the Federal Office for the Environment (FOEN) (non-ETS area). The tax is levied on 51% of the CO_2 emissions from fossil fuels. Around 33% is regulated in the ETS and 16% comes from companies with target agreements.

With this evaluation, the Swiss Federal Audit Office (SFAO) wanted to find out to what extent the law on fuels is less effective due to tax exemptions for big emitters. The examination focused on the ETS and the evaluation of the current incentives to reduce participating companies' CO_2.

Swiss emissions trading scheme generates hardly any incentives for reductions

The ETS is based on the idea that companies with low costs for reducing CO_2 emissions will take over the reduction performance of those companies for which this would be very costly. Accordingly, the ETS provides the platform for trading emission allowances below the specified upper limit. However, actual trading activity in the ETS has been minimal in the first three years of the commitment period from 2013-2020. In its analysis of the current workings of the ETS, the SFAO came across a series of regulatory shortcomings which call its impact into question.

The high number of emission allowances allocated free of charge together with the current low emission allowance prices create few reduction incentives for ETS participants. In addition, due to the unexpected production stoppage at the Tamoil refinery, the third biggest CO_2 emitter in Switzerland, there are enough emission allowances available in the current commitment period. The pressure on ETS participants to reduce CO_2 levels has thus practically vanished. This situation is exacerbated by the eligibility of foreign emission certificates. Even if no additional emission allowances were to be auctioned, the number already allocated meets the needs of the permitted emissions below the upper limit up to 2020.

Furthermore, companies are confronted with planning uncertainty. This includes, for example, changes in emission allowance prices in the wake of a link-up between the Swiss and EU ETS, as well as unresolved issues concerning entitlement to hardship solutions and transferral of unused emission allowances to the new commitment period.

The SFAO recommends that the FOEN propose an appropriate control mechanism at the legislative level whereby over- or undersupply of the market can be responded to and unused emission allowances can be removed from the system.

Going it alone should be reconsidered

The Swiss ETS is globally the smallest in terms of trading volumes. The loss of production of big individual emitters or sharp production fluctuations can have a severe impact on a small system and its emission-reducing efficacy. In addition, most of the ETS companies are exposed to international competition. Against this backdrop, the link-up sought between the Swiss and European ETS would appear to be understandable and reasonable.

However, should this link-up not come to fruition within a reasonable period of time, the SFAO recommends that the FOEN should examine alternatives to the Swiss ETS going it alone.

Redistribution of CO_2 tax to exempted companies questionable

In the 2013-2020 commitment period, even companies exempt from the CO_2 tax benefit from the redistribution of the CO_2 tax in line with their wage bills although they themselves did not contribute to it. In some cases, the amounts to be redistributed are substantial. In certain cases, the cost of purchasing emission allowances up to 2020 is covered in full.

The SFAO recommends that the FOEN propose a legislative amendment which would exclude redistribution to exempted companies in the future.

Concerning fuel consumption, the statistics do not allow for an assessment of the reduction amount based on the three measures CO_2 tax, ETS participation and reduction obligations (non-ETS) at present. In addition, various reference systems impede a transparent assessment of the effective reduction performance.

The SFAO recommends that the FOEN identify more transparently the effective greenhouse gas emissions from fuels within the scope of the individual instruments and contrast these with the objectives.

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