

Evaluation of the CO₂ tax exemption for companies committed to reducing their emissions

Federal Office for the Environment and Swiss Federal Office of Energy

Key facts

In Switzerland, a CO₂ incentive tax is charged to businesses and households for their use of fuels for energy purposes. Companies in energy-intensive sectors can claim exemption from the tax if, in return, they undertake to reduce their greenhouse gas emissions. The aim of the exemption is to avoid a loss of international competitiveness and job losses in Switzerland, particularly in the manufacturing industry. By 2022, 1,233 plant operators had chosen this option. The Swiss Federal Audit Office (SFAO) examined the operation and effectiveness of the reduction commitments since the entry into force of the CO₂ Act in 2013.

The SFAO concluded that the reduction commitment is an important instrument in the effort to reduce greenhouse gas emissions and that it is well accepted. Businesses appreciate it, as it requires them to make investments that are profitable in the short to medium term. These investments enable them to save energy and therefore reduce their costs. They also appreciate the support provided by the implementing bodies.

However, the instrument needs to be better designed. The requirements for exempt companies are low: they have remained unchanged since 2013, even though the CO₂ tax has tripled since then. The Federal Office for the Environment (FOEN) should begin revising the CO₂ Ordinance to set more ambitious targets for businesses.

Modest impact but high costs

Exempt businesses reduced their greenhouse gas emissions by an average of 19% between 2013 and 2020. This performance is in line with that of the manufacturing industry as a whole. The result is disappointing in view of the level of the tax exemption from which they have benefited. This amount exceeded CHF 900 million for the entire period 2013 to 2020. The efforts of the exempted companies are not in question, as they have exceeded their targets. The majority of businesses are making every effort to comply with the federal requirements, even though the penalties for failing to meet targets are low. Until 2021, if they exceeded the target, they could also receive certificates worth between CHF 50 and CHF 100 per tonne of greenhouse gases saved. Between 2013 and 2020, businesses received certificates worth an estimated total of CHF 100 million.

Potential simplifications in implementation

The commitment made by a business is based on an initial analysis of its potential for investment in energy measures. The SFAO recommends that this analysis should focus more on the greatest investment potential. In addition, during the period of their commitment, the companies are monitored by an external energy adviser. This monitoring was imposed on them without any clear basis. The SFAO recommends clarifying the monitoring requirements and taking greater account of the skills available within the businesses to carry out this monitoring.

Governance problems

The reduction commitments are integrated into the energy target agreements that businesses can sign with the Swiss Federal Office of Energy (SFOE). The combination of the two instruments is intended to reduce the administrative burden on businesses. The SFOE and the FOEN must work closely together to coordinate implementation.

Two private bodies, the Energy Agency of the Swiss Private Sector (EnAW) and act, the Swiss cleantech agency, support the FOEN and the SFOE in implementation. The agencies are responsible for supporting businesses and creating a network of energy advisers. They subcontract most of the energy consultancy work to third-party companies.

The way in which implementation is organised is not transparent and leads to problems of governance, particularly with regard to the awarding of energy consultancy contracts. Some of the agencies' employees are also employed by the subcontracting companies. Supervision by the FOEN and the SFOE is also inadequate. For example, it is not possible for them to determine whether the fees charged to the businesses reflect the actual costs. Nor do they have access to all the information needed to check that the EnAW is not building up excessive reserves. The EnAW charges lower fees to businesses that are members of their founding associations, which is contrary to the principle of equal treatment laid down in the service agreement with the Confederation.

The SFAO recommended that alternative ways of organising implementation be examined to solve the problem of subcontracting, and that supervision be strengthened.

Reduction commitments are limited in view of the net zero target

The Federal Council's dispatch on the revision of the CO₂ Act for the period after 2024 provides for an extension of the reduction commitments until 2040. The opportunity to participate in the reduction commitments will be extended to all businesses. In addition to the current provisions, businesses will be required to submit a plausible decarbonisation plan every three years. From 2040, the reduction commitments will no longer apply and the CO₂ tax will be due. The idea is to encourage businesses to adopt decarbonisation measures in order to avoid paying the tax after 2040.

The reduction commitment requirements in force at the time of the audit were not sufficient to achieve the net zero target. Reduction commitments require businesses to make profitable investments within a relatively short timeframe. Decarbonisation, on the other hand, requires large-scale investments with a long amortisation period. An SFAO survey of businesses showed that almost all of them expect difficulties in achieving net zero.

At the time this report was written, the revision of the CO₂ Act was being considered by Parliament. The effects of the planned measures cannot be estimated ex ante. The impacts of the revised reduction commitments on greenhouse gas emissions and their contribution to decarbonisation should be closely monitored. The SFAO is of the opinion that the instrument's impact should be assessed regularly, at most every five years.

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