

## **Thesis:**

# **“Regulatory Issues in the Carbon Market. The Linkage of the Emission Trading Scheme of Switzerland with the Emission Trading Scheme of the European Union”**

## **Abstract**

The aim of the Emission Trading Scheme of the European Union (EU-ETS) is to reduce greenhouse gas (GHG) emissions as cost-efficiently as possible. Therefore, a linkage with trading schemes in third countries was foreseen since its inception.

Likewise, the new Draft CO<sub>2</sub>-Act of 23 December 2011 foresees a linkage of the Emission Trading Scheme of Switzerland (CH-ETS) with the EU-ETS. While a linkage does not present any technical obstacles, the controversy is of political nature. The main argument of proponents is the ample supply of cheap emission units from the EU-ETS for emitters in Switzerland. The opponents argue that this money invested in climate friendly technology would have a more sustainable result. They fear that linked trading schemes degenerate to the mere selling of indulgencies with limited environmental benefit.

Indeed, the benefits of a linkage of the CH-ETS with the EU-ETS are not as clear-cut as they may seem. In terms of compliance with the GHG emission reduction targets of the Kyoto Protocol, the question of a linkage is of marginal importance. Given the current coverage of both the EU-ETS and the CH-ETS, the major reduction burden rests anyway on Non-ETS sectors. Differences in allocation methods, offsetting rules and compliance provisions may result in competitive distortions and distributional implications with unintended environmental and economic consequences.

The linkage of the CH-ETS with the EU-ETS may still be desirable and effective as a political sign of commitment to concerted international climate action. Yet, carbon markets will only become an effective tool to combat climate change if an adequate balance between regulation and efficiency is achieved, guided by clarity and transparency.

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