Switzerland 23.03.2015

Joint implementation
and approaches to assist host Parties
in achieving their commitments under the Kyoto Protocol

SBI 42

Switzerland would like to submit its views on Joint Implementation (JI) as requested by decision 5/CMP.10 for consideration under SBI. Submissions have been requested on examples of voluntary technical approaches, designed by host Parties for their joint implementation projects, that could assist the host Parties in achieving their quantified emission limitation or reduction commitments under the Kyoto Protocol.

Switzerland is not a host country of JI projects and does not intend to become one. As of 1st January 2013 Switzerland has set restrictive criteria on the use of Emission Reduction Units (ERUs) by Swiss companies to meet their emission reduction objectives under the Swiss CO_2 legislation[1]. Therefore, the use of ERUs by Switzerland to meet its quantified emission limitation or reduction commitments (QELRC) under the second commitment period of the Kyoto Protocol is very limited.

Switzerland has put in place a domestic offset scheme to reduce its emissions domestically in order to achieve its QELRC under the second commitment period of the Kyoto Protocol. This domestic offset scheme got inspired by the purpose, the concept, the rules and the procedures of JI. It works very similarly to JI, except for the international dimension that does not apply.

Switzerland has established a domestic offset scheme as one of the instruments that will contribute to mitigation actions within its national territory. Indeed, Switzerland has committed to a QELRC under the second period of the Kyoto Protocol and has defined in a national law (the CO_2 Act) that these emission reductions will be achieved almost entirely on its national territory.

Rationale for offsetting approaches that assist Parties in meeting their own mitigation commitments

Offsetting approaches are cost-effective instruments for Parties to reduce emissions. In addition to identifying low abatement cost opportunities, these approaches can be designed in the host country's interest to assist the host country to achieve its own national mitigation contribution/commitment.

[1] http://www.bafu.admin.ch/certificates-climate

Assisting the host country to achieve its own national mitigation contribution/commitment can be done mainly in two ways:

a) By using an international offset scheme such as JI, where the host country keeps a part of the emission reduction at home to meet its emission reduction commitments. Therefore, the host country does not credit the entire emission reduction. It issues fewer Emission Reduction Units (ERUs) than the emission reductions that have effectively occurred.
b) By establishing a domestic offset scheme, where the emission reductions achieved by a stakeholder/sector that has to reduce its emissions according to the national law achieves emission reductions in another sector of the economy in the country.

In both cases, an offset scheme can be used or designed in a way that fosters emission reductions beyond a pure offset logics. The pure offset logics involves that an emission reduction achieved in one country allows the increase of the emissions in another country.

Going beyond a pure offset logics means that the instrument serves a double purpose:

a) For an international offset scheme (such as JI if used as described above), the instrument can assist both the host country and the international partners (the buyer countries) to achieve their respective mitigation contributions by sharing the mitigation outcome.
    - The host country which benefits from the green investments on its own territory keeps a part of the emission reductions for its own mitigation commitment.
    - The buyer country (countries) benefits from lower marginal abatement costs than at home when they use the carbon credits towards their mitigation commitment.
b) For a domestic offset scheme (such as the Swiss domestic scheme), the various national stakeholders that have national emission reduction targets to meet through emission reductions at home can benefit from lower marginal abatement costs than in their own sector, while at the same time keeping all the emission reductions to meet its mitigation objective nationally.
    - This allows mitigation action by the private sector in their own country, in areas of the economy that are not already covered by energy and climate policies/regulations or for activities that achieve reductions beyond these policies/regulations.
    - In addition, it allows to keep the benefits of these green investments at home. This results in ambitious mitigation action at home as requested by the Swiss Parliament in the CO_2 Act.

In the Swiss domestic offset scheme, the Swiss authorities play a facilitative role. It is a host country-enabled and private sector-driven technical approach that mobilises private finance for additional mitigation action through a system that is supervised by the host country authorities.

Switzerland considers additionality checks and transparency as key elements for ensuring that:

- units issued under its domestic offset scheme are credible and therefore bear environmental and economic value
- its domestic offset scheme effectively contributes to achieving emission reductions at home that supports its endeavour to meet its emission reduction commitment.

Regarding these elements, Switzerland considers that its domestic offset scheme differs from JI. Indeed, especially Track 1 of JI has often been implemented with little transparency and flawed additionality demonstration, which have strongly undermined the environmental integrity of this instrument.

In addition, Switzerland considers these international and domestic mechanisms of going beyond the pure offset logics as increasingly important as more and more host countries need to achieve national contributions/commitments. In Switzerland's view, this also applies for the Clean Development Mechanism (CDM) which should be reformed so as to support host countries in achieving their mitigation contributions/commitments while ensuring that there is no double counting between host and acquiring countries. In this perspective, the design and use of JI, CDM and new market mechanisms discussed under the Convention should ensure that these flexibility tools fit in the post-2020 context.

Context of the Swiss domestic offset scheme

The revised CO_2 Act, the cornerstone of Swiss climate policy, came into force on 1 January 2013. It sets an emissions reduction target for 2020 and sets out various measures for buildings, transport and industry.

In this context, both importers of motor fuel and operators of fossil thermal power plants are required to compensate for CO_2 emissions. The federal government has set the compensation requirements for such projects in an ordinance, so-called CO_2 Ordinance.

Person/companies which import motor fuels are required to use domestic measures to compensate for 10% of the CO_2 emissions caused by the combustion of these fuels by 2020. This represent 1.5 million tons CO_2 by 2020. The compensation rate will be raised in three steps and amount to: 2% for 2014 and 2015; 5% for 2016 and 2017; 8% for 2018 and 2019; and 10% for 2020.

Fossil thermal power plants, such as combined cycle gas plants, must fully compensate for their emissions. The compensation projects must aim to cut domestic emissions at least by half. Power plant operators may compensate for up to 50% of the generated emissions by purchasing foreign certificates. Plants may only be approved if the operators first enter into a compensation agreement with the federal government.

Persons/companies which import motor fuels and operators of fossil thermal power plants may carry out their own projects or acquire attestations (Swiss offset certificates) for domestic compensation projects. The CO_2 Act requires the federal government to issue attestations for voluntary domestic emission reductions. The CO_2 Ordinance sets out the requirements for these emissions reduction projects. These attestations are not interchangeable with internationally traded certificates such as Kyoto certificates.

The attestations may be sold to companies that are required to compensate for their emissions. Each attestation represents one ton of CO_2eq. The price of the attestations may amount up to 160 CHF (i.e. the amount of the sanction to be paid for each ton of CO_2eq that is not compensated). For example, for district heating, the price of one ton of CO_2eq reduced is 100 CHF (approx. 100 USD). Given the limited number of attestations currently available on the Swiss market, it is a rather unliquid market now.

For additional information: www.bafu.admin.ch/climate .

Description of the Swiss domestic offset scheme

Just like international projects, compensation projects in Switzerland must follow a specific procedure. The critical step in this procedure is to demonstrate that the reductions are additional and would have not been achieved without the project. Attestations are issued only for the voluntary measures that are taken in excess of the statutory requirement for limiting emissions. This means that the emission reductions must go beyond existing climate and energy policies. There are already a lot of subvention schemes in place that aim for the reduction of greenhouse gas emissions and energy efficiency. It is crucial to distinguish between the effect of existing schemes and the effect of the attestations. Only reductions can generate attestations, if they can be seen in the national greenhouse gas inventory of Switzerland. The additionality is checked by the Federal Office for the Environment (FOEN) and the Federal Office of Energy (SFOE) which take jointly decisions on the registration of projects as well as on the strategic developments of the scheme. This additionality check is crucial in ensuring that the domestic projects do not result in the issuance of more attestations than the quantity of emission reductions taking place. Otherwise, Switzerland would need to reduce its emissions even more through the other instruments in order to achieve its national emission reduction objective.

For the time being, projects in the following categories are eligible: energy-efficiency (in terms of supply and demand); renewable energies; mobility management; wood products; biofuels with high quality standards; projects that reduce emissions of methane, nitrous oxide or fluorinated gases. Small projects can be bundled. Projects can also be carried out as programs.

Projects which are not permitted include: nuclear energy projects; forest projects; projects involving CO_2 storage in geologic sequestration sites; projects to convert from petrol- or diesel-driven vehicles to natural gas-driven vehicles (with the exception of vehicle fleets); conversion from oil-fired heating systems to gas-fired heating systems; indirect emissions reduction by means of research and development and information and advisory services. They are listed in an annex of the CO_2 Ordinance.

All projects must be validated by a validator approved by FOEN at the applicant's own expense. Project monitoring reports must be verified by a verifier approved by the FOEN. Companies interested in performing validation or verification activities can apply for approval at any time.

Currently (March 2015), there are 50 projects registered, 15 are in evaluation. The *ex ante* estimations of emission reductions for 2020 are 450'000 tCO_2eq. Main types of projects are biomass related district heating, biogas and energy efficiency projects.

For additional information: www.bafu.admin.ch/projets-compensation-ch .

Similarities between JI and the Swiss domestic offset scheme

The Swiss domestic offset scheme contains the same elements and purpose of JI (Track 1 for many of these elements) except for the international dimension of JI, namely:

- national standards for eligibility and quantification of emission reductions;
- national standards for ensuring eligible reductions are additional and show up in the national inventory (MRV);
- national procedures for approving emission reduction activities, verifying emission reductions;
- issuance of units resulting from these activities, in the form of Swiss attestations that are tradable on the Swiss carbon market through the Swiss national registry;
- national actors for performing the above-listed functions (validation and verification), similarly to the UN-accredited entities (Accredited Independent Entities);