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IEA COMMENDS SWISS ENERGY POLICY, BUT ADVISES MORE FOCUS ON ECONOMIC EFFICIENCY

"Switzerland is to be commended for its comprehensive energy policy, embodied in the SwissEnergy programme," said William Ramsay, Deputy Executive Director of the International Energy Agency (IEA) at the launch today in Berne of *"Energy Policies of IEA Countries – Switzerland 2003 Review."*

He also said that: "There is a clear commitment to energy security through oil stocks well exceeding the 90 days obligation and the recent referendum on nuclear energy is significant because it allows the government to pursue energy policies aiming at the 3Es."

The country still faces a number of challenges however. Policies and measures in the SwissEnergy programme, even if fully implemented, may not suffice to achieve the country's ambitious climate change target. While respecting the results of a referendum on the Electricity Market Law in September 2002, it is essential to increase efficiency in the energy sector. The government should continue informing the citizens about policy issues and the consequences of their vote.

Climate Change Mitigation

Of the IEA's 3 Es (energy security, economy and environment), environmental issues take priority in Swiss energy policy. Switzerland intends to use energy policy measures as a means of achieving its Kyoto target of an 8% reduction in greenhouse gas (GHG) emissions below 1990 levels by 2008 to 2012. SwissEnergy aims to reduce carbon dioxide (CO_2) emissions by 10% below 1990 levels, through a 15% reduction in the consumption of combustibles and an 8% reduction for motor fuels. Measures proposed to achieve these targets include the development of voluntary commitments (VC's) and voluntary agreements (VA's) with industry. Other measures of SwissEnergy include promotional activities and information dissemination programmes for industry, as well as regulations and standards for buildings, vehicles and electrical appliances. A CO_2 "incentive" tax will be imposed if these fail to achieve adequate reductions.

SwissEnergy has been conscientiously monitored for energy consumption, public expenditure, private investments, employment impacts and the cost-effectiveness of the measures. But statistics show that despite considerable efforts, these policies and measures may not suffice to achieve the Kyoto target or the more stringent national target for CO_2 reductions. Swiss energy-related CO_2 emissions increased by 5.6% during the period 1990 - 2001. These may fall if and when the CO_2 "incentive" tax is imposed, but work needs to start promptly if the tax is to be introduced in the near-term. The Report recommends that the government should further develop emissions trading and other flexible mechanisms, even if these are only supplementary alternatives to domestic reductions. Or, a portion of the tax revenues could be devoted to purchasing GHG emissions permits on the international market.

Nuclear Power

Two initiatives, "Electricity without Atoms" and "Moratorium Plus", aimed at phasing out nuclear power, were rejected in a public referendum in May. Consequently, existing nuclear plants can be run as long as security allows and new plants submitted to public vote if a referendum is requested. This accords with the IEA recommendation to keep the nuclear option open. The decision brings economic benefits and helps Switzerland meet its climate change objectives and avoid a growing dependence on imported fossil fuels. Switzerland has interim storage of waste from nuclear energy production at

Zwilag, with sufficient capacity for the expected lives of the current operating fleet; however disposal options still need to be defined and the government must continue to develop solutions.

Energy Prices

Energy pricing and taxation should be reviewed. Swiss heating oil prices are among the lowest in OECD Member countries, partly due to the unduly low share of the tax component. This encourages neither energy saving nor the use of alternative energies with lower CO_2 emissions. Gasoline prices in Switzerland are lower than in neighbouring countries, leading to some "fuel tourism".

Natural gas prices however, are among the highest in IEA Member countries owing to the topography, market size, low connection density and the fragmented market structure. These factors discourage market penetration of natural gas.

Electricity prices in Switzerland, particularly for small- and medium-sized enterprises, are higher than the European average. This is partly due to the taxes and charges set by the cantons and municipalities. Concerns exist about the efficiency of the operation of many publicly-owned small utilities and their considerable profits. The current price-setting mechanisms lack transparency and enable cross-subsidies from one consumer group to another. Some electricity is supplied free of charge or at low cost to local authorities, thereby jeopardising energy efficiency.

Market Reform

The Electricity Market Law proposal was rejected in September 2002 despite a broad political consensus. While respecting the result of the vote, the government should continue to incite competition in the electricity market. This would increase economic efficiency and avoid discrepancies in the development of the Swiss market compared to those of its neighbours. Competition could be introduced in the wholesale market by allowing distribution companies and the largest consumers to choose their suppliers. An independent regulator and an independent transmission system operator should be established with a strong mandate to increase competition without jeopardising security of supply. The transmission system operator should manage the transmission system and cross-border trade and transit more efficiently. Effective unbundling is necessary to ensure transparent and non-discriminatory third party access.

The gas industry wants to enable access within the current legislation, which allows negotiated third party access to high-pressure networks. This is commendable, but the government should monitor the market more actively and establish effective dispute resolution mechanisms, in order to ensure transparent, fair and fast network access for both incumbents and new entrants. Routes to appeal should be defined and decisions should come into force immediately in order to avoid incumbents delaying network access, for example, by entering into lengthy court processes.

Journalists may obtain review copies of ***Energy Policies of IEA Countries – Switzerland, 2003 Review*** from the IEA Public Information Office in Paris.

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