A carbon horse race: Abatement subsidies vs. permit trading in Switzerland

JournalArticle (Originalarbeit in einer wissenschaftlichen Zeitschrift)

ID 4626114
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Year 2021
Title A carbon horse race: Abatement subsidies vs. permit trading in Switzerland
Journal Climate Policy
Volume 21
Number 3
Pages / Article-Number 290-306
Keywords Climate policy, emissions tax, emissions trading, subsidies, command-and-control, Switzerland.
Swiss climate policy consists of three regulatory instruments for greenhouse gas emissions reduction: A CO2 levy, the Swiss Emissions Trading System (CH EHS) and an additional program for medium-sized plants that is labeled “nonEHS” and consists of command-and-control elements plus a sizeable abatement subsidy. Our paper informs about this tripartite climate policy, which is unique in the international context. Second, we estimate the differential impact of the CH EHS and the nonEHS program on plants' emissions. Our empirical strategy exploits a policy change in 2013 that instituted a mandatory emissions trading system for a subset of previously regulated plants. We find that the nonEHS outperforms the CH EHS for a minority of plants, but that on average, the two programs result in similar abatement efforts despite very different financial incentives. Plants that previously engaged in abatement efforts continue to do so even after the financial incentives were reduced by an order of magnitude.

Publisher Taylor & Francis
ISSN/ISBN 1469-3062 ; 1752-7457
edoc-URL https://edoc.unibas.ch/84590/
Full Text on edoc Available;
Digital Object Identifier DOI 10.1080/14693062.2020.1846485
ISI-Number WOS:000600465300001
Document type (ISI) Article