

Policy interaction between the EU Emissions Trading System and the Renewable Energy Directive

The EU energy and climate package for the year 2020 contains three climate and energy goals: a 20% reduction of greenhouse gas emissions, a 20% increase in share of renewable energy, and a 20% increase in energy efficiency, which are called '20-20-20' targets. The first two goals and associated legislative proposals were launched simultaneously and as part of a package. When the EU Directive for the emissions trading system (ETS) was revised for the period 2013-2020 (Phase III), the effects of the Renewable Energy Directive (RED) on the ETS were taken into account, assuming a renewable energy (RE) target to be set at 20%.

This means that neither the RED nor the revised ETS Directive was enacted in a vacuum and the impact assessment for the 2020 package was duly conducted with the assumption of coexisting energy and climate policies in place. Now, based on the improvement in data availability and experiences with Phase I (2005-2007) and Phase II (2008-2012) of the ETS, we have obtained a better understanding of how energy and climate policies may interact under different political and economic circumstances.

It is increasingly recognised that there are possible detrimental effects of 'overlapping policies' that target the same sector, such as electricity. Using this insight, we can draw lessons for enhancing the performance of the ETS and safeguard the system against external pressures under unforeseen circumstances. The latest ETS reform proposal for Phase IV (2021-2030) (EC 2015a) provides us with an excellent opportunity to review the current designs and respond to the challenge in a more systematic way.

The analysis in this working document of the RED effects on the ETS is based on the existing literature, including ex post evaluations of consecutive ETS Phases, and defines the scope in the following three aspects:

1. It limits the period of literature survey coverage to what was published by the EU and member states in the five-year period from 2011 to 2015, enabling us to include some ex post assessments of the ETS during Phases I and II; CARISMA Working Documents Series No. 2, October 2016
2. It focuses on two main sources of literature, one from the research sector (both scientific and policy research)¹ and the other from market participants (the power and trading sectors); and
3. It examines the effects of the EU RED on the EU ETS in terms of 'overlapping policies'.

This analysis not only looks at the policy and policy instruments but also at targets such as the RE target and the target for the ETS sector, which are crucial drivers for change in this particular case study.

Author: [Noriko Fujiwara \(CEPS\)](#)

The full Working Document can be downloaded from the [CARISMA project website](#).

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