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European Commission
Public Consultation on
Green Paper
“A 2030 framework for climate and energy policies”

Reply from NASDAQ OMX Commodities

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NASDAQ OMX welcomes the opportunity to comment on the consultation on the Green Paper A 2030 framework for climate and energy policies. In our response we have focused on the questions that have been most relevant from a market place perspective, that is policy targets, mechanisms and instruments.

Please find our comments below.

4.1. GENERAL

Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

Lessons learnt from the 2020 framework:

- 1) One of the striking failures from 2020 framework from the market point of view has been the lack of flexibility on European authorities' side to intervene in a situation where the market conditions dramatically changed. For example, EU has failed several times to establish a level of ETS cap on emissions that was adequate in a given market situation. Such inadequacy has led to the collapse of carbon price. Strong leadership and autonomy in decision-making from EU authorities will be an important prerequisite in the future framework.
- 2) In our view the three "headline" targets from 20-20-20 framework have been in conflict with each other. A progress with one objective has had a negative impact on the others. In particular the renewables and efficiency goals have been undermining the EU ETS market as the increase in renewable energy reduced the demand for the EU allowances and weakened the carbon price. We recommend setting one strong emission target in the future energy and climate policies. Alternatively, there should be improved coherence between the multiple targets where the positive outcomes are not tangled.
- 3) We believe that uncertainty about the future political decisions linked to the targets, mechanisms and instruments have been devastating for the energy and carbon markets as it have impeded low carbon investments. The chief sources of uncertainty that we can identify are: the short horizons for the EU ETS phases; the moving EU emission target of 30% that hung upon the global agreement; unknowns and risks at the transition period between the phases; incessant problems linked to functioning of emission registries that have had an impact on allocation, security of transfer units and trading in allowances. In order to increase market confidence we suggest to set up a long term horizon for targets and to decouple EU energy and climate targets from the global climate treaty.
- 4) As an international market place for emission trading, we have observed lack of coordination between different Member States in terms of the readiness to trade in the allowance market. The level playing field between industry sectors across EU has been far from perfect as well. We think that in the future the coordinated EU level approach would work better through binding EU targets with little or no room for national interpretation of legal texts.
- 5) As the first exchange in Europe that offered EUAs and CERs trading we have been involved in daily physical delivery to and from the emission registries. Since the very beginning in 2005 we have been dealing with frequent malfunctions of the systems, administrative burdens and bureaucratic barriers that have hampered emission trading. We recommend that the

infrastructure that follows the policy mechanisms is given deeper consideration in the future framework.

- 6) A few market instruments have failed in terms of homogeneity and fungibility across Member States, for instance the different rules for usage of Kyoto Protocol units for ETS compliance across Member States. Improved coordination between EU and Member States is needed in the future framework.

4.2. TARGETS

Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?

As mentioned above we would recommend one major target for the future (2030 or further) and preferably linked to emission reductions. The target should be legally binding in the sense that non-compliance should be followed by sanctions. We recommend it is applied at the EU level. Any national targets may be encouraged but must be subject to approval from EU authorities so as they do not conflict or interrupt in the EU policy objectives. This precondition is particularly important concerning larger EU States like Germany, UK, Spain and Italy, where the impact of their national policies on the neighbouring countries will be considerable. We also believe that some of the industries that face similar problems in terms of global competition will benefit from holding to industry standards matched with global standards of the same industry worldwide.

Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

As we have already mentioned in 4.1. 2), we have observed several target inconsistencies in the current framework. As an example of the incoherent policy approach within EU we can point to the consequences of independent national schemes motivated by the 20 % renewables target. The boom of schemes has led to the tremendous increase in renewable energy generation across EU. On the one hand it has helped EU Member States in reaching to the target. On the other hand it has raised doubts linked to intermittency of generation and grid/capacity inadequacies. These are followed by the uncoordinated actions to tackle the problem not proven to exist. EU energy market seems to be crumbling again due to the above mentioned. The coherence will be improved by setting one superior EU wide target and subordinating any national policies to it.

Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO2 reductions for passenger cars and light commercial vehicles?

As mentioned earlier, some sectors would do better with sectoral standards that match the global markets operations. Aviation industry is an example of such a sector that cannot function properly under EU ETS due to the mismatch with overseas regulations. Aviation and similar sectors need to be regulated through global institutions that set worldwide standards.

How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

We believe that future changes in external circumstances such as economic downturn or major technology changes should be accounted for in the policy framework in advance. EU economy will go through future business cycles and such fluctuations will always be reflected by emission levels. The ultimate goal should be to de-couple emissions from economic growth.

How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

The aspect of security of supply seems to be covered by the actions to create EU internal energy market. The degree of market integration and overall market functioning should be therefore the key indicator how sufficiently the security is dealt within the internal market. As we have recently observed, the security of supply linked to the future generation capacity have been brought to national and EU political agendas. One of the triggers has been a rapid increase of renewables in the European energy mix and weakened incentives to invest in new generation capacity. Unfortunately there is a risk that individual Member States will carry on their own policies to independently secure the future supply thus fragmenting the internal market. The EU authorities should reinforce a common approach to the problem and prevent Member States from implementing uncoordinated capacity mechanisms that will seriously disturb further market integration.

4.3. INSTRUMENTS

Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

The policy instruments need to flow out of one coherent EU policy that is adopted uniformly across the Member States. EU ETS with EUA as perfectly homogeneous and fully tradable product is an example of such an instrument. In contrast to EUAs, Kyoto units (CERs and ERUs) have not proven to be equally homogeneous, as some of the rules to use them for compliance have been interpreted differently by different Member States, e.g. the controversial CERs and ERU from CDM/JI projects linked to building of large hydro power plants. The units were impossible to standardize across EU and in consequence they were traded outside the regulated market places with discount to other CER/ERU units.

Various renewable energy schemes within EU have also been launched in an uncoordinated manner between Member States. Even though several Member States have introduced a market-based mechanism in form of tradable green certificates, these instruments cannot be traded across the borders. Such inconsistencies are not good for the integration of EU energy market. The only international scheme that facilitates cross border trading is Norwegian-Swedish EI-certificates Scheme. This scheme could be considered a pilot scheme for one common EU mechanism for tradable green certificates. Contrary to multiple schemes of green certificates, the instrument dubbed Guarantee of Origin seems to be closer to an EU-wide instrument in terms of homogeneity. Unfortunately as of today it lacks support from EU authorities to create common infrastructure and further standardisation.

The current EUA auction contract that is a spot contract requires modifications so as to match better market needs. The auction product should be more fungible with the most liquid (future) secondary market product. Perfect compatibility between the primary (auction) and the secondary market products would most likely attract more auction participants. The numbers of auction participants have so far been relatively limited. With compatibility on both trading and clearing, the auction product would benefit from netting and margin possibilities between the auction and the secondary market product. The futures contract with delivery close to the year-end or close to compliance date would be better suited for the purpose of hedging the price and industry output.