

Europex

EUROPEX MANIFESTO

for the **2024 - 2029**
EU legislative term

Europex

*Association of European
Energy Exchanges*

Keeping Europe competitive and delivering an energy transition at least cost requires healthy and liquid markets

Europe's economy and the Internal Energy Market are undergoing profound transformations. The next five years will constitute a crucial period to deliver on the EU's 2030 targets and to evolve Europe's energy, climate and financial services policy.

Energy markets have a direct impact on the competitiveness of Europe's economy, our way of life and our ability to decarbonise. The energy transition must therefore go hand in hand with a high level of industrial competitiveness, security of supply and affordable energy prices.

The next five-year EU legislative term will be marked by substantial renewable and grid investments, a push for more system flexibility and the further diversification of Europe's energy supplies. Ultimately, these profound changes must be orchestrated against an uncertain geopolitical and geoeconomic environment, an evolving economy, changing consumption patterns and possibly sustained price pressure on households and industry.

As energy market operators, we are deeply convinced that open energy and environmental markets are the best mechanism to cope with these challenges. Such markets provide efficient short-term dispatch and long-term investment signals.

They put a price on externalities and facilitate the transfer of energy resources and risks between market participants. Indeed, efficient, liquid, innovative, secure and transparent energy and environmental markets are and will be the backbone of the EU's energy system as well as the core instrument for its decarbonisation efforts.

This manifesto outlines eight policy recommendations for the 2024-2029 legislative term with a view to evolve the EU's energy, climate and financial services regulatory framework.

Our eight policy recommendations for the 2024-2029 EU legislature

1 Fully leverage the benefits of the Internal Energy Market in Europe

This notably includes the end of market-distortive measures taken during the energy crisis and other distortive European and national instruments that existed before. In addition, a clear vision of how to best enhance integrated energy markets, cross-border trading and transmission capacity usage should be rigorously pursued, e.g., by maximising the available cross-zonal capacity for electricity trading and by ending distortive national gas neutrality charges. Importantly, the full implementation of existing energy legislation, including the Clean Energy for All Europeans Package, needs to be finally completed. The same applies to the recently adopted Electricity Market Design Reform and the Hydrogen and Decarbonised Gas Market Package.

2 Only implement market reforms that are in line with the needs of an efficient, transparent, fair and orderly market

Several recently discussed market reforms, most notably the proposal of a Single Legal Entity for market coupling, the co-optimisation between the day-ahead and balancing markets or the introduction of Regional Virtual Trading Hubs for forward markets have been clearly rejected by a broad majority of market stakeholders as those would hamper the well-functioning of the Internal Energy Market and ultimately harm end-consumers. Indeed, EU energy policymaking should be based on duly conducted cost-benefit-analyses and impact assessments which must be closely consulted with the concerned market stakeholders.

3 Make Europe a globally attractive energy trading hub

Europe has great potential to become the world's most important energy trading hub. There should be a clear strategy to strengthen Europe's role in global energy trading and to simplify the related regulatory framework, notably as concerns the financial services rules for energy commodity trading. Moreover, we strongly recommend discontinuing the Market Correction Mechanism (MCM). This hastily drafted energy crisis measure continues to pose serious risks to the EU's financial market stability, its security of supply and does not fit with the EU's ambition to strengthen the Capital Markets Union.

4 Foster the extension of the European Internal Energy Market beyond the EU's borders

Sturdy and consistent efforts must be made on all sides to support the full integration of the Contracting Parties of the Energy Community as well as the United Kingdom and Switzerland into the Internal Energy Market. A bigger market will increase social welfare, boost growth, reinforce security of supply and drive decarbonisation.

5 Foster the central role of the EU ETS in decarbonising the economy

The EU ETS should be extended to other sectors (e.g., agriculture, waste) and linked with other systems such as the UK ETS. The European carbon price can also deliver on the EU 2040 climate ambition by supporting cost-efficient decarbonisation and the uptake of negative emissions. The EU Carbon Border Adjustment Mechanism (CBAM) must be compatible with the EU ETS and should ensure fair competition between EU and non-EU industries.

6 Enable fair competition between all technologies in the energy mix

The price of energy should remain the central award criterion before any other non-price elements in order to preserve cost-efficient short- and long-term investment signals.

7 Strengthen the Guarantees of Origin system

Efficient, transparent, standardised and tradable markets for GOs and other green certificate schemes provide important incentives for investments in low-carbon technologies. The extension of GOs to other types of energy will improve the “fuel mix” disclosure and will unlock the further development of these markets.

8 Unlock the full innovation potential of energy markets and allow for a market-based uptake of low-carbon energy sources

As the decarbonisation of the energy sector also changes the nature of energy markets, energy exchanges are introducing innovative trading solutions. For example, with the increasing share of intermittent renewable energy sources, flexibility markets can improve grid stability short-term and constitute a cheaper alternative to grid expansion long-term. In addition, the transition of the existing natural gas market to renewable and low-carbon gases and the roll-out of a hydrogen economy must be based on competitive and liquid gas markets to ensure cost-efficiency, competition and innovation.



Why do energy markets and energy exchanges matter?

Organised energy and environmental markets contribute to the smooth functioning of the energy system and the economy as a whole and drive an energy transition at least cost.

1 Price discovery

Energy exchanges bring together a broad range of actors in the energy market. They provide safe and anonymised trading platforms for efficient price discovery, where the price of an energy commodity is exclusively determined by supply and demand dynamics. The continuously-formed price signal is a fundamental feature which enables informed production, consumption and investment decisions based on real-time and future prices.

2 Risk management

Through the use of futures, options and other derivative contracts offered on energy exchanges, market participants can hedge against the risk of price and volume volatility. By locking in prices for future transactions, businesses can reduce their exposure to the natural volatility of energy markets and plan and invest long-term. In addition, all on-exchange trades are automatically cleared, which reduces counter-party default risks.

3 Economic efficiency and liquidity

Energy exchanges enhance the efficiency of the whole economy by facilitating the movement of capital and commodities. A high level of liquidity ensures that market participants can sell and buy at all times.

4 Incentives for innovation and the transition to a net-zero economy

Energy exchanges provide price signals that drive innovation and support decarbonisation. As many exchanges offer trading in emission allowances, guarantees of origin, energy efficiency certificates, voluntary carbon credits, etc., investments in low-carbon technologies and energy efficiency measures are steered and innovation is incentivised throughout the economy.

5 Regulatory compliance, market surveillance and transparency

Energy exchanges are regulated entities that ensure compliance with trading regulations. This oversight helps maintain fair and orderly markets, protects against fraud and manipulation and supports the overall stability of the financial system. In addition, energy exchanges contribute to market integrity, resilience and transparency through sophisticated market surveillance systems, close cooperation with regulatory authorities and by publicly providing market information.



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