Effective raw materials strategy for Europe

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The Council adopted conclusions on regulation and supervision in commodity markets and related financial markets.

It **welcomes the Commission Communication** of 2 February 2011 on tackling the challenges in commodities markets and on raw materials, noting the ongoing discussion in international fora, in particular the G20.

The Council:

- **highlights that transparent and well functioning financial markets are crucial** in ensuring appropriate price discovery and in shaping expectations of price formation for raw materials and commodities;
- concurs with the need to avoid excessive volatility and misalignments of prices with economic fundamentals;
- acknowledges that one of the main roles of commodity derivatives markets is to hedge the exposure of both producers and consumers of raw materials and commodities to risks associated with physical production and price uncertainty;
- takes note of the growing influence of financial actors in commodity markets, in particular the rise in financial investment flows into commodity derivative markets in recent years, including agricultural and oil markets, and recognises that the full effects of the interconnection of financial and raw materials markets must be fully apprehended;
- agrees that the transparency of commodity derivatives markets needs to be improved without compromising the positive functioning of these markets; and stresses the need to ensure effective regulation and supervision of trading in commodity derivatives as well as an adequate regulatory and supervisory framework governing physical markets;
- encourages **the Commission to come forward with proposals for better transparency and regulation on derivative commodity markets**, within the framework of the revision of the Markets in Financial Instruments Directive (MiFID) and the Market Abuse Directive (MAD) and bearing in mind that the proposal for regulating OTC derivatives, central counterparties and trade repositories (EMIR) has already a bearing in this area.

The Council **stresses the need to improve the quality and availability of data on physical markets and derivatives markets**, in particular OTC (e.g. by strengthening the cooperation among the relevant bodies and adjusting the methodologies and processes for collecting data); to extend position reporting; and to give sufficient powers and tools to the respective supervisors to ensure a better coverage of physical and commodity derivatives markets, notably OTC, while preserving market liquidity. It emphasis **the need for an effective regime to identify and prevent market abuses**, in particular cross-market manipulation between physical markets and derivatives markets, and of reviewing both the effectiveness of the available instruments and enforcement mechanisms.

The Council recognises therefore the need for regulators to have the necessary instruments to prevent market abuses in an effective way, and notes the Commission's intention to consider the inclusion of the means to set position limits in its forthcoming MiFID proposal. It stresses the need for ensuring that financial market participants are **subject to adequate and proportionate regulation and supervision**, especially when trading in commodity derivatives.

Lastly, the Council calls for ongoing monitoring of commodity markets and for ensuring an effective regulation and supervision of raw materials markets and better cooperation between financial regulators and regulators of such markets.