



Mrs. Ursula von der Leyen
President of the European Commission
European Commission
Rue de la Loi 200
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Belgium

Clean Industrial Deal: do not include measures which endanger Europe's Energy Security and Financial Stability

Brussels, 11 February 2025

Dear President Von der Leyen,

We, AFME, CMCE, EACH, ETE, EUROGAS, EUROPEX, FESE, FIA, FIA EPTA, ISDA and IOGP, representing a broad coalition of market participants - including energy companies, banks, liquidity providers, and other stakeholders - as well as market infrastructure providers such as exchanges and clearing houses active in European energy markets are writing to express our strong support for the European Union's Clean Industrial Deal and its ambitious goals to reduce emissions, drive innovation, and strengthen the global competitiveness of European industries.

We share your vision of a sustainable and net-zero economy, and fully recognise the critical importance of maintaining a resilient and affordable energy supply for households and businesses across Europe. Notably, we concur with the guidance offered by the Competitiveness Compass, which puts forward the acceleration of the clean energy transition as the way to secure affordable

energy, and we stand ready to explore with you how Europe's wholesale energy markets can enable these objectives.

Against that background, we must respectfully point out that the Draghi Report mistakenly interprets an incomplete data set, inaccurately compares EU rules with those in other jurisdictions like the US and includes a misleading description of applicable European financial markets rules. In fact, analysis which takes into account a more complete data set shows that European energy derivatives markets are much more diversified and competitive than the Draghi Report suggests¹ and do not justify the introduction of such a tool which could jeopardise market conditions. **We encourage policy makers to facilitate an exchange with the industry and European supervisory authorities to obtain a more reliable and complete picture before making important policy decisions.**

Europe derives substantial benefits from maintaining efficient, transparent, and competitive financial markets in energy, which play a pivotal role in shielding businesses and consumers from price changes on physical energy markets. These physical markets are inherently subject to strong price fluctuations, driven by supply and demand imbalances that must be resolved in near real-time. A liquid and well-functioning financial market provides essential stability instruments to manage these risks efficiently, facilitating long-term gas contracts and supporting investment in energy infrastructure.

This is why **we must urgently express our strong concerns regarding the potential inclusion of a price cap in the forthcoming Clean Industrial Deal or the related Action Plan on Affordable Energy Prices.** We believe this measure, if announced, could have far-reaching negative consequences for the stability of European energy markets and the security of supply across the continent.

1. Europe's energy security

Natural gas markets are global, with gas moving across borders between producers and consumers worldwide. Europe is fortunate that, with the international rise of the TTF gas market, global producers accept the onshore European price of gas in euros as a credible reference price. This strategic marketplace plays a crucial role in sourcing gas to Europe, managing gas portfolios, and ensuring the efficient allocation of supply.

However, implementing an artificial price cap would not address the underlying changes in global gas valuations driven by evolving supply and demand dynamics. Instead, it would likely harm the trust into TTF and prompt the global gas community to shift towards other, unrestrained and therefore more representative reference prices, which are primarily located outside of the EU.

¹https://www.ice.com/publicdocs/futures/Accelerating_Growth_by_Strengthening_European_Energy_and_Environmental_Markets_02_25.pdf

If the price of gas is artificially capped below market value, Europe no longer offers a competitive price to attract LNG shipments, which would **jeopardise short-term supply**. In fact, recent reports indicate that LNG cargoes have been redirected to Europe² when needed, but this trend could easily reverse under a capped price.

Moreover, imposing a price cap could **jeopardise long-term supply** as it would undermine Europe's credibility as a serious customer in the global gas market. The artificial price controls would make Europe a less attractive and reliable partner for suppliers, who may prefer markets where they can sell gas at competitive, market-driven prices. We would like to point out that as of 5 February 2025, Europe has contracted only 26% of needed LNG supplies through 2040 (considering Fit for Fifty-five natural gas demand outlook): 31 LNG contracts amounting to 649Bcm, which is in stark contrast to 117 LNG contracts concluded by Asia amounting to 1,519Bcm.³

Further, artificial prices could impact the long-term investments in new infrastructure needed to extract and transport energy.

2. Price volatility and affordability of energy

A price cap undermines the risk management function of European energy markets. When triggered, the price cap would artificially constrain the value of energy derivatives, decoupling them from the price of the underlying physical market where supply/demand dynamics may have shifted. This disconnection would **impair the ability of market participants to effectively manage these underlying price risks**. This will increase price volatility and will make the European energy markets less attractive and may reduce the number of market participants.

Regulatory stability and predictability are central to market participants' behaviour on long-term energy markets. If market participants exit or market participation reduces due to the uncertainty introduced by a price cap, liquidity in the markets will diminish. This reduction in liquidity will result in wider bid-ask spreads. Further, to account for the greater risk associated with the increased volatility, margin requirements will increase. Ultimately, these costs increases will be borne by consumers.

In short, a price cap does not decrease the global market price of energy, but may create upward price pressure and increased price volatility in Europe.

3. Risk management and financial stability

A price cap presents significant threats to Europe's financial stability. The European Central Bank (ECB)⁴ has expressed concerns that the design of the previously implemented MCM jeopardised

² Financial Times. "LNG tankers change course to Europe as gas storage levels drop", 23 January 2025.

<https://www.ft.com/content/36707962-a09f-426a-bd56-a18363b35a4b>

³ Rystad Energy research and analysis, GasMarketCube, European Commission, UK BEIS. Only includes SPA signed in 2022, 2023, 2024 and up to 3rd February 2025 (for deliveries by 2040); MoUs and HoAs are excluded.

⁴ European Central Bank (ECB), 'Opinion of the European Central Bank of 2 December 2022 on a proposal for a Council regulation establishing a market correction mechanism to protect citizens and the economy against excessively high prices' (CON/2022/44).

financial stability in the euro area. The design of this price cap mechanism could increase volatility and trigger higher margin calls, placing undue strain on central counterparties' ability to manage financial risks. This may also incentivise market participants to migrate from regulated trading venues to non-centrally cleared over-the-counter (OTC) markets. ESMA also foresees that when prices would approach the artificial limit, a swift and significant shift of trading would move outside the EU⁵.

In the energy crisis, these financial stability risks associated with the MCM and the market destabilising consequences of increased margin requirements, as outlined above, fortunately did not materialise, mainly because gas prices dropped well below the activation conditions of this mechanism before it became active in February 2023. This decrease in gas prices, coupled with reduced market volatility, instead allowed central counterparties (CCPs) to lower margin requirements. However, we may not be so fortunate next time.

Further, research by European regulators and the academic community⁶ has demonstrated that the temporary price cap, or Market Correction Mechanism (MCM), implemented during the energy crisis, did not succeed in reducing volatility or lowering gas prices. However, the serious risks associated with such price control mechanisms were widely recognized and remained relevant until the recent discontinuation of the MCM.

4. Conclusion

An efficiently functioning, interconnected and liquid energy market with free and transparent price formation for competing energies from diverse domestic and global supplies, intelligent demand-side solutions, and a stable legislative framework will best ensure cost-efficient, secure supplies to consumers. It is essential that the upcoming Action Plan on Affordable Energy Prices does not undermine the successful establishment of the integrated EU energy market. Direct government interventions into functioning markets (particularly on a wholesale level), including into market-based price formation, may have unintended long-term consequences and should be avoided.

We strongly urge the European Commission to reject the idea of a price cap mechanism, as it would undermine the objectives of the Clean Industrial Deal, and the progress made since the energy crisis.

⁵ ESMA, 'Effects Assessment of the impact of the market correction mechanism of financial markets', 1 March 2023.

⁶ John W. Goodell, Constantin Gurdgiev, Andrea Paltrinieri & Stefano Pisera. Do price caps assist monetary authorities to control inflation? Examining the impact of the natural gas price cap on TTF spikes. *Energy Economics* (2024); Randy Priem. A market correction mechanism regulation as a consequence of the 2021–2023 energy crisis. *Journal of World Energy Law and Business* (2024); Ebbe Rogge. The European energy crisis, the Dutch TTF, and the market correction mechanism: a financial markets perspective. *Journal of World Energy Law & Business* (2024).

We remain available to discuss these matters further and contribute to the debate on how to regain competitiveness and secure sustainable prosperity by identifying more balanced and effective solutions, as outlined by the Commission in its recently published Competitiveness Compass.

Yours sincerely,

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Eurogas Secretary General

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