– Position paper –

Europex calls on Member States not to prolong the Market Correction Mechanism

Brussels, 14 December 2023| **With the proposed prolongation of the Market Correction Mechanism (MCM) on the agenda of the upcoming TTE Energy Council on 19 December 2023, European energy exchanges call on Member States not to prolong the mechanism as it had no positive price impact and remains potentially harmful for the well-functioning of European energy wholesale markets. Also, both the supply and physical infrastructure situation in Europe has improved significantly and does not justify to continue with this (former) emergency measure.**

When the MCM was finally adopted as an extraordinary emergency measure after a long and controversial discussion in the Council in December 2022, the European energy markets were already on the path to normalisation after exceptionally high price peaks in August 2022 a few months earlier. These extreme prices were the cumulative result of an external gas supply shock induced by Russia's weaponisation of energy against Europe coupled with a number of other factors, such as maintenance issues in key LNG producing countries, limited LNG import capacity and gas transport flexibility in Europe, increased global demand, unfavourable weather conditions in Europe and elsewhere, as well as the strong political desire to quickly fill European gas storages ahead of the coming winter, to only name a few.

Despite these unfavourable and highly exceptional circumstances, independent reports by ESMA and ACER testify the overall efficiency and proper functioning of the energy markets throughout this period.[1] Indeed, had the MCM been in place in the summer of 2022, it would have provided no remedy to the extraordinarily high gas prices. On the contrary, the artificial and ill-designed on-exchange gas trading cap would have heavily distorted the market by:

- Threatening financial stability and the ability to maintain fair and orderly markets;
- Quickly exacerbating the problem due to increased market concentration, a loss of liquidity, a shift of trading to the OTC space, etc., and hence leading to higher rather than lower energy prices as the price formation mechanism would have become more costly;
- Seriously threating the EU's security of supply as the EU would have become significantly less attractive for LNG imports;
- Forcing liquidity to move to trading venues outside the European Union, possibly with a long-term unrevokable damage for Europe as a gas trading hub.

[1] ACER: European gas market trends and price drivers 2023 Market Monitoring Report (October 2023); ESMA: TRV Risk Analysis: The August 2022 surge in the price of natural gas futures (October 2023).

Not surprisingly, both ESMA and ACER found no measurable impact of the MCM on the post-crisis recovery of European energy wholesale markets since its introduction.[2]

In addition, many of the physical shortcomings in the EU that could still be observed last year and served, among others, as an argument for the introduction of the MCM, such as limited LNG import capacity and limited transport flexibility to move gas within Europe, have been largely overcome. Also, the global supply situation has significantly improved and gas prices are currently on a downward trend – despite a fairly early onset of winter in many parts of Europe and cold temperatures for several weeks now.

Together with many others, Europex has consistently advised against the MCM. We reiterate our position and highlight the strong reservations voiced by a variety of industry stakeholders, both from the seller's and the buyer's side.[3] Hence, we call on the 27 Member States not to prolong Council Regulation 2022/2578 and have it end on 31 January 2024. This would not only serve the interest of fair and orderly markets but importantly also European consumers as it ensures an efficient and transparent price formation and hence more affordable energy prices.

About

Europex is a not-for-profit association of European energy exchanges with 34 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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[2] ESMA: Effects Assessment of the impact of the market correction mechanism on financial markets (March 2023); ACER: Market Correction Mechanism Effects Assessment Report (March 2023).

[3] *Inter alia:* IOGP Europe, EFET, Europex, CEFIC, IFIEC Europe, Eurogas, IGU: Industry views regarding the prolongation of the joint purchasing & demand aggregation mechanism (October 2023); IOGP Europe, EFET, Europex, IGU: Joint letter on industry views regarding the EU energy platform (September 2023); CMCE, EACH, EFET, Europex: Joint association statement on the proposed market correction mechanism to protect citizens and the economy against excessively high prices (December 202); Europex: Letter on the proposed market correction mechanism (November 2022).