



By: Tomorrow's Affairs Staff

EU Commission proposes a gas price cap



The European Commission has proposed a gas price cap of 275 euros per megawatt hour for the forthcoming months regarding TTF contracts, EU energy commissioner, Kadri Simson, told a news conference on Tuesday.

"We propose to put a ceiling on the TTF (Title Transfer Facility) gas price to protect our people and businesses from extreme price hikes," EU energy commissioner Kadri Simson said.

If approved by EU countries, the cap would be available for one year from January 1. It would only take effect if the contract exceeds that level and simultaneously, the difference between the cap and the global liquefied natural gas (LNG) price would exceed 55 euro for 10 consecutive trading days, Simson added.

The idea to cap prices **has divided EU countries** for many months. Diplomats have said the level proposed on Tuesday was unlikely to be popular when energy ministers from the bloc's 27 member countries debate it on Thursday.

In October, the European Commission outlined proposals to introduce a "dynamic price ceiling" for gas imported into the EU, leaving the details of how this should be done for later, saying it first needed input from EU member states.

But with seven days to go before a 24 November meeting of EU energy ministers, Brussels is yet to table a formal legislative proposal on the matter. Instead, the EU executive circulated another "non-paper" to EU capitals outlining what the gas price "correction mechanism" could look like; also highlighting the "advantages and risks" of such a measure. The paper, published by EURACTIV on October 17, sets out the core elements of the Commission's upcoming legislative text, with "a view to submitting a legal proposal" to EU ministers at a later stage.

"This outline aims to serve as a basis for further discussion of the mechanism at issue," the paper says, without specifying when the discussion will end. EU energy commissioner

Kadri Simson said earlier that the Commission, which drafts EU policies, would propose a cap after a meeting of EU energy ministers on 24 November where they are expected to instruct the bloc's executive to move ahead with the proposal. "We will move swiftly and we will make a legal proposal immediately after ministers mandate us to do so," Simson told Reuters in an interview on the sidelines of the COP27 climate summit in Egypt.

Pros and cons

According to the non-paper, the outlined measure has some advantages, including limiting future speculation. If well-designed and transparent, it should also have a limited impact on the market.

But the Commission also emphasises the measure's limitations. For instance, while it can mitigate temporary excessive prices, "it is not a tool to structurally lower the level of prices, which can only be achieved by additional supply-side and demand reduction measures".

The paper also echoes the European Commission's general reservations on price caps, warning that it risks harming the EU's ability to attract much-needed LNG supplies if the ceiling is set higher than the global prices.

Claeys told EURACTIV that the non-paper describes a mechanism "that could technically work".

However, he added that this was a last resort measure, and that demand reduction and auctions for efficiency were much better options.

"If something requires all the safeguards that are listed, it probably is not the greatest idea. The only justification would seem to be that it might provide some peace of mind that very high price spikes are avoided," he told EURACTIV.

Growing frustration in EU capitals

The Commission non-paper came amid growing frustration from those EU member states in favour of capping gas prices.

Fifteen EU countries – Belgium, Bulgaria, Croatia, France, Greece, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, and Spain – have been asking for a gas price cap for months, but the EU executive has “significantly delayed”, one diplomat told EURACTIV.

Pressure remains for the price cap, particularly from Belgium, Greece, Italy and Poland. Nicknamed the “fanatic four” by a diplomat, they are reported to be considering blocking other parts of the package if there is no price cap proposal.

Other pro-price cap countries take a softer stance, but still express frustration at the lack of progress.

There are only minor issues that require further adjustment in the majority of the package, another diplomat told EURACTIV.

Aside from the price cap, there is wide support for the broader package of EU measures to rein in gas prices, including mandatory joint purchasing and a fallback agreement that would ensure cooperation between EU countries should one face an emergency situation.

Panic-driven price spikes

The cap will apply to the **Title Transfer Facility** (TTF), the Dutch virtual hub where shippers and clients trade gas supplies. The TTF serves as a leading reference for Europe's entire energy sector, with its prices having a strong influence on the bills that companies and consumers receive every month.

Since Russia launched its invasion of Ukraine, the TTF has seen abrupt ups and downs,

fuelled by speculation over the Kremlin's next move. This has led to record-breaking prices, particularly over the summer, when the TTF reached an all-time high of €349 per megawatt-hour. Although prices have stabilised since then, there are concerns volatility could make a painful comeback in the winter as temperatures drop and demand for heating surges. "We are exposed to a number of spikes that are not justified by market fundamentals," said the EU official.

"We have to send a signal that Europe is not willing to pay any price at any moment." With this in mind, the European Commission intends to create a "deterrence effect" by establishing a maximum limit for TTF transactions.

In other words, a price cap. An economic slowdown in China has allowed Europe to attract plenty of LNG cargoes this year and partially offset the loss of Russian gas. But **this bonanza might end** if the Chinese economy recovers and global competition heats up, putting the bloc in a tighter spot to capture valuable tankers. "This winter, we will also need every molecule of LNG that we can secure," Kadri Simson, European Commissioner for energy, said last month.