

Introductory Statement for Lucas Schmeddes, President and COO ICE Endex, European Parliament (ECON committee) public hearing on energy derivatives markets, Brussels 27 March (CET 16.30)

- Dear Madame Chair, Dear Members of the European Parliament,
- Thank you for your invitation to speak here today in the Economic and Monetary Affairs Committee.
- The recent volatility and substantial increases in the wholesale price of gas due to Russia's war in Ukraine are generating understandable and genuine discussions about how to best to deal with the effects of high energy prices on consumers and industry.
- Policymakers need to balance the legitimate goals of minimising the negative impacts of high energy prices and maintaining the integrity of the gas market. Efficient open markets that show the true price remains the best and only way to reduce consumption, increase investment in alternative sources and ultimately bring demand and supply back into balance. Indeed, the difference between the higher onshore gas prices and the lower seaborne LNG prices have led to LNG terminals becoming economically viable, and the higher onshore gas prices have directly led to demand reduction. So in an economic sense the markets have functioned effectively.
- In this context, it is important to realise that the trading of energy derivatives is a highly regulated activity in the EU. In particular, the EU regulatory framework for commodity derivatives consists of MiFID/R, MAR/D, EMIR and REMIT. This means that market activity is subject to a set of laws and regulations to ensure that the markets are fair and price formation is sound.
- ICE Endex is a regulated market based in Amsterdam and its derivative markets are licensed under the Dutch Financial Services Act and supervised by the Dutch National Bank, and the Dutch Authority for the Financial Markets. It is part of Intercontinental Exchange, one of the largest operators of regulated exchanges and clearinghouses in the world and operator of global commodity markets including ICE Brent, the largest crude oil futures and options market in the world.
- TTF Gas derivatives are available for trading from ICE Endex. This market is extremely liquid, and provides a vital risk management tool for market participants to hedge their exposure to gas prices, and use the contract to physically deliver natural gas into the Dutch gas distribution network.
- ICE has built the TTF market into a liquid, resilient and global market on which a diverse group of market participants rely to hedge the uncertainty of future energy prices. This function is most needed during periods of heightened uncertainty and volatility, as we witnessed last year where multiple customers across the European utility sector told us how much they rely on the TTF market to manage their risk.

- As the President and COO of ICE Endex my primary obligation is to ensure that these markets continue to function and generate representative prices as they did throughout 2022 in the face of unprecedented pressures created by the Russia/Ukraine war and weaponization of natural gas. The markets continued to provide a reliable price signal throughout the energy crisis.

The root cause of the energy crisis in Europe last year was a mismatch in supply and demand, due to the sudden loss of Russian gas to Europe. This abrupt reduction forced EU policymakers to swiftly find alternative sources of gas, including LNG, address bottlenecks in infrastructure and set gas demand reduction targets. Solutions for the energy crisis are found by addressing the fundamentals. And a reliable gas price is reflective of such fundamentals.

- The TTF contract has become a common reference point in the market for the price of natural gas because market participants view it as a representative and reliable price. This is because it is robust, resilient and strongly regulated by European law and supervised by the Dutch authorities. All these aspects create market confidence. And we see that confidence in market behaviour today. The number of participants that are active in our market is higher than ever, the market is extremely liquid and contracts trade out as far as 2031.
- We continue to work closely with our customers, regulators and governments to find market-based solutions to the pressures caused by the energy crisis.
- Central to these solutions will be a market mechanism that continues to be a true representation of supply and demand.
- Thank you for your attention. I look forward to the debate in this committee and remain available for any questions you may have.