Russia Vows to Halt All Oil Exports to Countries that Impose "Completely Absurd" Price-Cap

By Zero Hedge
Global Research, September 05, 2022
Zero Hedge 2 September 2022
Region: Russia and FSU
Theme: Global Economy, Oil and Energy

***

It did not take long for the Kremlin to respond to the G-7 plan to impose price-caps on Russian oil, with Deputy Prime Minister Alexander Novak warning that Moscow will ban exports of oil and other petroleum products to countries that impose a cap on the price of Russian crude. Novak made the remarks to reporters in Moscow on Sept. 1, according to Russian state media Tass, which came as Western powers were preparing to meet on Sept. 2 to agree on a Russian oil price cap.

> ***"We will simply not supply oil and petroleum products to such companies or states that impose restrictions, as we will not work non-competitively,"*** Novak said, while denouncing the price cap as "completely absurd."
>
> ***"It will completely destroy the market,"*** Novak continued, arguing that interference in market mechanisms in a key commodity like oil would have a destabilizing impact on energy security in countries across the world.

US Treasury Secretary Janet Yellen took the opportunity of G-7 agreement to a nothingburger plan to take a victory lap:

> "The price cap will advance our two key objectives; The first, of course, is reducing revenues that Putin needs to continue waging his war of aggression. And the second is maintaining a reliable supply of oil to the global market and putting downward pressure on the price of energy for people in the U.S., in the UK, and around the world."

But, echoing Novak's remarks about a Russian oil export ban targeting countries that sign onto the cap, Kremlin spokesman Dmitry Peskov told reporters during a conference call on Sept. 2 that ***"companies that impose a price cap will not be among the recipients of Russian oil."***

*

As we detailed earlier, in what we are sure will be heralded as a critical step forward in the globally unified response to Putin's invasion of Ukraine, G-7 finance ministers have agreed to implement a price cap for global purchases of Russian oil – a measure the US hopes will ease energy market pressures and slash Moscow's overall revenues.

> "We confirm our joint political intention to finalize and implement a comprehensive prohibition of services which enable maritime transportation of Russian-origin crude oil and petroleum products globally," G-7 finance ministers said in a joint statement.
>
> "The provision of such services would only be allowed if the oil and petroleum products are purchased at or below a price ("the price cap") determined by the broad coalition of countries adhering to and implementing the price cap."

No details were offered as to the mechanism for the buying-cartel but the stated goal set out by G7 leaders was two-pronged:

1. to limit upward pressure on global oil prices
2. to curb Russia's revenues from oil sales.

To achieve those goals, the allies agreed to explore a new mechanism that aims to impose a ceiling on Russian oil prices. **The idea behind this price cap is to permit countries that have not imposed import bans to buy Russian oil as long as it is priced at or below a predetermined price.** The cap could be enforced via limits on availability of European insurance for Russian oil cargoes as well as shipping services and US finance.

While G7 leaders have not indicated where the price cap would be set, it **must be lower than the $80/bbl at which Russia's Urals grade trades today (a $32/bbl discount to Brent) and higher than Russia's marginal cost of maintaining production levels**, estimated at around $40/bbl to ensure Russia's earnings are reduced while production is maintained.

A $50-60 per barrel price cap would likely serve the G7 goals of reducing oil revenues for Russia while assuring barrels continue to flow.

But it remains unclear how effective a price-cap regime would be, since for the price-cap to work, oil importers like India, China, and Turkey – which have significantly increased their purchases of heavily-discounted Russian grades – would need to agree to participate to access even cheaper oil.

> "Quite extensive measures are going to have to be taken to ensure that companies don't' find ways around price limitations," said Richard Watts, the managing director at Geneva commodities trading advisory HR Maritime.
>
> "This was the challenge in Iraq's food-for-oil scheme in the 1990s. The question is how does the G-7 police this?"

Furthermore, as we previously detailed, there are three scenarios as to what happens next:

- **Scenario 1:** Russia does not cooperate and retaliates – a 3 mbd cut would likely deliver a **$190/bbl oil price**
- **Scenario 2:** China and India don't cooperate – the end of the European

insurance dominance

- **Scenario 3:** Russia fully re-routes exports from west to east but loses pricing power, **prices stabilize in low-$100s**

There has so far been no reaction to the headlines…

Which we suspect reflects the market's reality check that this G-7 plan has no chance of becoming operational as to implement a cap, diplomats will have to convince European Union member nations to amend its sixth round of sanctions on Russia over the invasion of Ukraine – and that may still prove to be tough. That package, which prohibits the purchase of Russian oil starting Dec. 5, included a ban on the use by third countries of the bloc's companies for oil-related insurance and financial services.

> **"The price cap fundamentally lacks impact unless the G-7 can persuade the other main buyers (i.e. China, India, Turkey, etc) to sign up,"** Christopher Haines, a global crude analyst at consultant Energy Aspects, said in an emailed response to questions.
>
> "They are all reluctant despite the offer of exemptions from Western financial and shipping insurance sanctions. Meanwhile Russia will be determined to undermine the policy for both political and economic reasons."

Russia said Friday that it won't sell oil to nations that impose a price cap on its oil. "We simply won't interact with them on such non-market principles," Kremlin spokesman Dmitry Peskov told reporters on a conference call, adding that Russian oil will find alternative markets.

*

Note to readers: Please click the share buttons above or below. Follow us on Instagram and Twitter and subscribe to our Telegram Channel. Feel free to repost and share widely Global Research articles.

Featured image is from Zero Hedge

The original source of this article is Zero Hedge

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: **Zero Hedge**