Following agreement by the 27 Member States of the European Union (EU), the members of the G7 (the United States, Canada, France, Germany, Italy, Japan, and United Kingdom) and Australia (collectively, the “Price Cap Coalition”) are joining the EU in adopting a price cap of $60/barrel on seaborne crude oil of Russian Federation origin. The price cap is an important tool to restrict the revenue Russia receives to fund its illegal war in Ukraine, while also maintaining a reliable supply of oil onto global markets. This policy is especially critical to make oil supplies available in low- and middle-income countries hit hard by the effects of Russia’s war.

Next week, the Price Cap Coalition will ban a broad range of services—including maritime insurance and trade finance—related to the maritime transport of crude oil of Russian Federation origin (“Russian oil”) unless purchasers buy the oil at or below $60/barrel. Importers who purchase Russian oil at or below the price cap will maintain access to an array of Coalition-country services vital to the oil trade. On February 5, 2023, this ban on services will extend to the maritime transport of Russian-origin petroleum products unless the products are sold at or below a price cap to be announced before February 5, 2023.

GOALS OF THE PRICE CAP

The price cap policy is intended to maintain the supply of Russian oil to the global market while reducing the revenues the Russian Federation earns from its oil sales, particularly in light of elevated prices caused by Russia’s war of choice. To accomplish this goal, the EU and the other countries in the Price Cap Coalition designed the price cap to maintain the flow of Russian oil at a discounted price.

The price cap will be of particular benefit to emerging markets and low-income economies that are highly exposed to rising energy prices. Russia’s unconscionable war in Ukraine has disrupted energy markets and caused widespread economic hardship, from natural gas shortages in
Europe to elevated oil prices around the globe. The rise in energy prices has proven especially harmful to those economies with heightened vulnerability to energy price shocks. These economies are well-positioned to benefit from the price cap’s stabilizing effect on prices for two reasons. First, countries in the Price Cap Coalition, are already committed to prohibiting or phasing out imports of Russian oil and will not directly benefit from a lower price. Accordingly, it is prospective buyers elsewhere—especially emerging markets—that stand to gain directly from low-cost Russian oil. Second, emerging market and low-income economies are generally more exposed to price shocks than advanced economies. The price cap therefore particularly benefits importers from these countries by helping stabilize global oil prices.

**HOW THE PRICE CAP WORKS**

The price cap’s operation depends on a vital element of the global oil trade: the maritime services industry, which includes insurance, trade finance, and other key services that support the complex transport of oil around the globe. Traders, brokers, and importers rely on these services to protect and finance their trade, and vessel-owners rely on insurance to protect their ships. Moreover, almost all ports and major canals require ships to carry protection and indemnity insurance. Companies based in the G7 control around 90 percent of the market for relevant maritime insurance products and reinsurance. The price cap works by allowing access to these critical services from Coalition-country providers for Russian oil only if that oil is purchased at or below the cap.

- **The price cap works by creating an exception from upcoming restrictions on the use of maritime services.** We know the status quo—where Russia can trade freely at levels near prevailing market prices, which have been elevated by Russia’s invasion—is not acceptable, but we are also committed to supporting stability in global energy markets. The price cap policy should be regarded as a complement to the implementation of forthcoming EU sanctions announced in June 2022, to encourage stable energy supplies. The price cap is structured as an exception to those restrictions, allowing companies based in Coalition countries to provide services related to the maritime transport of Russian oil trade only if the oil is traded at or below $60/barrel. This approach relies on the G7’s dominant role in the maritime services industry. Once the price cap is in place, any importer of Russian oil that pays a price above the cap will have to do so using services exclusively from companies outside the Coalition—which represent only a fraction of the market and are often more expensive and less reliable.
The level of the price cap, $60/barrel, is set high enough to maintain a clear economic incentive for Russia to continue selling oil on global markets. This price is set at a level that Russia has historically accepted, which is above its cost of production and comparable with prices Russia sold at prior to its war in Ukraine.

- **Russia has multiple options to respond to the price cap.** Russia can sell at or below the price cap and keep its oil flowing onto global markets, at lower prices for importers and with the benefit of best-in-class G7 services. Alternatively, Russia can rely on non-G7 service providers, which are limited in scale, more expensive, and less reliable. Given these constraints, reducing the volume of sales would not be in Russia’s economic interest, especially because doing so would mean reducing sales to key emerging markets, including Russian allies.

- **The Coalition will review and, if necessary, adjust the price cap based on Coalition objectives and market fundamentals.** The Coalition will continue to engage with market participants to help ensure updates do not introduce volatility and are practical to implement (including assessing feasible timelines for implementation).

**COMPLIANCE FRAMEWORK**

The price cap policy establishes a “safe harbor” for G7 service providers that comply with a simple recordkeeping and attestation process, designed to allow each party in the supply chain of Russian oil shipped via maritime transport to demonstrate or confirm that the Russian oil has been purchased at or below the price cap. On November 22, 2022, the Office of Foreign Assets Control (OFAC) issued guidance on the U.S. implementation of the price cap policy for Russian crude oil. As this guidance makes clear, this “safe harbor” for service providers through the recordkeeping and attestation process is designed to shield such service providers from strict liability for breach of sanctions in cases where service providers inadvertently deal in the purchase of Russian oil sold above the price cap owing to falsified or erroneous records provided by those who act in bad faith or make material misrepresentations. The U.S. government anticipates working with other members of the Coalition to enforce the price cap, including by sharing information.