U.S. DEPARTMENT OF THE TREASURY

Remarks by Assistant Secretary for Economic Policy Ben Harris at the Argus Americas Crude Summit in Houston, Texas

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As Prepared for Delivery

Original Motivations for Price Cap Policy

Thank you for having me here today. I will begin by discussing the motivations for the price cap.

Since the onset of Russia's invasion of Ukraine, our coalition has remained unified in leveling some of the broadest and most impactful sanctions in history – including through unanimous support from all 27 EU member states for nine consecutive packages.

¬But Russia's role as a massive supplier of global energy, and its dependence on energy exports as a critical source of revenue, demanded that we devise a novel approach to sanctions. Put simply, our challenge has been to deny Russia the revenue and military equipment it needs while minimizing the global economic spillovers from this invasion.

To this end, we have been explicit about our two goals: (1) Cutting into the key source of revenue Putin is using to fund his illegal war, and (2) Ensuring global energy markets remain stable and well supplied by keeping Russian oil on the market and available at a discounted rate. That effort began with the price cap the G7 put in place starting with crude oil in December.

With the price cap, we are creating clear incentives for key actors in global oil markets—Russia, oil-importing countries, and market participants—to maintain the flow of Russian oil but at discounted prices. The price cap helps achieve both goals at the same time.

We have been crystal clear from the start about our two goals. Success remains to be seen and we continue to approach the implementation of this policy with humility. I cannot emphasize this enough.

Nevertheless, two months since the implementation of the crude price cap, we see Brent is trading around $80 today while Russia, according to its own Ministry of Finance and public reporting, is making less revenue from oil. Neither fact is up for debate or controversial.

The price cap's operation depends on a vital element of the global oil trade: the maritime services industry. Traders, brokers, and importers rely on these services to protect and finance their trade, and vessel-owners rely on insurance to protect their ships. 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 creating an exception from restrictions on the use of maritime services.

We are leaving Russia with no good options. Russia can sell into 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. Moreover, the price cap gives buyers extraordinary leverage to negotiate down the price of Russian oil for purchases outside of the price cap.

What is off the table is the situation that benefitted Russia for much of 2022, where it created a global crisis, sent energy prices soaring, and then profited from the higher revenue. That is no longer an option.

Discussion of Crude Price Cap

In turning to the price cap on crude, which has been in place for a bit over two months, our initial assessment that we have already seen progress toward our twin goals.
First, senior Russian economic officials have openly acknowledged that the price cap is hurting their ability to fund their war and prop up the Russian economy. Finance Minister Siluanov said recently that the price cap is ballooning Russia's budget deficit. This is forcing the Kremlin to make tough choices between guns and butter – including how much they can devote to funding their war. Analysts at Russia's central bank have admitted that the price cap and EU sanctions present "new economic shocks" that could "significantly reduce" Russia's economic activity.

Second, since December 5th, we've also seen positive signs that the price cap on crude oil is supporting our second goal of promoting stable energy markets.

Many outside analysts feared that in the absence of a price cap on crude oil we could see prices spike to as high as over $150 per barrel. Instead, we've seen global benchmarks like

Brent crude remain generally stable over the first month of implementation, and remain meaningfully lower than when the price cap was announced.

That's because the crude price cap is designed to incentivize the flow of Russian oil onto global energy markets at a steep discount – locking in levels far below the highs Russia saw last spring and summer of over $100 per barrel. It takes Russia's windfall profits off the table.

In fact, since the price cap was announced last summer, the price of Urals has steadily declined. One report indicates that around a quarter of all shipments of Russian oil in recent weeks have occurred in trades under the crude price cap. Russian exports have been consistent, with roughly 3 million barrels per day delivered in January 2023. Russia has continued producing crude oil, with loadings at their highest level since May 2022. Accordingly, global energy prices have remained stable, contrary to widespread market expectations. Even as Russia announced a crude oil production cut, global energy markets have remained stable as markets have largely anticipated the cut. And despite Russia's claims of boycotting the Russian oil price cap, public reporting has shown that Russian seaborne oil has been shipped via price cap-compliant tankers.

One lesson from the crude oil price cap was positive engagement with the energy, shipping, and insurance industries. There was initial industry skepticism around the price cap policy, but after extensive engagement we created a policy and compliance system that has enabled the policy to succeed.

The reported discount Russia is receiving on crude sold outside the cap has only gotten larger since the imposition of the price cap, a fact we attribute to worldwide buyers' increased bargaining power against Russian exporters.

To be clear, the Coalition itself is not importing from Russia or directly benefiting from its lowered prices. Instead, the primary direct beneficiaries are emerging market and lower income countries that are crude oil importers. Whether they are importing through the price cap or using it as leverage, these nations receive drastically lower prices than they did in the first few months after Russia's invasion of Ukraine.

This policy has given emerging markets and countries in the developing world the leverage they need to negotiate discounts on Russian oil, and supported global energy market stability to avoid exacerbating inflation and food price increases.

Refined Product Process

The Coalition implemented price caps Russian refined products on February 5th. Our objectives remain the same: to further limit Putin's revenue while maintaining stable global energy markets. We seek to accomplish that by locking in the deep discount Russian energy is trading at relative to global benchmarks, while creating clear incentives for Russia to continue exporting cheaper refined products.

However, the refined market has important differences from the crude oil market that we took into account.

First, the cap has two levels, to reflect the different prices of premium-to-crude products like diesel and kerosene, and discount-to-crude products like fuel oil. The premium-to-crude cap is set at $100 per barrel and the discount-to-crude cap is set at $45 per barrel. It would not have been feasible to set caps on each product individually, and so our Coalition agreed to set caps for these two groups.

Second, a different set of countries will be most affected if the cost of refined products rises in the absence of a price cap that promotes stable energy markets. While America is a net diesel exporter, Europe, for example, relies on imports for more than 50% of its diesel consumption. Even though the EU will phase out Russian refined product imports, the global nature of markets means they will be affected as well. Critically, Ukraine relies heavily on diesel fuel to run the generators that play a key role in its power grid – particularly for vital services like hospitals. It is of utmost importance that we design this policy to promote Ukraine's access to affordable energy.

Third, as you all know, refined product market dynamics are different from the crude oil market. Seaborne refined product trade depends on specialized clean product tankers, which are distinct from crude dirty tankers. Refined product and crude tanker fleets have very different ownership patterns. Russian refined product exports carried on non-Coalition ships represent a smaller share of Russian exports than the comparable figure on the crude side. The EU's import ban on Russian refined products and the realignment of global product trade add pressure on the shipping market as Russia replaces its exports to Europe with global customers at further distances. We are already seeing these pressures materialize.

Implementation

After the successful creation of three distinct price caps on Russian exports, we know tracking and enforcement is a now a key part of implementation. And the global energy trade is sufficiently complex and diversified that successful implementation requires diligent work across the US government and the G7.

As we work to implement this new regime, I have an ask of market participants: that you exhibit similar humility when speculating about successes and failures of the price cap.

To my knowledge. there is no hard data or conclusive evidence that supports speculation about Russia evading the sanctions by using Coalition service providers and receiving above-the-cap payments. This isn't to say that subversion won't occur; we are clear eyed that Russia will aggressively seek non-Western services to avoid the cap.

Our sanctions team and our partners will continue to meticulously monitor these trades and ensure compliance with the price cap. And to be clear: we know our work is not over until Russia's illegal invasion of Ukraine has ended.