Remarks on the Price Cap on Russian Oil by Eric Van Nostrand, Acting Assistant Secretary for Economic Policy

August 3, 2023

As Prepared for Delivery

Thank you all for having me here today. I am grateful for the opportunity to discuss the price cap policy with you all, and I am particularly grateful to have this conversation in the United Kingdom. The UK has been a critical partner in this endeavor and in our broader efforts to counter Russia's aggression while promoting macroeconomic stability.

Let me begin by focusing our attention on what's happening in Ukraine. Russia's brutal war of choice has raged on for nearly one and a half years. The Ukrainian people continue to show undaunted resilience and our support for them remains unwavering.

The United States has taken a multifaceted approach alongside our broad, global coalition to support the Ukrainian people and the Ukrainian defense effort. Our Department of Defense has provided weapons and munitions to the Ukrainian military. The Treasury Department, working alongside colleagues at USAID, has provided critical economic and budgetary assistance to Ukraine that has helped stabilize its economy and finances – bolstering the home front and supporting the war effort. We are grateful for the economic support that the UK, European Union, Japan, Canada, and the rest of our global coalition have also provided. In addition to providing economic and budgetary assistance to Ukraine, Treasury is focused on limiting Russian revenues while degrading its ability to finance this unjustified war.

Treasury, in close partnership with the rest of the U.S. Government and our foreign partners around the world, has implemented an unprecedented multilateral sanctions regime against the government of the Russian Federation. This effort has frozen half of Russia's reserves, impaired the ability of its military industrial complex to field a modern army, and significantly cut into Russia's oil revenues. Despite these major actions, and the resulting impact on the battlefield, Treasury and our partners are not sitting still. We are continuing to ramp up our efforts to stop those that seek to evade our sanctions and circumvent our export controls, closing the loopholes in the international financial system that allow for key dual-use goods to continue to move into Russia. We also

continue to find new ways to limit the revenue Russia is able to earn to fund its war while still maintaining global economic stability.

The price cap on Russian oil has been a key element of our efforts. With our Price Cap Coalition partners – including the United Kingdom, the rest of the G7, the EU, and Australia – we imposed a cap on the price Russia can receive for seaborne oil exports that use services from Coalition countries. An innovative tool of economic statecraft, the price cap is designed to keep Russian oil on the market for the emerging economies that need it most while reducing the revenue Russia makes off that oil.

HISTORY OF THE PRICE CAP

When we began developing this policy over a year ago, we faced significant skepticism from industry experts and from market participants. And that was understandable: the price cap was a new idea, designed to do something that a simple view of the global oil trade would have suggested was implausible.

There was the design question. We had goals that seemed on their face contradictory – lowering the Kremlin's revenues while expecting Russia to maintain export volumes.

Then there was the implementation question. Oil is of course a global commodity, and the idea of placing a price cap on the exports from one country would require a deep understanding of the intricacies of the global oil market and the broad network of firms and countries that service it.

And finally, there was the diplomatic question. Transforming the price cap from an idea to an implementable policy required unanimous support from each party in the Coalition, including all 27 EU member states, along with aligned regulatory and compliance regimes across our partners.

Fast forward over a year later, we have seen significant progress in achieving our dual goals. The story of the price cap and its success to date has unfolded in four acts.

First: Russia disrupted global energy markets in February 2022 with its illegal invasion. As the market destabilized, Brent oil prices quickly passed $100 per barrel and Russia began profiteering off its own war. On March 8th, the United States banned the import of Russian oil to our shores, but Russia continued to make windfall profits. Russia's destabilizing actions forced lower-income countries, which spend a greater share of their GDP on energy imports, to face elevated energy prices. This situation was unacceptable to the United States, to the United Kingdom, and to our allies.

Second: in June 2022, the European Union adopted its sixth sanctions package. The sixth sanctions package included, among other measures, a ban on the import of Russian seaborne oil as of December 2022 and—perhaps even more impactfully—a ban on the provision of maritime services from the EU that facilitate the Russian oil trade, including services facilitating Russian exports to third countries. Historically, Europe has dominated the maritime services industry through best-in-class shipping, finance, and insurance. These services are necessary to ship seaborne oil. If the EU quit importing seaborne oil and European service providers completely left the market, energy market analysts predicted that Brent prices could rise above $150 per barrel come December, exacerbating global inflationary pressures and cutting off much-needed energy supply to the emerging world.

Third: over that summer, the United States, United Kingdom, and partners now in our Coalition began forming the price cap policy to accomplish two goals: restrict Russia's oil revenues but also provide stability to global energy markets. Instead of imposing a total ban on Coalition service providers from participating in the Russian oil trade, we instead conditioned their services on the price of Russia's oil exports. Firms could only engage or service this trade as long as it was traded below the price set out in our price cap policy. We crafted the policy so Russia, too, would have an economic incentive to continue trading its oil, albeit at a lower price. Balancing these goals and competing incentives would enable the price cap to help stabilize markets while cutting Russian windfall profits.

The diplomatic coordination necessary to put this policy in action was significant, to say the least – made more complex by the varied impacts the Kremlin's war has had on each Coalition country and the differing economic backdrops, energy supply chain dependencies, and legal frameworks our partners faced. But despite these complex economic and political interests, the Coalition unanimously approved of the price cap policy. Within just months, we took a novel piece of economic statecraft from the idea stage to global implementation. Our unity and our speed demonstrated the resolve we had, and continue to have, in our support for Ukraine.

Fourth: On December 5th, 2022, the EU and UK's import bans, along with the crude oil price cap, went into effect. Brent prices, of course, did not reach $150 per barrel. Instead, markets remained stable. The U.S. Treasury Department, alongside our Coalition partners, engaged in numerous discussions with industry on the compliance framework we crafted throughout the summer. If Russian exporters, any importers, or any other companies involved in trade process wanted to use coalition service providers, they could do so only if the Russian oil was sold at a price below the $60 per barrel cap. In February 2023, we further implemented two price caps on seaborne Russian refined products – $45 per barrel for discount-to-crude products, like fuel oil, and $100 per barrel

for premium-to-crude products, like diesel. These two groups of refined products trade in meaningfully different ways, so the Coalition adopted this nuanced approach to ensure our goals were met with respect to refined product as well.

ASSESSING THE PRICE CAP TODAY

That brings us to today. We recognize energy markets and the situation in Ukraine can change quickly. Nevertheless, eight months after implementation of the first price cap on crude oil, we can assess how the price cap policy has functioned to date. We are confident that the price cap is achieving its twin goals of restricting Russian revenues while helping stabilize energy markets.

On the revenue side, we can look to both data and messaging out of Russia. According to the Russian Ministry of Finance, federal government oil revenues for the first half of the year are nearly 50 percent lower than a year prior. Our approach has struck at the heart of the Kremlin's most important cash cow. Russian oil is trading at a significant discount to Brent oil, limiting the revenue Russia makes on each barrel it sells.

Beyond the numbers, senior Russian officials—from their finance ministry to their central bank—have publicly lamented the impacts of the price cap, and the Kremlin has been forced to re-evaluate its tax system to squeeze more money out of oil exporters. We know, though, that any increased tax rate from Russia today would weaken the long-term outlook for its all-important oil industry.

The average reported price for Russian Urals has hovered around $60, and the Kremlin's revenue numbers remain depressed because any sale of Russian oil facilitated by Coalition services providers must be done at or below $60 per barrel. Many energy market analysts forecasted global oil prices to rise in the second half of 2023 for a variety of conventional macroeconomic reasons, including increased global demand. This expectation was part of the reason we set the crude oil price cap at $60 per barrel, as markets expected global prices to rise in the months after our initial implementation. But even as global oil prices have strengthened recently, the cap limits Russian revenues and continues giving non-Coalition buyers additional leverage to negotiate prices down.

Russia may sell oil without Coalition service providers above the price cap levels so it is not surprising for the average price to be at or even over the cap. But even those transactions come with a cost. Investments the Russian government makes into the shadow fleet or into its own insurance companies in order to sell above the cap, for example, draw funding away from its war chest as the Kremlin's cost of continuing the war in Ukraine continues to rise. Further, we know that Russian oil traded outside of the G7 nexus is still sold at a sizeable discount to Brent oil. All the

while, the proportion of trade Russia can conduct outside the G7 is limited by shipping capacity limitations, subjecting a substantial portion of its trade to the price cap.

Since implementation, this decline in Russian revenues has persisted even as Russian crude oil export volumes remain above 2021 average levels. As a result, since the price cap went into effect, we have seen much more stability in global energy markets than the skeptics feared. Lower-income countries have been beneficiaries of this stability as they continue to import discounted Russian oil that the G7 no longer takes or benefit from generally lower global oil prices. More broadly, stability in global oil markets has tamped down global inflationary pressures. In the United States, energy prices have fallen by nearly 17 percent over the past year—an important contributor to the meaningful slowdown in U.S. inflation. In the EU, from March 2022 through November 2022, annual energy inflation was about 40 percent. This June, energy prices instead fell around 5 percent compared with last year.

Again, we come to this policy with humility and recognize these markets can change rapidly. We also know, like with all of our measures, Russia will attempt to evade the price cap. We remain vigilant in monitoring oil markets and the whole Coalition remains focused on enforcing our sanctions.

Most importantly, we continue to dedicate our collective time, resources, and brainpower to achieving our ultimate goal of stopping the Russian war machine.

With that, I am eager to hear your questions and have a conversation on the price cap.

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