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

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It's a pleasure to join this conversation. The Brookings Institution deserves special thanks for its engagement on our efforts to address Putin's barbaric war, especially on the policy we will discuss today. I am looking forward to speaking with you about the ongoing impact of the price cap and to share the latest on our work to maintain its effectiveness.

The price cap was born out of a response to Russia's illegal and brutal invasion of Ukraine. Though it is part of a broader sanctions response, it has two clearly defined goals. First, to keep global energy markets well-supplied and avoid a price shock that would hurt the global economy – particularly emerging markets – and benefit Putin through windfall profits on the energy he was able to export. And second, to limit the Kremlin's ability to fund its illegal war in Ukraine.

In December 2022, the G7 price cap coalition instituted a price cap on Russian crude oil exports. In February, we instituted similar caps on refined energy exports. I outlined the history and operation of the price caps in more detail in London last August.

The price cap has worked because the coalition controlled over 90 percent of the maritime services and insurance needed to export oil globally at the time of the price cap's launch, and because attempts to build an alternative ecosystem are very costly. Global markets have remained well supplied with oil, and Russia must choose between accepting a steep discount (if they sell oil with G7 service providers under the cap) or incurring tremendous costs to build a new ecosystem that operated without G7 services.

Our approach was precisely designed to force Russia to make hard choices. They could abide by the cap that we set and sell energy at a considerable discount, or they could invest massively in a shadow fleet. Such investments contribute to Russia's growing fiscal deficit: buying tankers makes it harder for the Kremlin to buy tanks.

Ten months after the implementation of the price cap on crude oil—and more than a year since we announced the policy and markets began to anticipate its effects—we can see that the first phase of our approach has been successful.

We've been gratified to see relative stability in energy prices. In the absence of the price cap, some analysts predicted oil prices as high as $150 per barrel, which would have risked a global recession.

We also know that Russian revenue from energy exports – the Kremlin's key source of revenue – has declined 44% compared to last year, prompting public alarm from Russian economic officials. And because this figure doesn't account for the large expense Russia has incurred trying to construct an alternative ecosystem of ships and services, the real economic toll for the Kremlin is significantly higher. There are significant signs of pressure on Russian government finance and on the Kremlin's ability to manage its economy. Deficits have increased, their sovereign wealth fund is being drawn down, and the ruble has collapsed to the extent that the Central Bank of Russia has had to drastically hike interest rates.

Russia has accepted a significant discount on oil sold under the cap, and also made a decision to spend huge amounts of money on an alternative ecosystem to sell oil without G7 involvement. The costs associated with this avoidance keep stacking up: Putin has purchased hundreds of new oil tankers for billions of dollars, and he faces elevated costs of insurance, longer transport times to new importers, elevated capital expenditures on domestic oil wells without G7 involvement, and reinvestments in ports that service non-G7 providers.

In response to Russia's decision to build up its own ecosystem for the transportation of oil at a significant cost to the Kremlin, we are now launching the second phase of our effort which will constrain Russia's profits by increasing the costs associated with using non-G7 services.

Last week, the U.S. Treasury imposed sanctions on two entities and identified as blocked property two vessels that used Coalition service providers while carrying Russian crude oil above the Coalition-agreed price cap. This comes alongside other actions which underscore our resolve to force Putin into difficult choices and increase the costs of his illegal war.

Also on Thursday, the G7 price cap coalition released a joint statement reiterating the risks of violating price cap rules. The statement says that "in the normal course of business, Coalition service providers may interact with market participants in other jurisdictions. Where we have evidence that companies or persons have engaged in illicit or deceptive practices related to shipments of Russian-origin crude oil and petroleum products, we will respond in accordance with the respective restrictive measures established by the Coalition Members."

The Coalition is issuing a Maritime Safety Advisory to "promote responsible practices in the maritime oil industry and enhance compliance with the price caps on crude oil and petroleum products. By adopting the recommendations in the advisory and previous guidance documents, industry stakeholders can reduce their exposure to possible risks associated with recent developments in the maritime oil trade.”

These actions send a clear message that Russia will continue to be forced to face two costly options—selling under the cap and spending more to operate outside the G7 nexus—and that attempts to evade them will face a decisive and unified response.

Our goal of promoting stable global energy markets remains unchanged, and Russia can continue to export energy products through either channel.

The Kremlin can abide by the price cap and continue to sell energy exports at significant discounts from global benchmarks. Or it can choose to further build a costly alternative ecosystem--drastically cutting into the profits Russia earns from each barrel of oil they export.

Because of the actions we announced last week–and the actions in coming weeks and months – those costs will continue to rise, and Russia’s ability to sustain its barbaric war will continue to weaken.