Sansad TV Perspective: Russian Oil Price Cap

In the series Sansad TV Perspective, we bring you an analysis of the discussion featured on the insightful programme 'Perspective' on Sansad TV, on various important topics affecting India and also the world. This analysis will help you immensely for the IAS exam, especially the mains exam, where a well-rounded understanding of topics is a prerequisite for writing answers that fetch good marks.

In this article, we feature the discussion on the topic: **Russian Oil Price Cap.**

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Guests:

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Context: U.S. Treasury Secretary has proposed to cap the price of Russia's oil export.

Highlights of the discussion:

- Introduction.
- Impacts of the price cap.
- Counter views.
- Associated challenges

Introduction:

- U.S. Treasury Secretary Janet Yellen has proposed to cap the price of Russia's oil exports along with other G7 allies as a way to limit Russia's earnings while keeping Russian oil flowing to the global economy.
- The cap is set to take effect on 5th December, the same day when European Union will impose a boycott on most Russian oil.
- Russia, the world's second-largest oil producer, has already rerouted much of its supply to India, China, and other Asian countries at discounted prices. Russia has said it will not observe a cap and will halt deliveries to countries that will follow this cap.
- Russian President Vladimir Putin has further warned that Western plans to introduce oil price caps could have grave consequences for energy markets.

Impact of the price cap on Russian oil:

- There is no consensus regarding the cap that should be imposed because of internal disputes in the European Union(EU).
- It will ban sea-borne imports of Russian crude by the EU and further dislocate the market.
- It is going to create a dual-price market with an official price and a discounted price.
    - It should be noted that Russia is already selling oil at a discounted price to India, China, and Turkey.
- Initially, it will result in serious repercussions on the market as the traders and the tanker owners would find it difficult. There might be a drop in exports and some shock in the production of necessary commodities. However, it will settle eventually and a way out might be adopted by the Russian government.
- There will be significant uncertainties in the global energy market.
- The short-term and mid-term impacts may result in cutting down production by almost seventy percent while establishing alternative supply chains bypassing the EU.
- Whereas in the longer term, Russia might tap the potential of China to fill the gap. Similarly, in the case of tankers, China might supplement it with its own insurance companies.
- The worry is about the roll-out of this policy, especially at a time when the world is already reeling under pressure and this may cause further exacerbation of the oil markets.
- Countries all over the world will have to bear the spillover effects of the cap. The effect will be more pronounced for developing countries.
- Sanctions cause economic distress. Some of the potential economic effects are:
    - The insurance and finance sector would be impacted.
    - It will also hamper maritime services.
    - There will be great fluctuations in the crude oil market.
- There would be a disruption of the Russian gas supply to the European market.
- There might be a disturbance in the export of petroleum products.
- The hydro-carbon market is going to change completely the LNG and spot market.
- The European nation is already feeling the pinch of energy prices, but when the ban will be expanded to other petroleum products in February 2023, there would be further pressure. The diesel market is going to bear the maximum brunt. It should be noted that Russia is a big supplier of diesel and exports nearly 2.5 million barrels of oil and refined products.
- The sanctions will also have serious impacts on the industries of Europe, specifically Germany which is the economic driver of the EU.

Counter-views by some experts:

- The implications of the sanction on Russia will depend on a number of factors including the World oil prices.
- Moreover, there is no clarity on the price yet. For instance, countries like Poland and the Baltic nations want a lower price, and the countries that are dependent on shipping like Greece, Malta, and Cyprus want a higher price cap.
- It is also contested that apart from the G7 countries, there is apprehension about the ban among other importing nations. For example, China and Turkey.
- Since the impact is not only on the oil market but also on other sectors like shipping and insurance companies, the acceptance of an overall ban by these businesses is not possible.
- Sanctions are difficult to enforce. Earlier sanctions on Russia have not yielded the desired results.
- Oil being the most politicized commodity has been repeatedly subject to sanctions. This is evident from as early as the 1955 Iranian revolution to the present day Iran. However, they have failed to achieve the political objective.
- If the price cap is settled at $60-$70, there would not be any serious impact on the Russian economy.
- Even after sanctions were imposed on Iran, they are still exporting oil at a discounted price.

Associated Challenges:

- Much remains to be seen on the response of the OPEC plus countries, where Russia is a major player.
- The enforcement of the sanctions would be difficult as there is no consensus among the members.
- With the ban, there will be more challenges for sustainable development.
- There would be scrambling for resources across the world.
- There would be issues of trade deficit and current account deficit because of remittances and exports of invisible.