

Under Pressure from the US, EU Agrees to Cap the Price of Russian Oil

Biden urged the EU to abandon its insurance scheme that will not work to a cap that will not work either.

By [Mish](#)

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Bickering Over the Cap

The EU agreed to scrap its plan to not insure tankers carrying Russian oil in favor of a Biden-sponsored plan to cap the price of oil.

The insurance scheme was absurd. Russia would have exported oil in tankers not insured. The only loser would be Western insurance companies.

Today, the US and EU are bickering over where the cap is set. Poland wants the cap at \$20 and the Biden administration is looking at caps as high as \$70.

NEW: EU's updated Russia oil price cap legislation includes a 45 day grace period and softer shipping provisions (vessel "intentionally" transporting Russian oil above cap would be prohibited from receiving services relating to Russian oil for 90 days) <https://t.co/HyP4sL6Osk>

— Alberto Nardelli (@AlbertoNardelli) [November 22, 2022](#)

Watered Down Plan

The European Union watered down its latest sanctions proposal for a price cap on Russia's oil exports by delaying its full implementation and softening key shipping provisions.

The bloc proposed adding a 45-day transition to the introduction of the cap, according to a document seen by Bloomberg. The proposed grace period would apply to oil loaded

before Dec. 5 — the date oil sanctions are due to kick in — and unloaded by Jan. 19, aligning the EU to a clause previously announced by the US and the UK.

The EU is also proposing a 90-day transition in the event of any future changes to the level of the price cap.

Western Allies Aim to Agree on Russian Oil Price Cap Wednesday

The Wall Street Journal reports [Western Allies Aim to Agree on Russian Oil Price Cap Wednesday](#) emphasis mine.

Ambassadors from the 27 European Union member states are scheduled to meet Wednesday, when they will try to come to an agreement on a price. The bloc must agree on the price cap *unanimously* and diplomats warned that may prove difficult. The G-7 is aiming to approve the cap in sync with the EU.

The aim of the plan, which was pushed hard by Treasury Secretary Janet Yellen, is to crimp Russian energy exports revenue while avoiding a surge in oil prices when a European embargo on Russian oil imports kicks in early next month. Despite European reluctance at the time, the G-7 first agreed on setting the oil price cap in June following Russia's Feb. 24 invasion of Ukraine.

The price cap will replace Europe's plan to completely ban the financing and insurance of Russian oil shipments, which is set to take effect on Dec. 5. U.S. officials are worried those sanctions would cut Russian oil off from global markets and send energy prices higher, so they want to put into place the price cap by that date.

Aim of the Plan

The aim of the plan is to not eat Russian cake while eating Russian cake.

It's quite amazing that anyone thinks the plan can possibly work, but president Biden, the EU, Janet Yellen and even prominent economists think the cap is a good idea.

You are totally out of your mind if you think a \$30 price cap could work.

Why not cap the price of everything and end inflation?

That's how absurd your proposal is. <https://t.co/pk7NaUtGlm>

— Mike "Mish" Shedlock (@MishGEA) [November 21, 2022](#)

Q&A Why Not?

Q: Why not cap the price of everything and end inflation?

A: Figure it out.

Q: Is it possible a cap might seem to work?

A: Yes. If the cap is set high enough it will be meaningless.

And if by some lucky fate a cap is set where the direction of oil is headed anyway, then the economic illiterates will be hooting and cheering their alleged success.

Why Won't Caps Work?

- China, India and other countries will not go along. That's enough right there to show the ridiculousness of the idea.
- Countries in the EU have an incentive to cheat.

The Incentive to Cheat

Here's an amusing snip from the WSJ:

"Under a compromise hammered out by U.S. and EU member state officials, the ban for vessels will now be time limited, according to people familiar with the plan. *It will also rest on evidence that the vessel had deliberately breached the price cap.*"

Oh, we breached the cap but it wasn't deliberate. What a hoot.

One of Two Things

1. The cap will fail and do nothing.
2. The cap fail spectacularly and drive up the price by re-routing oil headed to the EU to China and India instead. Then the EU will have to get oil from the US or OPEC over longer routes increasing the cost.

The above two points are in isolation. But things should not be viewed in isolation. Given a pending global recession, oil prices are likely to drop anyway.

If they do, then as noted above, the economic illiterates will be hooting and cheering the alleged success of caps.

This is all so stupid that only economists and politicians are dumb enough to believe it can work.

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Featured image: The Primorsk Oil Terminal near St. Petersburg (file image)

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