

## EU fails to reach agreement on Russian oil price cap

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With the December 5<sup>th</sup> deadline fast approaching and with shippers and traders becoming increasingly frustrated at the difficulties they are facing in making any decisions relating to the transport of Russian crude, European Union governments on Monday November 28<sup>th</sup> still could not come to an agreement on what level to set the price cap on Russian seaborne crude oil.

Last week EU diplomats had assured observers that an agreement would be reached by Wednesday, then Friday, but the failure to come to a deal had been predicted in several quarters, mainly because the differences between the two main sides – hardliners Poland and the Baltic States on one side and pro-continuing-traders Malta/Cyprus/Greece on the other – are too great.

Poland insisted that the cap had to be set lower than the \$65 range proposed by the G7, noting that this was actually higher than the discounted market price at which Russia was currently selling.

“There is no deal. The legal texts have now been agreed, but Poland still can’t agree to the price,” one diplomat told *Reuters*.

No new date for talks has been set yet. If there is no agreement on the G7 price cap idea by next Monday, December 5<sup>th</sup>, the EU would implement by default the harsher measures agreed upon at the end of May. This would entail a ban on all Russian crude oil imports from December 5<sup>th</sup> and on petroleum products from February 5<sup>th</sup>. It was a fear in the US that this could lead to a severe price spike and economic disruption that resulted in a US initiative to introduce a half-way-house, which it was hoped would see Russia get less income, while not affecting oil supplies to the west. Russia supplies around 10% of the world’s oil. It has said that it would not cooperate with any price cap system imposed by the west.

Hungary and two other landlocked central European states had already secured exemptions from the proposed EU ban for the pipeline imports on which they rely. The G7 has proposed a cap of \$65 to \$70 a barrel. Poland and the Baltic States have observed that Russian crude was currently selling at \$63.50 a barrel, effectively rendering the “price cap” pointless.

Russian production costs are estimated at around \$20 a barrel. Poland and its north-eastern European allies want a price cap of \$30 per barrel.

Greece, Malta and Cyprus oppose the low price because their shipping industries depend to an extent on a continuation of Russian oil movement, and they fear that a price level this low would kill it stone dead. Western European nations such as Italy have a greater sympathy for the higher price range because they, like the US, are not keen on the political implications of massive supply chain disruption when heading into the coldest time of the year.

“The Poles are completely uncompromising on the price, without suggesting an acceptable alternative. Clearly, there is a growing annoyance with the Polish position,” the EU diplomat said. Malta, Cyprus and Greece were understood to have obtained some (undefined) concessions in the legal texts and were thought no longer to be an obstacle to a deal, but at what price, no-one yet knows