



Are the Mid-Term Elections, Domestic Politics, Economics and Inflation Influencing Our Russian Energy Strategy?

On its face, the U.S. has tried to minimize the sale of Russian oil to the E.U. and the world at large. The U.S. has banned sales of Russian oil to the U.S. and has tried to discourage sales elsewhere. This has had limited success.

Many but not all European countries have cut back on purchases of Russian oil. And at a recent meeting it became clear that some countries (Hungary) wouldn't support an outright ban. Up until early May, Russian production and exports have only been modestly impacted. Russia has, through large discounts, been able to shift sales from Europe to Asia, namely India, Japan and China. These countries have said they couldn't pass up discounted oil.

The Administration is paranoid about the impact that the high price of oil is having on inflation plus the sheer weight on the consumer seeing diesel and gasoline prices rising daily. It doesn't bode well for the mid-term elections. Oil tanker owners and insurers have been putting pressure on buyers of Russian oil and the IEA, and others have been forecasting that Russian exports will start to fall sharply from here on. This has raised the prospects of even higher prices to come.

Now out of the blue our Secretary of Treasury is proposing a new (temporary?) strategy on Russian sales, a **tariff** (not a ban). A tariff on its face would make Russian oil more expensive. But remember, Russia is willing to discount its oil to make it attractive to certain buyers. With prices north of \$100, Russia could easily absorb the tariff and add a discount to continue to make the oil attractive.



The Administration must know that. It would therefore appear that they don't want to see (at the moment) Russia supply declining further. The result would be even higher prices to U.S. consumers with a further reduction in Russian exports. A tariff would make it O.K. to buy the oil, tanker owners and insurers would have less concern doing business with the Russians and would take the pressure of the Asian buyers as well as some European purchasers.

While we are thinking about easing up the pressure on Russian sales, talking once again to Venezuela and contemplation the return of Iran oil, might we not want to sit down and have a conversation with our Canadian allies and U.S. producers? Or is that embargoed?