



Russian Oil Exports: What To Do, What To Do? 06/29/2022

We have a ban on Iranian oil exports. Yet, we choose to look the other way, allowing Iran to export 800,000B/D, mostly to China. The U.S. and its allies have been struggling over what to do about Russian oil exports.

The issue is binary. The Administration could permit the sale, recognizing that the oil is needed, or they could ban all exports outright. Up until now they have chosen to look the other way. It's a policy they will likely pursue for at least to year end.

The fact that they haven't decided between one or the other suggests that there continues to be some major differences of opinion .A complete ban seems to be off the table. Thus, they continue to come up with some derivatives of the sell option. They want to target Asian buyers who are buying Russian oil at \$35/BBL discount. They want to achieve this by capping the price Asian buyers can offer to a price near the cost of production.

If they are successful, it is likely that some Russian production would be lost, raising the price of crude oil to everyone. This option has the least chance of success. Will the Asian buyers cooperate? Doubtful. The Indian government has said they are not buying Russian oil (of course they are). They are buying low-priced oil. They are currently lifting nearly 1MMB/D, 50 times more than a year ago. They say that low-priced oil is too important to their economy to give up. China is the other large buyer.



What would happen if the Russians said to India: If you comply with the cap we will sell you less? India would have to replace the lost Russian oil with higher-priced oil and would have to pay the general increase in oil prices as a result of Russia's cut back in production. Otherwise, Russia might offer India some further discount as long as the price they receive is higher than the capped price.

What would the U.S. and its allies do if India continued to deal with the Russians? Would we embargo them? What would we do with China? Would we break off trade? That is where this leads them. To what avail?

The cap is a cute, cumbersome, convoluted concept. Let's move on.