G7's Price Cap Plan

Why in news?

The Group of Seven (G7) nations and Australia said a consensus had been reached on a $60 price cap on Russian seaborne crude oil, in the wake of the European Union (EU) saying member countries had agreed on the price cap.

What is the price cap plan?

- The $60-per-barrel price limit on seaborne crude imposed by G7 and Australia bears that out, lining up with current market prices.
- The price cap plan is the latest of the sanctions proposed by Western countries against Russia for its invasion of Ukraine.
- For the past few months, US and EU officials have been trying to convince countries including India, China and Turkey to join the coalition or to at least support the price cap.
- They say that the price cap is in the interests of all oil buyers from Russia as it will give them leverage to lower purchase prices.

Russia could continue to sell at prices higher than the cap but services such as insurance for freighters carrying the oil, or vessel clearances would not be available from Western nations.

How will it be enforced?

- For countries that join the coalition, it would mean simply not buying Russian oil unless the price is reduced to where the cap is determined.
- For countries that don't join the coalition, they would lose access to all services provided by the coalition countries including, insurance, currency payment, facilitation and vessel clearances for their shipments.
- Earlier, G7 countries were aiming to reduce the price of oil, but not the quantity of oil that Russia sells, so as to control inflation globally while hurting the Russian economy and its ability to fund the war in Ukraine.
- This could only work, of course, if all countries joined the coalition.
- But, if Russia is able to sell large enough volumes of its crude at a price higher than the cap, it would mean a huge squeeze on oil availability to the coalition countries, especially the G7 which are major consumers.

- This could result in global oil prices skyrocketing and imposing higher costs for raw materials' consumers.

How has Russia reacted to the plan?

- Russia said that it would continue to find buyers for its oil, despite the attempt by Western countries to introduce a price cap on its oil exports.
- Russia said that it won't supply oil to countries that implement the price cap.
- In September 2022, Russia also announced a halt on all supplies via the Nord Stream 1 pipeline to Europe due to "maintenance issues" arising from the EU sanctions already in place.
- This has raised the fears of a very difficult winter for European countries.

Will the Indian government comply with the price cap?

- The price cap is only the latest in a number of sanctions to hurt the Russian economy that the U.S. and EU have tried to bring India on board with: asking India
    1. To change its uncritical stance on Russia at the United Nations,
    2. To cutting down oil imports,
    3. To stopping defence and other purchases from Russia, and
    4. To avoid the rupee-rouble payment mechanism that circumvent their sanctions.
- Thus far, India has not obliged. India's oil intake from Russia, which was minuscule prior to the war has soared 50 times over.
- At the Eastern Economic Forum (EEF), India said that it wanted to "strengthen" ties with Russia in the energy field and boost India's $16 billion investment in Russian oilfields.
- It also remains to be seen whether India will bargain with the U.S. to set aside sanctions against Iran and Venezuela, from which it cancelled oil imports under pressure from the U.S. in 2017-18, in exchange for joining the price cap coalition.

Reference

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2. Indian Express | The G7's price cap on Russian oil begins to take shape
3. Reuters | Analysis: G7 Russian oil price cap evolves from revenue squeeze to market anchor