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The EU's eighth package of sanctions against Russia: approaching the oil price cap

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In response to Russia's further aggression against Ukraine and the illegal annexation of its territories, on 6 October the European Union adopted its eighth package of sanctions. Its most important element is the announcement, agreed within the framework of the G7, that it will introduce a price cap on Russian oil exported by sea to third countries. This instrument provides for an exemption from the ban already introduced in the sixth package of EU restrictions concerning the handling of oil supplies from Russia to non-EU countries. According to the current provision, EU entities will be able to provide maritime transport and technical assistance as well as brokerage or financial services related to the export of crude oil and petroleum products originating in or exported by sea from Russia to third countries, but only on condition that the (contractual) purchase at or below a pre-established price cap. This derogation will take effect from the date when the European Council gives its unanimous approval the price cap level, which will be agreed on beforehand by the Price Cap Coalition. At the same time, the European Union announced that it would closely monitor and counter any attempts to circumvent the price cap, including, inter alia, the deflagging of vessels.

As previously announced, the eighth package of sanctions also included further restrictions on exporting EU goods to Russia, including technologies which could enhance the Russian Federation's military and technological capabilities (including semiconductor devices & parts and specialised chemicals), and on the import of Russian goods to the EU (including more categories of steel products, paper, and certain elements used in the jewellery industry). The restrictions also include a ban on EU natural & legal persons providing Russia with architectural and engineering services, as well as legal and IT consultancy services. Furthermore, EU citizens will not be allowed to hold any posts on the governing bodies of companies controlled by the Russian government. In addition, personal sanctions were extended to further individuals, including those involved in the pseudo-referenda in the occupied territories, the armed hostilities, and the promotion of pro-Kremlin propaganda (see *Official Journal of the European Union L 259 I*).

On 5 October, during the OPEC+ summit in Vienna, Russian Deputy Prime Minister Aleksandr Novak, who is responsible for energy issues, reacted to reports of the EU's eighth package of sanctions by threatening that Russia could temporarily reduce its oil production significantly, in order to offset the negative effects of the price cap. In his view, the G7's initiative violates all the market mechanisms, and could prove disastrous for the global oil industry. At a summit in Vienna the OPEC+ states (of which Russia is also a member)

agreed to reduce their oil production quotas by 2 million barrels per day (less than 2% of global consumption) starting from November; compared with the figure for September, however, in real terms the drop in production will amount to less than 1 million barrels per day).

Commentary

- The relatively rapid agreement on the eighth package of sanctions is of considerable importance for the EU's image, and once again demonstrates the bloc's unity and opposition to Russian aggression. However, reaching this consensus has required compromises. Some of the much more radical restrictions, demanded by Poland and the Baltic states among others, were rejected. For example, it proved impossible to prohibit cooperation with Russia in the field of nuclear energy (which Hungary among others opposed) or diamond imports (vetoed by Belgium). Yet again, Patriarch Kirill was not included on the sanctions list (Hungary opposed this). In addition, Greece, Cyprus and Malta agreed to support the price cap (where a significant part of the tankers transporting Russian oil are registered) when they were promised that the EU will react if these countries begin to suffer losses as a result of its introduction. At Budapest's request, the document also confirms earlier exemptions which allowed certain member states (Hungary, the Czech Republic, Slovakia) to continue importing oil and petroleum products from Russia because of these countries' specific situation or in the event that the supply of crude oil by pipeline from Russia is interrupted for reasons outside their control.
- The most important element of the eighth package of sanctions is the EU's agreement to introduce a price cap on exports of crude from Russia by sea to third countries. This is intended to strengthen the EU's embargo on maritime imports of oil (which will come into force on 5 December this year) and petroleum products (scheduled for 5 February 2023); for this reason the implementation of the price cap has been closely co-ordinated with these restrictions. However, including the price cap in the sanctions package just means that the real application of this mechanism becomes a legal option, because the essential factor will be determining the level of the ceiling for the export price of Russian oil. All the states which join the initiative – that is, the G7 and other countries ready to co-operate – should be involved in this process. However, the price cap will only be implemented if the European Council accepts the price ceiling at which it will be imposed. It is also unclear what action the EU intends to take to protect its own economy should the fears of Greece, Malta or Cyprus concerning the deflagging of their tanker fleets, with the consequent loss of revenue for these countries, come true.
- Additionally the attitude of non-Western importers, mainly China, India and Turkey, will be a key factor in whether the price cap mechanism succeeds and Russian oil revenues are genuinely reduced. So far, the US administration has been trying to convince these countries' governments that joining this initiative will be economically beneficial for them, because the White House – despite the pressure from Congress – wants to avoid the threat of secondary sanctions so it can enforce the application of the price cap mechanism.

- On the other hand, the effectiveness of the initiative may be limited by decisions taken by the oil producing states, including Russia. OPEC's plans to reduce its production quotas are likely to push up global prices (with the threat of global recession being a major factor impeding this growth). For this reason, the US reacted strongly to the decision by OPEC+. Washington has announced that it is intensifying work on an antitrust law which would make it possible to bring foreign entities before US courts if they undertake anti-competitive behaviour in the oil market.
- The energy sector has also been negatively affected by Russia's threats to significantly reduce its oil output and its announcements that it will suspend exports to those countries which join the price cap mechanism. The Kremlin may thus attempt to create a deficit of crude oil on the global market, so that the ensuing high prices compensate for its losses caused by the fall in volumes of exports. However, in order to encourage Russia to maintain production, the G7 has announced that the reference point for setting the price cap will be bases on the conditions in Russian oilfields, where production costs are high.