Questions and Answers: G7 agrees oil price cap to reduce Russia's revenues, while keeping global energy markets stable

Brussels, 3 December 2022

What does the oil price cap achieve?

The price cap – which comes on top of the EU import ban on Russian seaborne crude oil and oil products, and the corresponding bans of other G7 partners – will further reduce the revenues Russia earns from oil. The oil price cap [60 USD per barrel for crude oil] will also serve to stabilise global energy prices which Moscow's illegal war on Ukraine has inflated.

It will help address inflation and keep energy costs stable at a time when high costs – particularly elevated fuel prices – are a great concern to all Europeans.

How has the cap been set?

The price cap rate has been set in legislation by the Council and agreed by the international Price Cap Coalition. This Price Cap Coalition conducted a technical exercise and reached consensus on the appropriate level at which to fix the price cap rate. This rate is a price per barrel.

The price cap rate has been approved by a unanimous decision of the Council. This decision will introduce the price cap in Annex XI to Decision 2014/512/CFSP. In accordance with this Decision, the price cap has been inserted into EU law by an amendment of Annex XXVIII to Regulation (EU) 833/2014 via a Commission Implementing Act. Any subsequent changes would require the same procedure i.e. a Council Decision and a Commission Implementing Act.

This information will be published in the Official Journal of the EU.

Is the cap set in stone?

No. The price cap is fixed for now but adjustable over time. After the initial cap has been set, the price may be amended in the future to reflect market developments and technical changes, as agreed by the Price Cap Coalition. This review should take into account a variety of factors, which can include the effectiveness of the measure, its implementation, international adherence and alignment, the potential impact on coalition members and partners, and market developments.

What sort of exceptions have been agreed?

The price cap does not affect in any way the full EU import ban on Russian crude and petroleum products and the specific exceptions and derogations thereunder which were already agreed in previous sanctions packages. These exceptions and derogations allow certain Member States to continue importing crude oil and petroleum products from Russia due to their specific situation or to import seaborne crude oil from Russia if the supply of crude oil by pipeline from Russia is interrupted for reasons beyond their control.

Specific projects which are essential for the energy security of certain third countries may be exempted from the price cap. The current list of exempted projects referred to in Article 3n(6)(c) are contained in Annex XXIX.

Are there any transition periods provided for the transport of Russian oil?

The price cap enters into force as of 5 December 2022 for crude oil and as of 5 February 2023 for petroleum products [the price for refined products will be finalised in due course]. These measures apply to Russian crude oil falling under CN code 2709 00 and Russian petroleum products falling under CN code 2710. There is a 45-day wind-down period for seaborne Russian crude oil purchased above the price cap, provided it is loaded onto a vessel at the port of loading prior to 5 December 2022 and unloaded at the final port of destination prior to 19 January 2023. Maritime-related services and maritime transport can be provided during this period. There is no equivalent provision for petroleum products.

After the initial price cap has been set, the price may be amended by the Price Cap Coalition. Where

this occurs and the price in Annex XXVIII is changed, there is wind-down period of ninety days (90) for the maritime related services and maritime transport of Russian crude oil (and petroleum products).

What happens if a ship disrespects the price cap?

If a third country flagged vessel intentionally carries Russian oil above the price cap, EU operators will be prohibited from insuring, financing and servicing this vessel for the transport of Russian oil or petroleum products for 90 days after the cargo purchased above the price cap has been unloaded.

If an EU vessel, such as an EU flagged vessel, violates the price cap, it will be subject to the consequences that follow under each Member State's national legislation.

Which countries have agreed to this oil price cap?

G7 members and other participating countries ('Price Cap Coalition'), such as Australia.

What about the risk of circumvention? Surely shipping companies will just reflag?

EU sanctions apply within the jurisdiction (territory) of the EU, to EU nationals in any location, to companies and organisations incorporated under the law of a Member State – including branches of EU companies in third countries, as well as on board aircraft or vessels under Member States´ jurisdiction.

The prohibition to transport Russian seaborne oil applies to all EU vessels, i.e. EU flagged vessels, and also vessels that are owned, chartered and/or operated by EU companies or nationals. This would also cover agents acting on their behalf. The EU refrains from adopting sanctions having extra-territorial application in breach of international law. For the oil price cap, all countries are currently being invited by the G7 to join the Price Cap Coalition.

If they agree to join, this means they agree to purchase oil at or below the price cap. This will allow them to benefit from transport and other related services (insurance and financing) provided by EU operators, and a lower price.

If they do not join the Coalition, meaning that they purchase the oil above the price cap, EU operators will not be able to transport such oil to those countries, nor provide financing or insurance to them.

The goal of the price cap is thus two-fold: to keep low-priced Russian oil flowing onto global markets and to reduce the Russia's revenues to be able to wage war.

With the price cap, there are clear incentives for Russia, oil importing countries and market participants to maintain the flow of Russian oil. This will achieve both objectives at the same time.

The United States, the EU, and other G7 countries have already committed to phasing out imports of Russian oil. That will not change. Instead, the price cap allows our service providers to support shipments of Russian oil to other countries, if purchased below the price cap. This means that the main beneficiaries of this lower-priced oil will be third countries, including developing countries in Africa, Asia, and Latin America, which in turn serves global market stability.

Does this involve a weakening of EU sanctions?

No. The price cap does not change our EU oil import ban. It involves amending EU sanctions (the maritime services ban) to allow the provision of these services under the strict condition that the Russian oil is purchased *below the cap*. Services for transport and transport above the cap remain fully sanctioned. This amendment will actually help strengthen the overall impact of global sanctions against Russia, by creating incentives for a coalition of third countries to trade at or below the cap, thereby pushing down prices and reducing Russia's revenues.

What does this mean for the maritime industries of certain Member States?

The full import ban into Union of Russian crude oil and refined petroleum products, already agreed by the Council in June, is not affected – so nothing changes for Member States on this front.

As regards maritime services and maritime transport by Member States' providers covering Russian oil, there is no impact as long as the trades concerned remain at or under the set cap.

The Commission will continuously monitor the possible broader economic impact on Member States and will, together with allies, continue to strive for the largest possible price capping coalition, to render this system as effective as possible.

General

What is the rationale of imposing such sanctions?

Sanctions are targeted at the Kremlin. They aim to weaken the Russian government's ability to finance its aggression against Ukraine and are calibrated in order to minimise the negative consequences on the Russian population.

Sanctions are imposing a direct cost on Russia for its war of aggression and damaging Russia's industrial and economic ability to wage war, manufacture more weapons, and repair existing weapons systems. The sanctions also deprive the Russian army and its suppliers of the goods and equipment needed to wage its war on sovereign Ukrainian territory.

In addition, sanctions are designed to maximise the negative impact for the Russian economy, while limiting the consequences for EU businesses and citizens. We welcome EU companies' diligence in complying with the sanctions framework in place.

Ensuring an effective and diligent implementation of sanctions is key to prevent circumvention. This is primarily the responsibility of Member States.

In this process, the European Commission is fully committed to assisting them and ensuring a consistent implementation across the Union.

Are EU sanctions causing a food crisis?

No. It is Russia's unprovoked invasion of Ukraine and Russia's deliberate actions - such as blocking grain exports from Ukraine, burning crops and silos, stealing Ukrainian cereals, and complicating trade - that is provoking a global food crisis.

None of the EU's sanctions adopted against Russia prevent the supply of agri-food, medical equipment or medicines for the general population.

None of the sanctions adopted by the EU in view of Russia's war of aggression in Ukraine target the trade in agricultural and food products, including cereals and fertilisers, between third countries and Russia.

If third countries wish to buy Russian fertilisers, there are no EU sanctions that would prohibit this.

On 19 September 2022, the EU issued updated guidance to clarify the situation in which EU operators transport a sanctioned item to a third country. It makes it clear that the transfer of Russian fertilisers to third countries *via* the EU is permitted.

In a very challenging environment with rising production costs for farmers, we need to become less dependent on inputs for fertilisers production from unreliable trade partners. We must diversify our sources of supply. The Commission proposed legislation for this diversification, notably the suspension of import tariffs on fertilisers inputs that originate in countries other than Russia or Belarus.

For More Information

Press release

Official Journal

European Commission website on Ukraine

Q&A on restrictive measures

QANDA/22/7469

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