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Talk of High Russian Price Cap Eases Fears of Disruption

EU discussions around a high G7 price cap on Russian oil exports are being viewed as bearish for oil markets.

The EU continued Thursday to try to reach a consensus on the level for the planned G7 cap, with a proposal to set it in a $65-$70 per barrel range criticized by different countries as either too high or too low.

But market reactions were that the high proposed price should be good for supply.

"With the currently discussed price level above the price of Russian crude, Russian oil will continue to flow, but also Russian oil export revenues will not be curbed," commodity analyst Giovanni Staunovo at Swiss bank UBS, told Energy Intelligence.

Official Russian data shows that the current discount for Urals crude to benchmark Brent is $22-$23. With Brent currently trading around $85, this implies a value of roughly $60-$65 for Urals — slightly below the range initially proposed in EU discussions this week.

The cap aims to allow Russian exports to continue flowing, while capping Moscow's revenues for the war in Ukraine.

Negotiations are going down to the wire, with the price cap on Russian crude to apply from Dec. 5, when the EU embargo on Russian crude imports takes effect, and on Russian oil products from Feb. 5.

In parallel, companies in the G7 group of countries plus Australia will be barred from providing services to Russian oil shipments unless cargoes are priced under the cap.

Moscow's stated position is that it will not comply with the price cap, and that supply will suffer — although it hinted on Thursday that it could review this position.

China Dismissive

China and India have emerged as the top destinations for cheap Russian crude. Chinese sources are dismissive of the cap, with a government energy analyst calling it "useless" and a crude trader with a state-run refinery saying it would have "no impact" on China's crude imports.

India's largest refiner, the state-owned Indian Oil Corp., has said it suspended orders for Russian crude delivery beyond Dec. 5 as it waits for clarity on the cap. But imports from Russia made up only a "minuscule" percentage of its total imports, a senior executive told Energy Intelligence.

If the cap were set at $65-$70/bbl, there should still be plenty of crude around, says a London-based crude trader. "[Mideast] crude will be in surplus, which flows into Europe, then North Sea, Caspian and West African crude should be cheaper. It's all related," the trader said.

Splits in Europe

Differences have emerged this week between EU member states over the level to cap prices at, with Baltic countries Poland, Estonia and Lithuania understood to be seeking a cap as low as $30/bbl, arguing that the higher proposal would guarantee far too much revenue for Russia and make the entire exercise pointless.

Meanwhile, Greece, Cyprus and Malta, countries with big shipping industries, have called for a higher cap than $65-$70/bbl, arguing that even at those levels they will lose business.

The price cap idea emerged mainly in response to concerns, particularly in the US, that the shipping ban would severely disrupt global oil trade, spiking prices and harming Western economies.

Officials have described it as a kind of safety valve that prevents the EU ban from causing havoc in the markets.

“Brussels passed sanctions in June that the market probably can't accommodate,” Ben Cahill, a senior energy fellow at the Center for Strategic and International Studies in Washington, wrote on Twitter.

“If the G7 set the price cap much lower it would create a huge arbitrage opportunity: temptation for market players to cheat to access cheaper Russian oil. G7 might be trying to avoid this.”

Simon Martelli, London and Amena Bakr, Dubai and Tom Pepper, Brussels

Kremlin ‘Analyzing’ Price Cap Response

Moscow is keeping a close eye on the negotiations between EU countries to set the level of the price cap on Russian oil and will analyze the proposed levels before deciding how it will respond.

"We proceed from the guidelines by President [Vladimir] Putin that we will not supply oil and gas to the states that would join the caps," the Kremlin's spokesman Dmitry Peskov was quoted as saying Thursday. "But seeing the figures we certainly have to analyze everything before formulating our position," he added.

Peskov’s comments are the first indication that Russia could adjust its position on the G7 proposal.

Until now the official view seemed to be unshakable. Russian Deputy Prime Minister Alexander Novak repeated earlier this week that Russia would not supply its oil under price cap limitations since this is a violation of market rules.

A proposed range for the cap being discussed by the EU has been reported at $65-$70 per barrel. This is what Russian exporters get now for the Urals crude export blend volumes they sell to global markets.

It is likely no coincidence that Russia has introduced the possibility of moderating its stance just as EU nations struggle to agree on the price levels. Countries dependent on global shipping, including Greece, Cyprus and Malta, have pushed to set the cap at higher levels in order to keep trade in Russian barrels flowing.

The issue of the price cap for Russian oil was also discussed during the telephone conversation between Putin and Iraqi Prime Minister Mohammed Shia al-Sudani Thursday.

According to the Kremlin's website, Putin emphasized that "such actions contradict the principles of market relations and with a high degree of certainty will lead to hard consequences for global energy markets."

Peskov made his statements in response to a question on Moscow's reaction to a price cap that would be at the market price level or even higher.

"All this should be subjected to a deep analysis," he reiterated but noted that "the nuances being discussed by the Europeans at the moment are not clear."

If the EU agrees to a price cap at levels that are acceptable for the Russian exporters, Moscow could face a choice between sticking to its political declarations and economic sense.

A major factor against the latter could be the refusal to play by Western rules that Russian officials have said distort market principles and a belief that agreeing to any such concessions could lead to even tighter demands from the West in future, according to a Russian oil executive.

Russian finance ministry guidelines for budget, tax and tariffs policy envisage the oil price at $70.10/bbl in 2023, which is to go down to $67.50/bbl in 2024.

Peskov called the current price levels for the cap that are under discussion inexplicable.

Describing the debate by 27 EU countries that still failed to come to a unanimous decision on the issue, he said that "there is an impression they try to take decisions for the sake of a decision-taking, just to tick the box that the price cap has been introduced."

Staff Reports

Gas Price Cap Division Forces EU to Delay Plans

Mutiny from member states over a proposed wholesale gas price cap has forced the EU to put off formal approval of a package of measures aimed at tackling the continent's energy crisis.

EU Energy Commissioner Kadri Simson insisted political agreement was reached on five key issues, including plans for joint gas purchases and agreements to share gas between members states as well as streamlined permitting for renewables.

But those measures were not officially passed as formal votes were delayed to the December meeting as price cap supporters sought to increase their leverage over the negotiations.

Putting a brave face on the divisions over the cap, Czech Energy Minister Jozef Sikela told a press conference in Brussels that he expected to see consensus reached on the issue at a special meeting scheduled for mid-December — "there is too much at stake" he insisted.

Politicians across Europe have been under pressure to take action as a sharp fall in pipeline gas imports from Russia drove gas and electricity prices to sky-high levels this year, inflicting financial pain on vulnerable businesses and consumers.

Ahead of the meeting, the European Commission submitted a proposal to cap the price of the front-month Dutch TTF gas futures contract — a widely used reference price — at €275 per megawatt hour ($83 per million Btu).

But the cap would only be activated if prices for month-ahead contracts on the Dutch gas benchmark TTF futures market exceeded the €275 level for two consecutive weeks and if the price was €58 higher than the global price for LNG for 10 days.

Price Cap or a Prank?

Simson insisted the cap remained a proposal and "was never going to be agreed today."

But going into the meeting it was already clear how far apart member states remain.

Politicians from Poland and Italy have said it is too high to be effective and would not even have been activated during summer's record-high gas prices.

"The gas price cap … currently does not satisfy any single country. It is a kind of joke for us," Polish Energy Minister Krzysztof Tchorzewski told journalists. "It is already minus 10 in Poland so we don't want to keep on discussing about solidarity and permitting on renewables … it's winter now so we need to discuss the gas price cap."

States such as Germany and the Netherlands are against any cap that threatens Europe's security of gas supply.

"The proposal which is on the table now regarding the market mechanism is flawed," Dutch Energy Minister Rob Jetten told journalists. There's a lot of risk for damaging ... security of supply and also for the stability of the financial markets."

Emergency Measures Held Hostage

Simson pushed the idea of a "political" agreement on the package of changes as significant for EU energy policy, even if their formal enactment had been delayed.

On joint gas purchases the EU said it had put a process in place “that will allow us to pool our demand through the EU Energy Platform and buy 13.5 billion cubic meters of gas together next year in time to refill our storage,” she said.

The EU’s Agency for the Cooperation of Energy Regulators will work on developing a new EU LNG benchmark by the end of March. “The current most popular benchmark, [Dutch] TTF, no longer reflects the situation on the EU gas market and a complementary instrument is needed.”

Simson also said agreement was reached on developing “circuit breakers” for intra-day derivatives trading, to avoid volatility and “ease liquidity stress for energy utilities.”

Finally, she said states had agreed to “reinforce … EU energy solidarity to make sure that in the event of an emergency no member state will be left alone.”

In practice, an EU diplomat told Energy Intelligence that solidarity was a sore point.

EU states should have agreed bilateral deals with border states six years ago under law 1938 to allow a secure supply of gas across the Union, but to date only three bilateral deals are actually finalized.

Tom Pepper, Brussels

Gazprom to Boost Spending in 2023

Russia’s Gazprom plans record spending for 2023, buoyed by strong cash flows from unprecedentedly high gas export prices in Europe.

The company has proposed a 2 trillion ruble ($38 billion) investment program for next year, up 16% from this year’s record spending plan of 1.98 trillion rubles, the state-run pipeline gas exporter said Thursday.

The proposal is pending approval by the board of directors in December.

Gazprom’s huge windfall revenue allowed it to also pay 1.2 trillion rubles in dividends for the first half of this year, more than in any previous full year.

This came despite having to pay more in extra taxes, as the Kremlin asked exporters to share their windfall revenue with the state to support the economy following international financial sanctions over the February invasion of Ukraine.

Rubles for New Export Routes

Gazprom’s investment focus is shifting to the East, as Moscow seeks to diversify energy exports away from Europe amid the bitter divorce with the West over the war in Ukraine.

New projects in the East might include the proposed 50 billion cubic meter per year Power of Siberia 2 pipeline to China and its Mongolian transit section dubbed Soyuz Vostok, as well as a link between the existing Power of Siberia and Sakhalin-Khabarovsk-Vladivostok.

However, it’s unclear whether significant investments can begin already next year as both projects are now only in the design stage.

The immediate spending targets in the East are the ramping-up Chayandinskoye field and the new Kovyktinskoye field, scheduled to start commercial production next month.

Both fields will feed the Power of Siberia export pipeline to China.

The pipeline’s last 800 kilometer section was completed this year, meaning Gazprom’s spending there should be limited to construction of compressor stations as part of the ramp-up plans under the 38 Bcm/yr supply contract.

To process these new volumes, Gazprom will ramp up the 42 Bcm/yr Amur plant to handle Power of Siberia gas for exports to China. It will also build the 45 Bcm/yr Ust-Luga plant in northwestern Russia, which is planned to include a 13 million ton per year LNG facility.

The key projects in 2023 still include the development of new gas fields on Yamal Peninsula in the Arctic, according to Gazprom, although long-term upstream expansion plans in the Arctic might be dimmed by Europe's goal to gradually phase out Russian pipeline gas imports by 2027.

Gazprom's most immediate spending target on Yamal is the 32 Bcm/yr Kharasaveiskoye field, scheduled for launch in 2023-24.

Staff Reports

Korea Mum on Price Cap But Russian Imports Plunge

Questions remain about South Korea's approach to compliance with the G7 oil price cap ahead of the new policy's introduction in two weeks.

The country is not a G7 member but is closely allied with the group and particularly the US. But it has also had an historical focus on maintaining diverse energy supplies to preserve energy security.

Analysts say South Korea is likely to at least nominally support the application of the cap. However, it remains unclear how strictly the government might push refiners to comply with it.

South Korean Finance Minister Choo Kyung-ho reportedly said in July that the government was willing to back a US-led price cap. But there has been no official discussion of this in Seoul since then, said Jeremy Chan, a consultant with global risk consultancy Eurasia Group.

Seoul would quietly prefer that the cap is fixed at the higher range of prices that are being discussed by the US and G7 governments, he added.

"In this respect, South Korea's official position would not differ markedly from that of Japan, which as a G7 member has supported the price caps but received exemption for oil exported from the Sakhalin-2 facility in which it is an investor," Chan noted.

Whatever Seoul decides, refiners should be able to comfortably cope with the loss of Russian crude imports, which have already fallen to a negligible proportion of South Korean refiners' feedstock.

Hanging over Seoul's political considerations are a Russian warning against the price cap and Moscow's relationship with archrival North Korea.

"In September, Russia explicitly warned South Korea not to join the price caps, threatening to cut off all energy exports to Korea if it does," Chan said.

Seoul's calculus could also be affected by North Korea reportedly supplying artillery rounds to Russia, as well as Moscow's continued efforts to block US-led efforts at the UN Security Council to condemn recent North Korean missile launches, he added.

Russian Volumes Replaceable

South Korea imported an average of 71,000 barrels per day of Russian crude in the first nine months of this year, less than half the 148,000 b/d it imported over the same period last year, according to data from Korea National Oil Corp.

This means that Russian crude's share of total South Korean imports has fallenfrom 5.7% for January-September 2021 to just 2.5% for the first nine months of this year.

From May onward, those monthly volumes dropped to levels ranging from zero to a high of 33,000 b/d, which translates to just 1 million barrels in the month of July.

South Korean buyers have mainly been buying Russian light, sweet Sokol crude when they do take Russian crude this year, said three trading sources.

If South Korea completely stops buying Sokol, it can be "easily replaced" by other crudes, said a Northeast Asian refiner source.

Potential replacement crudes include Abu Dhabi's light, sour Murban, other Emirati light sours, Saudi light, sour Arab Extra Light, US grades and Latin American crudes, trading sources said.

Given that South Korean refineries are generally "extremely sophisticated," they wouldn't even need a like-for-like replacement for Sokol and could instead process heavier crudes, said an Asian refining source.

The economics of a replacement crude rather than closeness in quality to Sokol are likely to be the more important consideration for refiners, he added. Heavier, more sour crudes would also likely be cheaper than Sokol.

Freddie Yap, Singapore and Clara Tan, Singapore

Oil Drops as Price Cap Comes Into Focus

Oil prices fell on Thursday, hovering around two-month lows as the level of a proposed G7 cap on the price of Russian oil raised doubts about how much it would limit supply.

A bigger-than-expected build in US gasoline inventories and widening Covid-19 controls in China also added downward pressure on crude prices.

Brent crude futures were down 77¢, or 0.9%, to $84.64 per barrel at 2:45 p.m. GMT, while US West Texas Intermediate crude futures fell 36¢, or 0.5%, to $77.58.

Both benchmarks plunged more than 3% on Wednesday on news the planned price cap on Russian oil could be above the current market level.

The G7 group of nations is looking at a cap on Russian seaborne oil at $65-$70/bbl, a European official said, although EU governments have yet to agree on a price.

A higher price cap could make it attractive for Russia to continue to sell its oil, reducing the risk of a supply shortage in global oil markets.

The Kremlin on Thursday said Russia does not plan to supply oil and gas to countries that support the cap but it will make a final decision once it analyzes the figures.

"When one considers that the current Russian export price is below the proposed limit, the price cap automatically implies uninterrupted Russian exports," said PVM Oil analyst Tamas Varga.

Some Indian refiners are paying the equivalent to a discount of around $25 to $35/bbl to international benchmark Brent crude for Russian Urals crude, two sources said. Urals is Russia's main export crude.

EU governments will resume talks on the price cap on Thursday or Friday, EU diplomats said.

Oil prices also came under pressure after the Energy Information Administration said on Wednesday that US gasoline and distillate inventories rose substantially last week.

But crude inventories fell by 3.7 million barrels to 431.7 million bbl in the week to Nov. 18, compared with expectations for a 1.1 million bbl drop in a Reuters poll of analysts.

China on Wednesday reported the highest number of daily Covid-19 cases since the start of the pandemic nearly three years ago. Local authorities tightened controls to stamp out the outbreaks, adding to investor concern over the economy and fuel demand.

Meanwhile, Chevron could soon win US approval to expand operations in Venezuela and resume trading its oil once the Venezuelan government and its opposition resume political talks, four people familiar with the matter said on Wednesday.

Venezuelan parties and US officials are pushing to hold talks in Mexico City this weekend, the sources said. It would be the first such talks since October 2021 and could pave the way for easing US oil sanctions on Opec member Venezuela. (Reuters)

IN BRIEF

Another Gazprom LNG Cargo Going to Greece

A third cargo from Gazprom's recently launched Portovaya LNG facility may reportedly end up in Greece, a traditional market for Gazprom's pipeline gas exports.

The *Pskov* tanker with a cargo from Portovaya may soon head to the Revithoussa LNG terminal in Greece, Russian business daily *Kommersant* reported Thursday citing a source.

The vessel has been waiting for weeks in the Mediterranean and near Port Said at the northern end of Suez Canal, according to ship-tracking data.

It had already delivered a Portovaya cargo to Greece on Oct. 3, which was the first-ever cargo sent from Portovaya, launched in northwestern Russia after years of delays. Another tanker, the *Velikiy Novgorod* also supplied a Portovaya cargo to Greece on Nov. 16.

Gazprom also supplies pipeline gas to Greece and other countries in southern Europe via the Turk Stream offshore pipeline, but its LNG from Portovaya appears to be competing with other LNG suppliers rather than with pipeline gas, industry experts suggest. Turk Stream gas flows did not change much when Revithoussa received Portovaya cargoes.

Staff Reports

Singapore Stocks Drop

Singapore onshore oil product inventories dropped by 2.8% from a week ago to 40.09 million bbl on Nov. 23, according to data released by government agency IE Singapore. The stocks levels are one of the indicators of the products supply balances in Singapore, the Asia-Pacific's trading and pricing hub.

SINGAPORE ONSHORE PRODUCT STOCKS

('000 bbl)	Nov 23	Nov 16	Vol. Chg.	%Chg.
Light Distillates	12,978	13,166	-188	-1.4%
Middle Distillates	7,388	6,898	490	7.1
Fuel Oil	19,728	21,168	-1,440	-6.8
Total	**40,094**	**41,232**	**-1,138**	**-2.8%**

Source: IE Singapore

Freddie Yap, Singapore

Editor's Note: Thanksgiving Holiday

Today's edition is published as a joint issue of *Oil Daily* and *International Oil Daily* due to the Thanksgiving holiday in the US. The usual review of oil and gas prices is not included.

DATA SNAPSHOT

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