



The Daily Dish

# A Price Cap for Russian Oil

DOUGLAS HOLTZ-EAKIN | JUNE 29, 2022

News [reports](#) are that Treasury Secretary Janet Yellen has been proposing measures to “enforce a price cap on Russian oil, a move that US officials hope would maintain global crude oil supplies while at the same time limiting Moscow’s revenue.” In the aftermath of the G7 meeting, the [press indicates](#) that the proposal is under consideration.

This is not going to be easy.

For simplicity, suppose there is only one grade of oil (there is not) and that it is currently priced at \$100 a barrel. The plain-vanilla version of the idea is that Russia will only get \$50 per barrel if it sells its oil to Europe. Europe would continue to pay \$100 for other sources of oil. It is extremely unlikely that this situation results in sales from Russia to Europe at \$50 a barrel.

Suppose there is a country – call it “Doug” – willing to buy the oil from Russia at a price above the \$50 cap. Doug could buy it at \$60 and turn around and sell it at \$100 on world markets. Effectively, the Russian oil would be transformed into Doug oil and, in the process, enrich Doug to the tune of \$40 a barrel.

That’s easy money, so other countries – let’s call them “Gordon,” “Sarah,” and “Whitney” – try to get into the business. In the process, the \$60 price gets bid up to successively higher levels with the ultimate outcome being very close to the original situation. Russia is getting essentially \$100 a barrel and the combined “Russia plus other countries” global supply of oil is being divided among oil users in the same pattern as before.

The key is that you can’t charge different prices for the same thing. If there is only one kind of oil, then anything other than one price creates a money-making opportunity.

Clearly, this plain-vanilla version is not the actual plan. *Reuters* reported: “Details on the plan haven’t been released, but the US is seeking to impose restrictions on insurance and shipping to enforce it.” Bringing in these complements to crude oil may permit restricting the free flow of oil among the Doug-Gordon-Sarah-Whitney axis and thus interfere with the market pressures that undo the price cap and permit Russia to continue to earn oil revenues.