Oil

# ‘Mission impossible’: the problem with Biden’s plan to tame oil prices

US president hopes to convince Saudi Arabia to pump more while crimping Russia’s energy revenues


Joe Biden, pictured here departing his plane in Israel, is scheduled to visit Saudi Arabia on Friday on the final leg of his Middle East tour © AFP via Getty Images

**Derek Brower** in New York and **David Sheppard** in London 9 HOURS AGO



Joe Biden arrives in Saudi Arabia on Friday with a two-pronged plan to bring down oil prices while still punishing Vladimir Putin. First, convince Riyadh to pump more oil, especially to Europe. Second, cap the price at which Russia can sell its crude.

Oil executives and market analysts say both parts of the plan are fraught with difficulty and could even backfire by goading Russia into cutting its energy exports and pushing up prices.

“It looks like mission impossible,” said Bill Farren-Price, a director at consultancy Enverus, adding that the Gulf members of Opec “may already be tapped out on supply” while the price cap “flirts with danger” too.

Oil prices have retreated back below $100 a barrel in recent days on fears of a global recession, but the White House remains concerned that an EU ban on insurance for ships carrying Russian oil could yet again push up fuel costs and hurt Democrats’ already grim chances in November’s midterm elections.

The energy crisis is “undoubtedly the essential catalyst” for the US president’s visit on Friday, according to Helima Croft, a former CIA analyst who is now head of commodity strategy at RBC Capital Markets.

It will be Biden’s first meeting with the Saudi crown prince Mohammed bin Salman since he pledged three years ago to make the kingdom a “pariah” for its murder of journalist Jamal Khashoggi.

But Biden may come away with less than he is hoping for, according to people briefed on the kingdom’s thinking. Saudi production has already risen to almost 11mn b/d, or more than 10 per cent of global output, and the country has already agreed to add more supply over the next two months.

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**Bill Farren-Price**

That leaves the kingdom’s production about 1mn b/d below its official output capacity and it will be reluctant to eat into that supply buffer, said analysts.

“The main reason to keep the spare capacity is because they’re worried about losses elsewhere,” said Christyan Malek at JPMorgan. Further Saudi increases would leave Opec’s total spare capacity perilously thin, spooking an already tight market, he added.

In late June, France’s president Emmanuel Macron was caught on camera at the G7 summit informing Biden that Mohammed bin Zayed, the UAE’s leader, had told him that Emirati production was “at a maximum” and Saudi capacity was also restricted in the near term.

“If Biden is hoping the visit to Riyadh will bring more Saudi oil immediately, he’s going to be disappointed,” Farren-Price said.

The US president is also likely on Friday to ask Saudi Arabia to ship more oil to Europe, replacing Russian supplies.

Doing so would help advance the US’s plan to cap Russian crude export prices, a move designed to curb the Kremlin’s oil income without reducing its export volumes.

G7 countries agreed last month to begin exploring the idea, which could operate in tandem with the EU plan to stop insuring ships loading Russian crude, set to start in December. Importers that want to keep buying Russian oil could be exempt from the insurance ban if they bought the oil at the reduced price.

Biden touted the idea again on Wednesday, suggesting that the price cap was another way to drive down higher fuel costs that he has blamed on “Putin’s price hike”.

Some observers think pressure on Moscow could eventually work, like Craig Kennedy, a Russian oil expert at Harvard’s Davis Center. He said Russia would be in a weak position once the European insurance ban starts, especially if the UK joins as anticipated, cutting off the key Lloyd’s of London market.

“If you combine the sheer volume of Russian oil exports with the prolonged sailing times to China and India, Russia will struggle to source enough tankers to maintain anything close to current export levels once the insurance sanctions come into effect,” Kennedy said.

Faced with such friction on exports, Moscow would either need to accept the price cap or face the damaging option of shutting down its oilfields and damaging their long-term production capacity, Kennedy added.

But other analysts and industry executives, as well as some energy specialists in the Biden administration, are sceptical.

“It will create distortions in the market. It will be impossible to enforce. It will create two tiers of buyers,” said one industry executive, who added that if the price of oil continued to fall then the cap would prove less punitive for Moscow than intended.

He added: “Are they trying to reduce oil prices or reduce Russian revenues?”

The deal will also need agreement from China and India, big importers of Russian crude that may be reluctant to accept US conditions on their energy relationship with Moscow.

“Most, or all, buyers of Russian oil would need to co-operate for a price cap to effectively hinder Russian revenues,” said Amrita Sen at Energy Aspects. “But China and even India and Turkey are unlikely to agree.”

Without China and India, a dwindling number of European buyers would mainly be affected by the plan, leaving the price cap affecting less than a third of Russian exports, said Ed Morse, head of commodity research at Citi.

Tracking Russian oil shipments could also be tricky, he said, if shippers used storage facilities and trans-shipments to disguise the movement of the country’s barrels.

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“It is puzzling how you can put a price cap on something where you don’t control the middlemen,” Morse said.

Western policymakers must also brace for Russian retaliation, analysts said.

This could involve Moscow refusing to reopen the Nord Stream 1 gas pipeline to Germany, which was recently closed for maintenance. Russia has already interrupted supplies through a pipeline from Kazakhstan.

In the extreme case that Russia shuts off all oil exports, JPMorgan has said that crude prices could rise to as much as $380 a barrel, more than double the record high struck in 2008.

“Russia also has a vote in this,” said Kevin Book at Washington consultancy ClearView Energy Partners.

“The idea that we are going to go around the world cutting a revenue stream the Kremlin really cares about, without the Kremlin responding, could be dangerous magical thinking.”