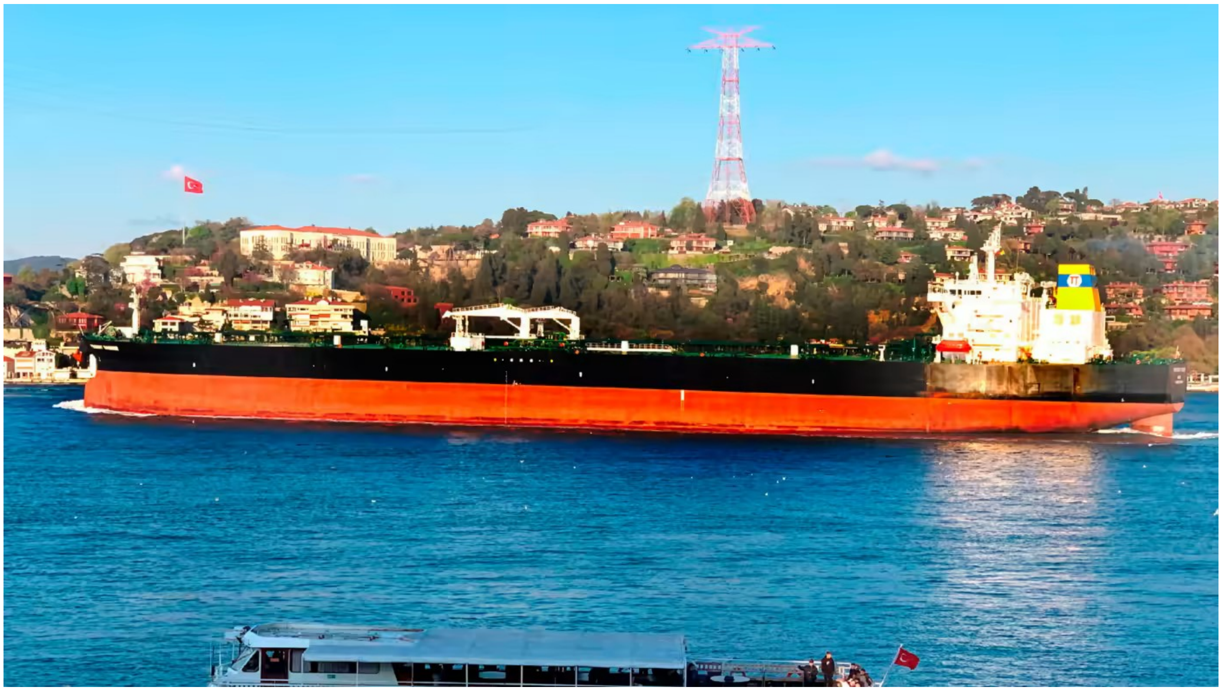
War in Ukraine

US warns of sanctions for buyers that ignore price cap on Russian oil

Treasury guidance would give teeth to G7 plan to curtail Moscow's energy revenues



An oil tanker passes near Istanbul, Turkey. Russia's president Vladimir Putin has warned Moscow would halt energy exports if western countries proceeded with plans to cap prices for its oil and gas © AP

James Politi in Washington and **Derek Brower** in New York YESTERDAY

The US is threatening to impose sanctions on buyers of Russian oil that rely on western services and fail to abide by the price cap proposed by G7 countries, as the Biden administration vows to strictly enforce the policy once it takes effect.

In guidance issued on Friday, the US Treasury department said individuals making "significant purchases of oil above the price cap" as well as those who provide false information about those purchases, "may be a target for a sanctions enforcement action".

The warning from the Biden administration will apply to purchasers of Russian oil around the world that are considering whether to respect the price cap once it is set by G7 nations and possibly others. Many of them use western service providers, such as maritime insurance companies, in order to complete their shipments. They would therefore be subject to the price cap.

The Treasury's guidance comes a week after G7 finance ministers reached an agreement to establish the price cap after months of discussion. The goal is to limit Russia's revenue from exports of crude oil and refined products without triggering a global price spike. The US is not expected to impose sanctions on buyers of Russian oil that do not use western service providers.

"Our approach to implementation is guided by the principle that Russian oil should continue to reach the global market, provided purchasers and service providers abide by the price cap in good faith," Wally Adeyemo, the deputy Treasury secretary, said in a speech at the Brookings Institution on Friday.

G7 countries have not yet set a price level for the cap and are still waiting to see if other governments sign on to the coalition. The US said the level would be agreed by consensus.

Although the US said it could impose sanctions on anyone failing to abide by the price cap, it also noted service providers that were misled would not face liability, as long as they complied with rigorous record-keeping requirements.

Analysts said the mention of sanctions would alarm an oil market already on edge by the prospect of a showdown with Russia over oil exports.

On Wednesday, Russia's president Vladimir Putin warned Moscow would halt energy exports if western countries proceeded with plans to cap prices for its oil and gas.

"We will not supply gas, oil, coal, heating oil — we will not supply anything," he said in Vladivostok.

Earlier in the week, Moscow said it would not reopen the Nord Stream 1 natural gas pipeline to Europe unless sanctions were lifted. US officials have discounted the threat that it will do the same with oil exports, arguing that Russia would be compelled to keep selling oil rather than shut ageing fields that may prove costly to restart later.

"Russia may bluster and say they won't sell below the capped price," Adeyemo said, "but the economics of holding back oil just don't make sense".

Traders and oil analysts have been sceptical about the price cap plan, which has not been backed by India and China, Russia's biggest oil importers.

Bob McNally, a former adviser to US president George W Bush and head of Rapidan Energy Group, said that despite the threat of sanctions, the US government was trying to clarify market confusion about the price cap plan.

"While oil traders are likely to be alarmed by mention of sanctions, my understanding from officials is that they intend to make it easy for importers to impose the cap," he said.