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SANCTIONS ON RUSSIAN OIL NEED TO BE STRENGTHENED

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OIL SANCTIONS ONLY PARTIALLY EFFECTIVE

- The discount on Russian crude oil prices has narrowed in recent weeks.
- There is compelling evidence for widespread violations of the price cap.
- Price caps on Russian oil products have not reduced export prices.
- Russian companies may be able to capture arbitrage in the oil market.
- Export earnings and budget revenues have fallen but remain substantial.

ADDITIONAL STEPS NEEDED TO WEAKEN RUSSIA

- Reduce price cap on crude oil and oil products by at least $15/barrel.
- Step up enforcement of price cap through regular audits of transactions.
- Strengthen documentary requirements to ensure availability of information.
- Enforce price cap regime with regard to potentially inflated shipping costs.
- Increase penalties for sanctions violations to deter circumvention schemes.
- Address arbitrage capturing by Russia through third-country intermediaries.
- Use financial sanctions and existing frameworks for price cap enforcement.
- Consider broader changes to the sanctions regime to increase pressure.

[1] Please see KSE Institute's previous publication on the impact of oil sanctions on Russia here.

Executive Summary

Concerns with Existing Sanctions

The key channel through which sanctions on Russian oil have impacted export earnings and budget revenues is a wider discount on crude oil export prices in those segments of the market where European buyers have essentially disappeared due to the embargo. But there is reason for concern as the **discount has narrowed considerably** – from close to $25/barrel to below $19/barrel. Russia appears to have kept export prices stable while global prices declined. For every $10/barrel in higher prices, the country receives additional $18.3 billion in export revenues per year. *The price cap should be lowered to $45/barrel to prevent rising export earnings.*

An additional issue is the compelling **evidence for widespread violation of the G7/EU price cap**. In the first half of this year, 97% of all crude oil exports from Russia's critical Pacific Ocean port of Kozmino was sold above the $60/barrel threshold. At the same time, 42% of the oil was exported with the participation of G7/EU companies and, thus, should have fallen under the price cap regime. Potential violations affected up to 59 million barrels in H1 2023 – 16% of all crude oil exports that the price cap applied to. *Enforcement needs to be stepped-up considerably and requires changes to the information available to implementing agencies.*

Price caps were also introduced for oil products but they have not had an effect on Russian export prices. Russian oil products prices did not decline vs. benchmark prices after the caps' taking effect in February. That prices for premium and discounted products have consistently stood below the respective thresholds – $100/barrel and $45/barrel – means that **oil products price caps are too high to have an effect.** And for every $10/barrel in higher prices, Russia receives $10.5 billion in export revenues per year. *Products price cap should be lowered – in line with the crude oil cap for discounted products and by more for premium ones.*

Furthermore, **Russian entities may be able to capture arbitrage in the oil market** through third-country intermediaries such as shipping companies or oil traders. For instance, elevated spreads between prices of Russian exports to India and Indian imports from Russia point to inflated transportation costs. Through such schemes, large amounts of money may become accessible to Russian oil companies – and to the state. In January-May 2023, the FOB-to-CIF spread in the oil trade with India had a value of $7.0 billion. *Capturing of oil market arbitrage by Russian entities should be investigated and the sanctions regime modified to prevent it.*

Going Beyond the Current Approach

Questions of implementation and enforcement as well as the exact level of the price caps aside, a broader concern is that **Russia continues to earn large amounts of money from exports of crude oil and oil products** – $425 million per day in 2023 so far. These inflows of foreign exchange play a key role for overall macroeconomic stability. Furthermore, revenues from oil production and exports help Russia to pay for the war. At H1 2023 levels, oil revenues alone essentially pay for military spending. *Sanctions coalition countries should consider a more aggressive approach in order to truly erode Russia's ability to continue its aggression.*

We propose several possible courses of action to step-up pressure on Russia, including i) a return to the original EU embargo which banned EU companies from participating in the trade with Russian oil; ii) sanctions on oil products refined in third countries from Russian crude oil; iii) taxes on imports of Russian oil to ensure that arbitrage is captured by governments of importing countries rather than entities potentially linked to Russia; and iv) setting up of an escrow account for Russian oil export earnings. We recognize that obstacles exist but encourage Ukraine's allies to explore avenues through which Russia can be deprived of financial resources.

1. Discount on Russian Crude Oil Prices is Narrowing

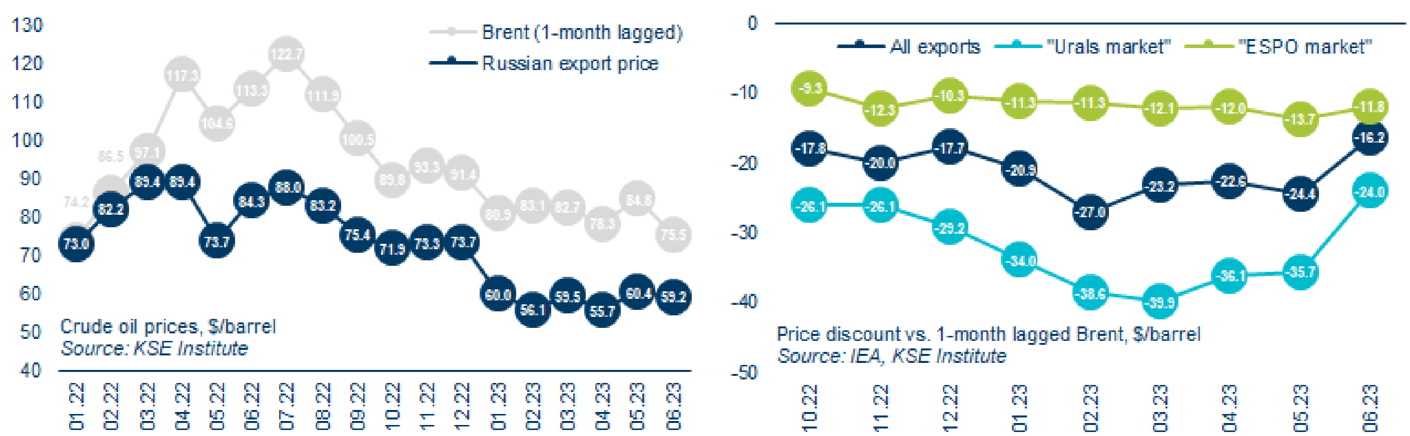
The key driver of lower export earnings and budget revenues in recent months was a wider discount on Russian crude oil, especially for Urals. But the spread between Russian export prices and Brent appears to be narrowing again. With global crude oil prices potentially set to rise as well, it is critical to lower the price cap right now to lock in lower prices for Russian oil.

$18.3 billion **additional earnings per year from $10/barrel higher price**[2]

Price discount is key channel for lower earnings. After the start of Russia's full-scale invasion of Ukraine, a spread between the price for Russian crude oil and North Sea Brent opened up, reflecting the (geopolitical) risk of continued involvement in the trade with Russian oil (see Figure 1). This discount widened after the taking effect of the EU embargo in December of 2022, which contributed to a drop in export earnings and budget revenues from oil. At current crude oil export volumes of ~5 million barrels per day, a $10/barrel change in the price leads to a $18.3 billion shift in annual earnings. Thus, it is critical to maintain the current discount – or even widen it –, especially given the potential for higher global prices in light of OPEC+ production cuts.

Fragmentation of the market for Russian oil. International sanctions imposed on Russian oil – including the EU embargo and the G7/EU price cap – have led to a fundamental fragmentation of the market (see Figure 1). Where European demand had played a key role in the past and has now essentially disappeared – the "Urals market", e.g., exports via Druzhba as well as from Baltic Sea and Black Sea ports –, prices for Russian crude oil fell significantly in the post-embargo period relative to global prices (i.e., Brent). But where demand conditions did not change materially – the "ESPO market", e.g., exports from Pacific Ocean ports and to China via pipeline – prices moved together with Brent and discounts did not change significantly.

Figure 1: Export price for Russian oil stable but discount narrowing.[3]



Discount narrowing in recent months. While Brent prices have held broadly steady despite lower OPEC+ production, Russian export prices have picked up. This is particularly noticeable for Urals exports where the discount decreased from close to $40/barrel in February-March to $24/barrel in June. This occurred across specific export channels but was most pronounced for shipments from Baltic Sea ports, which also represent the largest share of the Urals market. As volumes appear to be robust, this results in meaningfully higher export

[2] Assumes 5.0 million barrels in crude oil exports per day (average in January-June 2023). See here.
[3] "Urals market" - exports from Baltic Sea ports of Primorks and Ust-Luga, Black Sea port of Novorossiysk and via Druzhba pipeline; "ESPO market" - exports from Pacific Ocean port of Kozmino and via ESPO pipeline to China.

earnings. The effect on budget revenues should be less pronounced due to the way taxes/export duties are calculated after recent changes.[4] IEA data for Urals and ESPO prices in June show a further narrowing of discounts – developments that will materialize in export prices in July.[5]

Lower price cap is urgently needed. In light of these developments, it is of utmost importance to lower the price cap on Russian crude oil – to $45/barrel in a first step. Doing so would not have a detrimental effect on Russian supplies to the global market and, thus, not result in higher prices. Several factors are important to mention in this context: (1) The cost of production for Russian crude oil is extremely low – $10-15/barrel on average and $20-30/barrel for the more expensive fields.[6] Even at a lower price cap level, it would make sense economically for Russia to supply crude oil to the market. (2) Russia has demonstrated in recent months that it is willing to export at prices of $45/barrel or below in order to maintain sufficient volumes. From the perspective of export earnings and budget revenues, it cannot afford to weaponize oil exports.[7]

Price cap coalition still has leverage. An often-mentioned argument against a lower price cap – or stricter enforcement – is that Western companies will be pushed out of the market and, thus, most of Russia's exports will be outside of the coalition's reach. However, while it is true that Russia has undertaken a concerted effort to acquire vessels to operate outside of the price cap regime – and is increasingly doing so at some ports, e.g., Kozmino –, the overall share of crude oil exports with G7/EU involvement is relatively stable at around 50%.[8] As attempts to move away from Western ship owners/managers and insurance companies will continue, it is important to make use of the time that this transition will take – and reduce the price cap now.

NEXT STEPS

- **Reduce price cap on crude oil to $45-50/barrel.** With upward pressure on global oil prices likely to increase – and discounts on Russian oil narrowing – it is critical to lock in lower prices now in order to limit Russia's export earnings and budget revenues. Importantly, such a step would not lead to lower supplies of Russian crude oil to the global market as the level still lies considerably above production costs, leaving economic incentives to produce intact. In addition, Russia is too dependent on export earnings and budget revenues from oil to weaponize supplies for political reasons.
- **Consider additional reductions going forward.** Price cap coalition governments should commit to serious reevaluations of the regime's impact at regular intervals – and to further reductions in the cap's level should the war continue and market conditions allow for it. Such a commitment had been part of the initial setup but adjustments have not been made despite indications that a lower price cap would not pose a risk to the stability of the global oil market and/or lead to higher prices.

[4] The Ministry of Finance used to rely on Urals as the benchmark tax oil price but changed the calculation to Brent minus a certain discount earlier this year to boost revenues. As the discount was set to fall from $34/barrel in April to $31/barrel in May, $28/barrel in June, and $25/barrel in June – and Brent remained broadly stable throughout this period of time –, the adjustment will be gradual rather than following export price dynamics. However, higher earnings for Russian oil companies mean a higher likelihood for the government to generate extra revenues through "special taxes" such as the one applied to Gazprom in 2022.
[5] See the "Oil Market Report - July 2023" here.
[6] Rosneft, which is responsible for around 40% of Russian crude oil production, reported operational costs of $2.7/barrel and capital costs of $7.6/barrel in its 2021 annual report here.
[7] See "Russian Oil Exports under International Sanctions" here.
[8] See the latest edition of KSE Institute's monthly "Russian Oil Tracker" here.

2. Widespread Violations of the Crude Oil Price Cap

There is evidence for widespread violations of the price cap on Russian crude oil. In H1 2023, up to 16% of all volumes subject to the cap due to the involvement of Western shipping service providers were priced above the threshold of $60/barrel. The current system does not allow for effective enforcement of the price cap regime and modifications are urgently needed.

up to 16%

violations as share of 2023 crude oil exports under the price cap[9]

Export prices at Kozmino above $60/barrel. With the discount to North Sea Brent broadly stable at around $10-15/barrel, export prices have consistently stayed above the price cap. However, they have moved closer as global prices weakened despite OPEC+ production cuts (see Figure 2). Importantly, not only were average prices above $60/barrel, but a closer look at their distribution shows that almost all individual transactions took place above the price cap. For the period of January-June 2023, the share stands at 97%.[10]

Figure 2: Price at Kozmino above the cap.

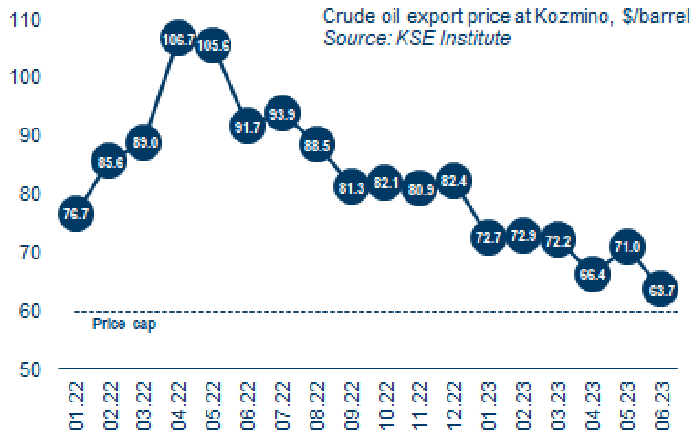
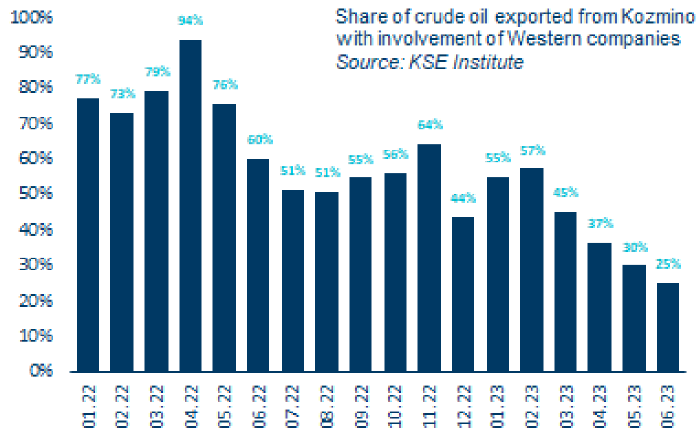


Figure 3: G7/EU companies still involved.



Western shipping service providers remain involved. At the same time, businesses from countries that are members of the price cap coalition – ship owners and managers as well as maritime insurance companies – continue to play a role in exports of Russian crude oil from Kozmino (see Figure 3). Russia is clearly attempting to transport increasing volumes with vessels not subject to the price cap – their share increased from below 50% in January-February to 70-75% in May-June (see Figure 4). But for H1 2023 overall, service providers from price cap coalition countries still accounted for 42% of total crude oil exports from Kozmino.[11] These numbers point to widespread violations of the price cap. Most likely, G7/EU service providers are simply given falsified attestations with regard to the sales price – and they are not required to undertake further steps.

37-59 million barrels of crude oil violated the price cap in H1 2023. The reason for the range of estimates is that export data does not allow to determine prices for all transactions at Kozmino – or any port for that matter – as some shipments are reported to authorities with their destination rather than origin. If we assume, conservatively, that all transactions for which price information is missing took place below the $60/barrel threshold and were transported with the involvement of Western shipping service providers, this leaves 37 million barrels of price cap violations (see Figure 5). However, if we apply the price distribution of the subset of transactions to the total volume, violations are much larger at 59 million barrels. Considering that 358 million

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[9] January through June. Western companies were involved in the transport of 358 million barrels of Russian crude oil in H1 2023.
[10] Conversion factor of 7.39 barrels/ton used for calculation of ESPO prices.
[11] Western shipping services include ownership/management or P&I insurance from G7/EU or Norway.

barrels of seaborne crude oil were exported with the involvement of Western companies in H1 2023 altogether, violations occurred for between 10% and 16% of all volumes falling under the price cap.

Figure 4: Composition of crude oil exports from Kozmino

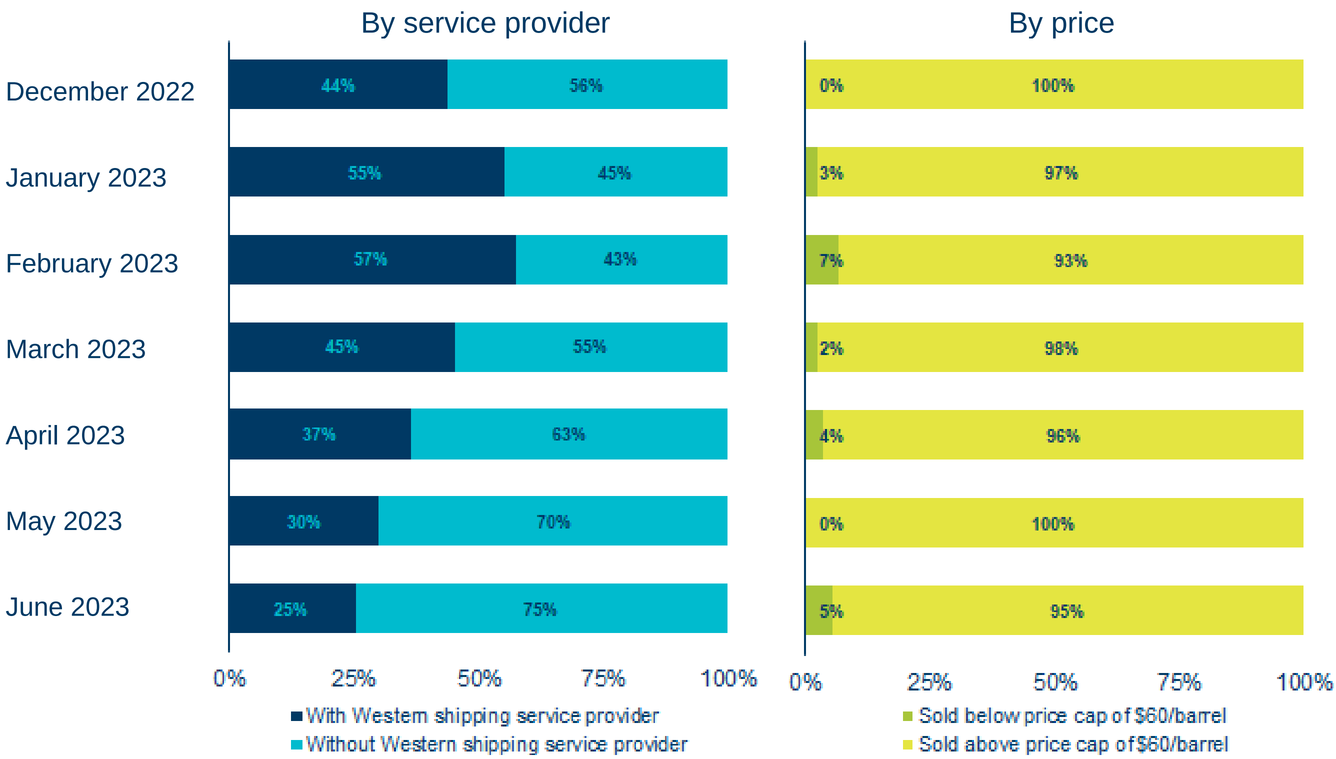
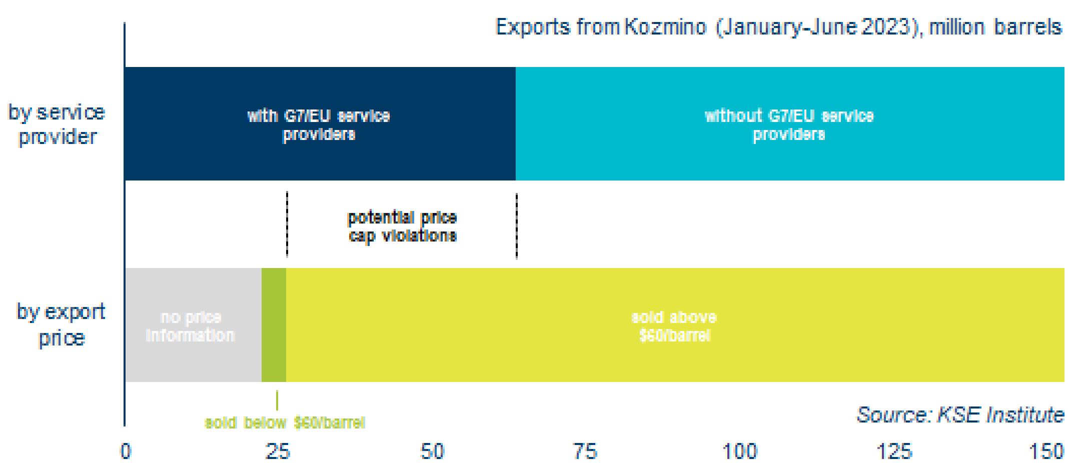


Figure 5: Widespread price cap violations



Changes to the price cap regime urgently needed. While authorities are increasingly aware of these developments, we believe that the system as currently set up does not allow for effective enforcement as it does not generate the necessary kind of information. Specifically, in most jurisdictions, companies participating in the trade with Russian oil – including Western ship owners/managers and maritime insurance companies – are only required to request so-called attestations from their clients which state that a transaction took place under the price cap. The absence of additional documentary evidence (e.g., contracts, customs declarations) means that it is extremely difficult for implementing agencies to determine if a violation took place.

NEXT STEPS

- **Risk-based audits of transactions.** Implementing agencies should undertake regular investigations, focusing on areas that pose relatively high risks of sanctions violations. Authorities should prioritize cases with the involvement of companies that have only recently appeared in trade with Russian oil.
- **Stricter documentation requirements.** All participants in the Russian oil trade (Tier 1-3) should be required to request and retain documentary evidence beyond the currently mandatory attestations, including original contracts and customs declarations that specify transaction prices.[12]
- **Requirement to notify authorities.** All participants (Tier 1-3) should be required to inform implementing agencies of any involvement in Russian oil trade – not only in cases of suspicion of price cap violations – to generate information that allows for comprehensive mapping of post-embargo/price cap dynamics.
- **Enforcement on strict liability basis.** All price cap coalition jurisdictions should enforce measures on a strict liability basis – as it is already the case in the UK –, meaning that civil monetary penalties can be imposed irrespective of knowledge and suspicion of the companies. Proper due diligence of business partners can be treated as a mitigating factor but does not preclude liability.
- **Higher penalties for violations.** Civil penalties for violations of the price cap regime should be increased significantly in the interest of deterrence. Coalition countries should consider extending lockout periods and applying them to all oil exports, not just those involving Russian supplies.
- **Undertake high-profile investigations**. Enforcement agencies should inform publicly about some of the investigations being undertaken with regard to price cap violations. This would send a clear message to oil trade participants that they are committed to uncovering wrongdoing – and increase diligence.
- **Consider full sanctions on facilitators of violations.** Companies that facilitate price cap violations in any way, e.g., shipping companies or oil traders, should be placed under comprehensive sanctions – such as SDN listing in the United States –, which trigger asset freezes and transaction bans.
- **Ban on old vessels and those without proper insurance.** With the share of old tankers and vessels with non-Western insurance rising due to price cap circumvention efforts and stepped-up enforcement, authorities should ban such vessels from their territorial waters to prevent ecological disasters.

[12] For the specific regulations see guidance by the EU Commission, OFAC, and OFSI.

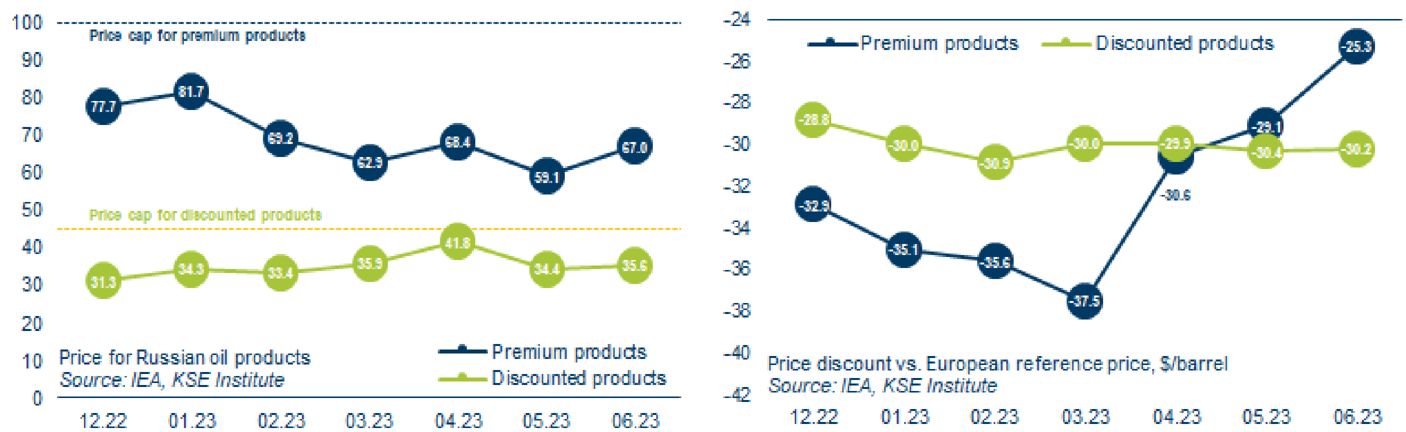
3. Price Caps on Russian Oil Products Not Effective

While the crude oil embargo and price cap have had a noticeable impact on Russian export prices, the same cannot be said for the oil product equivalents. Prices for both premium and discounted products have consistently stood below the respective thresholds – but spreads to benchmark prices have either stayed the same (discounted) or narrowed (premium).

$10.5 billion additional earnings per year from $10/barrel higher price[13]

Oil products price caps without impact on export prices. The price cap coalition imposed two separate thresholds: $100/barrel for premium products (e.g., diesel, gas oil, gasoline, and vacuum gas oil) and $45/barrel for discounted products (e.g., fuel oil and naphtha). While it is true that export prices for both categories have consistently been below the respective caps, the fact that discounts to European benchmark prices have either not changed or even narrowed indicates that the levels are too high to really have an impact (see Figure 6). As volumes have remained broadly robust, this means that export earnings have not fallen as desired.

Figure 6: Oil product prices below caps, but discounts unchanged or smaller.



Renewed focus on oil products required. Russian oil products have received somewhat less attention than crude oil. Also, most observers had assumed that Russia would struggle more to find alternative buyers for products than for crude oil as the most important buyers of the latter have established refining industries and would not be interested in purchasing finished products. However, this does not seem to be the case. And, thus, it is important to refocus attention on limiting export earnings and budget revenues from oil products.

NEXT STEPS

- **Reduce oil products price caps.** The coalition should lower the price cap on discounted products in line with the crude oil cap reduction – by $15/barrel. For premium products, the wide gap between export prices and the $100/barrel threshold indicates that the cap should be lowered by a larger amount.
- **Align enforcement with crude oil price cap.** As the implementation challenges identified above for the crude oil price cap apply to the oil products caps as well, enforcement efforts should be aligned.

[13] Assumes 2.9 million barrels in oil products exports per day (average in January-June 2023). See here.

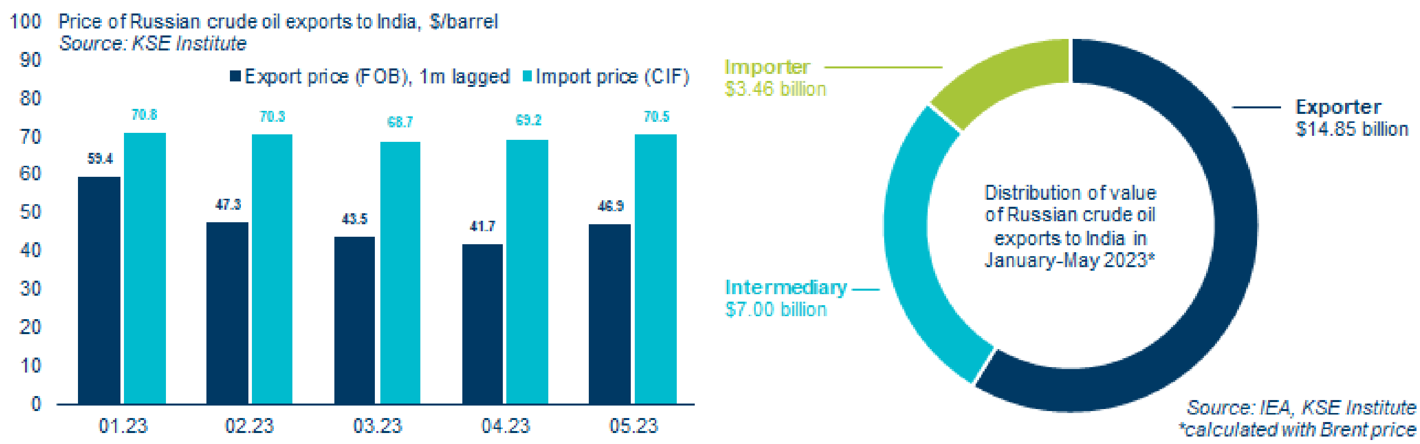
4. Russian Companies May Capture Oil Market Arbitrage

Russian entities may be able to capture some of the arbitrage existing in the oil market due to sanctions via relationships with third-country entities. Shipping companies and oil trading companies are key areas of concern. The spread between export and import prices (FOB vs. CIF) illustrates the magnitude of the potential extra earnings that Russia could receive.

$7.0 billion value of FOB–to-CIF spread for 2023 crude oil exports to India[14]

Sanctions have created arbitrage opportunities. The spread between global oil prices and prices for Russian exports means that some participants in the trade benefit from discounted supplies. In fact, the price cap coalition is relying on such incentives to weaken Russia's negotiation position vis-a-vis its customers in third countries such as China and India. The key question from the perspective of the sanctions' effectiveness is if Russian companies may be able to capture (part of) the arbitrage – for instance, via related companies.

Figure 7: Significant spread between FOB and CIF prices.[15]



Elevated spreads for exports to India are a red flag. There is growing evidence for potential violations of the price cap through inflated shipping costs when it comes to exports to India.[16] Specifically, in January-May 2023, Indian buyers paid an average price of $69.80/barrel for crude oil from Russia in CIF ("cost, insurance and freight") terms, i.e., at destination ports, while the average price in FOB ("free on board") terms, i.e., at origin ports, was $47.50/barrel.[17] The FOB-CIF spread was highest in March-April (at $25-28/barrel) and has declined somewhat since (see Figure 7). This is much higher than what would be expected based on shipping costs.[18]

Spread worth $7.0 billion in January-May 2023. In the first five months of the year, Russian exporters earned $14.8 billion from sales of crude oil to India (see Figure 7). At the same time, Indian importers benefitted to the tune of $3.5 billion from the discount of Russian crude oil vs. Brent. This leaves $7.0 billion – the value of the

[14] January through May.

[15] FOB ("free on board") prices are those at the border of the exporting country (i.e., Russia) and do not include shipping and insurance costs; CIF ("cost, insurance and freight") prices are those at the border of the importing country (i.e., India) and include such costs.

[16] It is important to recognize that inflated shipping costs constitute a violation of the price cap regime as implementing agencies mandate that such costs are "invoiced (...) at commercially reasonable rates" (see guidance by the EU Commission here and OFAC here). OFSI in the UK speaks of "prices [that] deviate significantly from the standard price available in the market at that point in time" here.

[17] Export price with 1-month lag to take time at sea (~35 days) into account.

[18] Shipping costs depend on many factors and tend to fluctuate significantly, especially in the current geopolitical and economic environment. However, the following calculation may determine a broad range: In 2023, most vessels involved in shipping Russian crude oil from Baltic Sea ports (where most of the supplies originated from) to India transported around 750k barrels, while spending an average 35 days at sea. At $50,000/day – somewhat of a low end estimate –, this would result in shipping costs of $2.30/barrel. At $125,000/day – as reported by some media outlets –, the respective number would be $5.80/barrel.

spread between FOB and CIF prices – which went to intermediaries such as shipping and insurance companies as well as traders. As long as these entities are not linked to Russia, the system works as intended – but there is speculation that some may be acting on behalf of Russian companies. While repatriating this money can be complicated, significant funds would be one step closer to being used for Russian purposes.[19]

Urgent need to investigate schemes to capture arbitrage. Shipping companies are one part of the challenge. For instance, India's Gatik Management has emerged as a major player in the transportation of Russian oil and is suspected to be linked to Rosneft.[20] This means that the spread between the amount paid for shipping and the actual – much lower – cost of operating vessels becomes accessible to an entity that could very well be a front for a Russian oil company. However, the problem goes beyond this particular industry: After the taking effect of sanctions on Russian oil – and the withdrawal of many Western companies –, new players have emerged in places such as Dubai and are now dominating the trade.[21] As with shipping companies, their ownership structures are opaque and commercial ties to Russian entities a distinct possibility.

NEXT STEPS

- **Enforce price cap regime with regard to shipping costs.** Implementing agencies should undertake regular investigations of shipping (and related) costs. Documentary evidence requirements must be strengthened to provide authorities with information to undertake these investigations.
- **Impose meaningful penalties.** Violations of the price cap regime via inflated shipping costs should be subject to the same – stepped-up – penalties as any other breaches. This should include the loss of G7/EU maritime insurance coverage and, potentially, full sanctions on facilitating entities.
- **Investigate beneficial ownership structure.** Implementing agencies should investigate possible connections between shipping/trading companies and Russian entities, and – should such schemes be discovered – modify the price cap to make sure that arbitrage cannot be captured by the latter.
- **Apply existing frameworks to the sanctions sphere.** The financial industry has gained considerable experience with "Know Your Client" (KYC) standards, which should be relied upon to improve non-bank corporates' due diligence efforts. In addition, existing anti-money laundering (AML) frameworks could be used for sanctions enforcement as circumvention schemes likely have similar structures.

[19] Russia appears to have problems using the large amounts of money that are accumulating in currencies such as rupees in foreign bank accounts of oil companies and financial institutions. See here and here.
[20] According to an investigation by the Financial Times, the company, which owned just two chemical tankers in 2021, managed to acquire a fleet of 58 vessels with an estimated combined value of $1.6 billion by April of this year - making it one of the biggest tanker owners in the world. In recent months and due to suspicious activities, Gatik vessels have had their certifications withdrawn by Lloyd's Register and the American Bureau of Shipping (see here) and the company has lost its Western P&I insurance coverage (see here).
[21] See here and here.

5. Export Earnings and Budget Revenues Still High

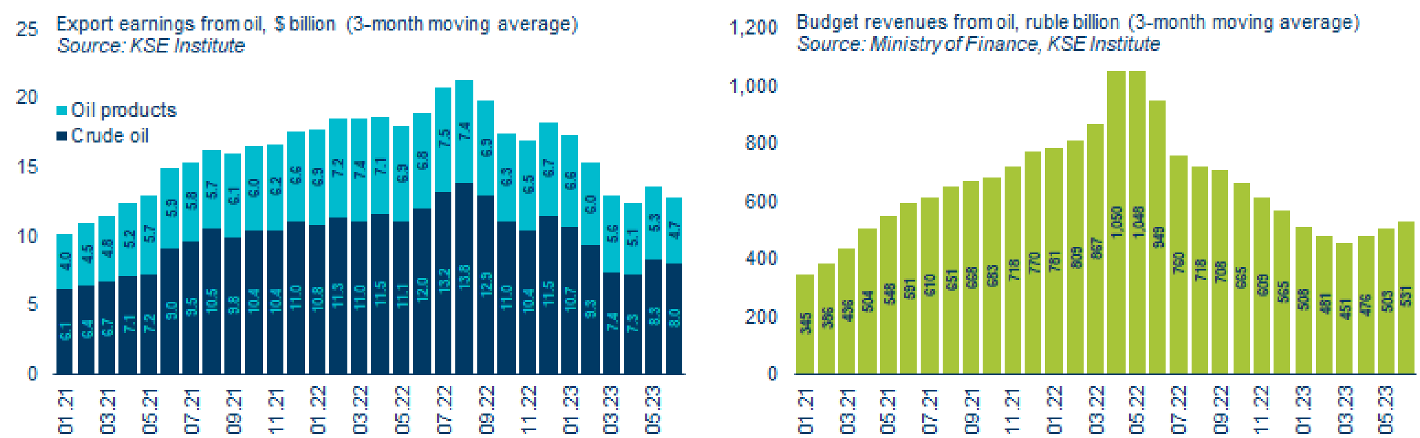
Russia's export earnings and budget revenues from oil have clearly been impacted by international sanctions. However, they remain substantial – $425 million per day in H1 2023 – and, thus, support both overall macro stability as well as the regime's ability to continue its war of aggression in Ukraine. Further measures may be needed to approach any kind of inflection point.

$425 million **average oil export earnings per day in 2023**[22]

Exports and budget hit by sanctions. It is undoubtedly true that sanctions on Russian oil exports – most notably, the EU embargoes on crude oil (in force since December 5, 2022) and oil products (in force since February 5, 2023) as well as the accompanying G7/EU price caps – are having an effect on export earnings and budget revenues (see Figure 8). In H1 2023, Russia earned an average $12.8 billion per month from its exports of crude oil and oil products – roughly 30% less than during Q4 2023. Fiscal revenues (consisting of extraction taxes and export duties) were also down in H1 2023 – by 13% vs. Q4 2023 and 46% vs. H1 2022.[23]

Russia still takes in large amounts of money. However, this welcome development should not conceal that Russia continues to earn billions of dollars from oil exports every month – and that revenues from oil allow it to wage its war of aggression in Ukraine. For instance, Russia earned $425 million per day from oil exports in 2023 so far. Furthermore, at their current level – of 2.9 trillion rubles in the first half of the year – budget revenues from oil alone will cover close to 90% of Russia's planned military spending.[24] Fundamentally, sanctions have not brought about any kind of inflection point where macro stability is truly under threat. And while medium-term prospects for the Russian economy certainly look dire, they do not force the regime to change its calculus when it comes to the war – and probably will not do so anytime soon by themselves.

Figure 8: Export earnings and budget revenues from oil remain substantial.



Rethinking the objective of oil sanctions. This means that we may need to reconsider some of the key tenets of the existing approach. Specifically, the current regime aims to impact Russian earnings/revenues by reducing export prices while, at the same, time keeping Russian oil on the global market to prevent prices from rising. While such considerations are important for the coalition's ability to maintain domestic support for sanctions in the medium run, the strategy does limit considerably the extent to which Russia's finances can be constrained. For instance, Russia is benefitting from higher exports of crude oil to third countries such as China, India, and

[22] January through June. Includes crude oil ($255 million per day) and oil products ($170 million per day).
[23] In addition to wider discounts on Russian crude oil, lower global prices for both crude oil and oil products also contributed to these dynamics.
[24] SIPRI estimates total military expenditures of 6,648 billion rubles for 2023; see here.

Turkey, OAE, from where members of the sanctions coalition are then importing refined products – a dynamic that is being described as a "laundromat" for Russian oil.[25]

Bolder measures should be considered. To truly alter the Russian regime's behavior with regard to Ukraine, stepped-up oil sanctions beyond the current system of embargoes and price caps may be needed. A number of potential courses of action have been suggested to this end. We recognize that there are no simple solutions for the complex challenge of depriving Russia of the financial resources it needs while ensuring market stability. However, we encourage Ukraine's allies to explore such avenues and develop more ambitious proposals.

POSSIBLE NEXT STEPS

- **Return to the broader EU embargo.** The embargo as originally agreed upon in the EU's sixth sanctions package included a ban on participation in Russian oil exports for EU companies. Due to concerns over rising global prices, this provision was later replaced by the price cap regime, but could be brought back.
- **Sanction oil products made from Russian crude.** To address the issue of Russian crude oil reaching members of the sanctions coalition via third-country refining industries – and Russia benefiting financially from such schemes, the embargo could be expanded to cover oil products made from Russian crude oil.
- **Tax Russian oil exports.** An alternative to the price cap regime that has been suggested is to impose an import tax on Russian oil, which would, ultimately, result in lower export prices. The advantage of this approach would be that the spread between global prices and prices for Russian exports would be captured by governments of importing countries directly rather than entities potentially linked to Russia.
- **Set up escrow account for Russian oil exports.** Another option would be to capture all earnings (or earnings above a certain threshold) in an escrow account. A similar approach was used for Iraq's "Oil-for-Food Program" in the 1990s. Russian access to these funds could be made conditional on the departure of its military forces from Ukrainian territory and the payment of reparations for war damages.

  As Russian oil exports are largely flowing to China and India in the post-embargo period, coalition governments will need to find a lever to impose measures such as an import tax or escrow account system – for instance, via the continued and substantial involvement of Western companies in the transportation of Russian oil. In addition, as oil trade continues to be conducted in U.S. dollar to a large extent, Western financial institutions remain involved through corresponding accounts.

[25] See, for example, "The laundromat: How the price cap coalition whitewashes Russian oil in third countries" by the Centre for Research on Energy and Clean Air (CREA) here.