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Likely action by OPEC+ come September?

The base case very much depends on what demand looks like and where prices are. If it's reasonably strong and prices are looking okay, Saudi and the UAE will continue creeping up output until the end of the year. If not, they will just freeze it at around current August levels. They're the only ones with any significant spare capacity but despite most of the other countries not hitting their current baselines, it would still be politically very sensitive to realign those quotas. The internal politics are also very tricky because they have Russia in OPEC+ and so we will have to also see where Russian production and exports are at.

Can the proposed US price cap on Russian oil get off the ground?

It would not work because there will always be an incentive for someone to pay a bit extra over the cap, and Putin will start handing out allocations to his allies and also play one off another. A price cap would also need critical mass to work, and not enough parties could be coordinated into that, including India and China. One idea being proposed by some academics, which would reduce Russia's oil earnings without reducing the amount of Russian oil on the market, would be to apply a tariff on Russian oil. If the tariff is around \$50 or \$60, then Russia would still get \$40 which is enough to cover their production costs, but it still achieves the objective of Europe and the US to cut Russia's earnings. But unfortunately, this idea isn't getting any policy traction.

How would Russia respond?

The Russians are going to respond in some way, whatever measures are taken against them - whether it's price cap, tariffs or an outright ban, and the US and Europe should be ready for that. Russia has shown this in gas already - that it's very willing to cut production and inflict pain on their buyers and maybe on themselves too. Russia is thinking short term, about getting into winter and putting pressure on Europe. It's probably also hoping Biden and the Democrats lose in the midterms and that the political realities force a compromise. It's not thinking long term about retaining markets and buyer trust as that's all gone anyway. ■

**Paraphrased Comments*

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