Press release

Russia’s oil revenue rises in April, exposing shortcomings of the oil price cap

Failure to tighten the level and enforcement of the price cap and changes to Russia’s oil tax structure risk continued rebound of Russian oil revenues unless the Price Cap Coalition takes back initiative

HELSINKI, 24 May 2023 - Russia’s oil revenues have rebounded in March–April from levels reached in January–February 2023, rising to the highest level since November, even as the G7 leaders stated at the conclusion of the Hiroshima Summit that the price cap is working. The latest analysis from the Centre for Research in Energy and Clean Air (CREA) shows that the price cap policy had a good start after it came into force in December 2022. However, it has since lost traction, integrity and credibility as the members of the Price Cap Coalition failed to revise price levels and enforce the policy.

‘The EU has failed in its commitment to review the price cap every two months to ensure that it stays lower than the average market price,’ said CREA’s Lead Analyst and co-author of the report, Lauri Myllyvirta. Even as the price of Urals crude oil rose above the price cap in April, European-owned and insured tankers continued to transport Russian oil. ‘This is a clear indication that the enforcement is not working,’ he added.

As a result, Russia’s revenue from oil exports rebounded in March–April this year from levels reached in January–February, rising to the highest level since November 2022. Russia’s oil tax revenue increased by 6% month-on-month in April due to the increase in export revenue in March. However, revenues remained significantly below April 2022 levels when oil prices spiked. The increase in March revenue resulted in a 5% rebound in Russia’s mineral extraction tax receipts in April 2023, compared to the previous month, and a larger increase is expected in May. After bottoming out in January this year, oil tax revenues recovered due to increased sales in the following months.
The Kremlin’s tax revenue has closely followed prices for Russian crude oil, highlighting the importance of the oil price cap. The state is also changing its tax regime to diminish the impact of the price cap. Without proactive measures to continuously revise price caps and plug enforcement gaps, we can expect Russia to successfully claw back its revenues,’ said CREA’s Energy Analyst Isaac Levi. ‘Unless the price cap coalition takes action to lower the price cap level and plug the enforcement gaps, changes to Russia’s oil taxation structure will force the price of Russian crude oil closer to international benchmarks, leading to further recovery of Russia’s oil revenue and wholesale failure of the price cap system,’ he added.

Since the EU import bans and the imposition of price caps, Russia has earned an estimated EUR 58 billion in export revenue from seaborne oil. The majority of this oil was transported on European-insured or owned tankers. CREA’s analysis shows that Russia’s revenue could be slashed by EUR 22 billion (37%) if the price cap for crude oil was lowered to USD 30 per barrel and price caps for oil products revised accordingly.

What needs to be done

To further limit Russia’s oil revenue that continues to fund its invasion of Ukraine, the Price Cap Coalition needs to be proactive in both regularly revising price caps as well as strengthening enforcement.

Key recommendations from the report include:

- Ban tankers that violate price caps from entering EU and G7 ports and territorial waters.
- Payments are to be processed only through authorised intermediaries or ensure attestations of sales contracts be done only by pre-approved trading and financial entities to reduce fraudulent documentation.
- Establish a dedicated Russian oil sanctions monitoring and enforcement authority that conducts regular monthly and extraordinary audits on the required paperwork.
- Reduce oil price cap to a level closer to Russia’s production cost which is estimated to be around USD 15 per barrel.
About the data

CREA researchers used Kpler data to track the movement of thousands of cargo ships carrying fossil fuel from Russian ports to the rest of the world. The shipment’s volume and destination were tracked on a day-to-day basis, including ship-to-ship transfers as much as possible. The research also uses real-time data on gas flows to Europe via pipelines as well as historical monthly trade data and news reporting.

CREA also developed price models to estimate the average value of Russian exports, based on current spot market prices. For seaborne crude oil, reported Urals and ESPO price benchmarks are applied directly to exports out of Russia’s oil ports in Western Russia and East Siberia, respectively. We also analyse data from the Ministry of Finance of the Russian Federation to produce summary figures and monitor changes in Federal tax earnings.

Contact

Lauri Myllyvirta
Lead Analyst
Centre for Research on Energy and Clean Air (CREA)
lauri@energyandcleanair.org

Isaac Levi
Energy Analyst
Centre for Research on Energy and Clean Air (CREA)
isaac@energyandcleanair.org

Note to editors

The report related to this press release can be found on the website here, in English and Ukrainian.
Since Russia’s invasion of Ukraine, CREA has been closely tracking all exports of fossil fuel from Russia. Weekly reports can be found here. All CREA publications can be found here: energyandcleanair.org/publications.
About CREA

The Centre for Research on Energy and Clean Air (CREA) is an independent research organisation focused on revealing the trends, causes, and health impacts, as well as the solutions to air pollution. CREA uses scientific data, research, and evidence to support the efforts of governments, companies, and campaigning organisations worldwide in their efforts to move towards clean energy and clean air, believing that effective research and communication are the keys to successful policies, investment decisions, and advocacy efforts. CREA was founded in December 2019 in Helsinki and has staff in several Asian and European countries. Our work is funded through philanthropic grants and revenue from commissioned research.

In our statement of support for Ukraine, CREA absolutely condemns the Russian military's unprovoked and unjustified attack against another sovereign nation, Ukraine. The assault goes against the fundamental values of human well-being, safety, and dignity that our organisation seeks to advance. We urgently call for an end to the assault and stand in solidarity with the Ukrainian and Russian people calling for a just peace.