1. The attempt to cut Russia's oil revenues without affecting global oil supplies is a balancing act in the longer run. Comment

Recently price cap has been imposed on Russia, by G7 countries, European union and Australia to disincentivise (cut) Russian oil Revenues, without affecting global supplies

Price cap on Russian oil:

Western economies who are giants (major insurers) in shipping services and insurers of shipping industry. After price cap, these services and insurance will be banned for those purchasing oil above the price cap of $60/barrel.

Implications of price cap

Short Run

Economists backed the price cap on oil, without which Russia would continue to export oil above the price cap limit.

Even during pandemic, when prices went below $20/barrell. Russia kept its production on rise.

pandemic effect is just temporary blip. Hence Russia managed the situation.

Long-Run.

Price cap in long Run, will affect the Russian interest.

Prolonged price cap → cost of production > Revenue generation → Reduce the Rate of Return → Disincentivise Russia to keep oil wells open. → Hence oil production goes down → Affect global supply

Way forward

2014-2016 when oil prices was crash by >70%. Saudi arabia decided to diversify its economy from oil. Similar situation may happen with Russia ~~which~~ if price cap is in long term, adversely affecting global supplies. Hence there must be balancing Act ~~to~~ of price cap and global oil supply