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# Tightening the oil-price cap to increase the pressure on Russia

Why the current sanctions regime is failing, and how to fix it

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## Summary

- Russian president Vladimir Putin is unlikely to end his war on Ukraine unless he perceives the war's continuation as a greater threat to his regime than stopping it without achieving his objectives. International sanctions were imposed to constrain Russia's ability to wage war. However, the current set of sanctions has failed to do so. The main problem is that these sanctions do not sufficiently target Russia's fiscal balance, which is the most important of the Putin regime's weak spots due to the importance of hydrocarbon revenues in sustaining elite support. Reducing Russia's oil export revenues should be prioritized as the most effective way to increase pressure on Putin.
- An embargo on Russian oil exports, imposed by a coalition of the G7, the EU and Australia in late 2022, had an unintended negative consequence. Markets' anticipation of the embargo led to a spike in global oil prices and enabled Russia to earn record-high export revenues.<sup>1</sup> The oil-price cap imposed simultaneously appeared more effective, but it was not watertight. Russia was able to circumvent the cap by using a 'shadow fleet' of ageing tankers registered in non-compliant jurisdictions, and by falsifying insurance paperwork, misreporting prices and engaging in transfer pricing.
- Nonetheless, a version of the oil-price cap remains, in principle, an effective way of disrupting Russia's patronal<sup>2</sup> institutions and political economy. The key is to allow Russia to export virtually unlimited *volumes* of oil, but at much more rigorously enforced price discounts. This way, Russian state revenues and informal rents decline without aggregate global supply being reduced (which would risk raising oil prices, as in 2022). Moreover, sending a reliable signal of lower Russian oil prices in the future – by setting the cap to decline gradually – could create a self-reinforcing dynamic in which purchases of costlier, non-compliant Russian oil become increasingly unattractive to importing nations.
- For such a scheme to work, coalition authorities will need to put additional resources into enforcement, increase physical interventions against 'shadow fleet' tankers if necessary, tighten prohibition of uninsured ships worldwide, and prevent connected-party transactions by establishing a 'white list' of reputable buyers that are not Russian-owned or -affiliated. To deter

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<sup>1</sup> The G7 countries, EU and Australia introduced a ban on seaborne imports of Russian crude oil and agreed to cap the price of Russian crude oil at \$60 per barrel since December 2022. However, the price hike had occurred already earlier in 2022, following the start of Russia's full-scale invasion of Ukraine. See EU Commission (2022), 'G7 agrees oil price cap: reducing Russia's revenues, while keeping global energy markets stable', 3 December 2022, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_7468](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7468); and Reuters (2022), 'Russia expects to earn \$9.6 billion more in April due to high oil prices', 5 April 2022, <https://www.reuters.com/business/energy/russia-expects-earn-96-bln-more-april-due-high-oil-prices-2022-04-05>.

<sup>2</sup> This term was introduced by Henry Hale in his book *Patronal Politics* to describe a specific kind of mostly informal institutions based on reputation, social networks with essential vertical components ('pyramids') and characteristic of the post-communist countries of Eastern Europe. Unlike patronage that exists in any political regime and can be compatible with liberal democracy, patronalism is all-encompassing and supplants the formally democratic institutions with its own informal rules. For more detail, see Hale, H. E. (2014), *Patronal Politics: Eurasian Regime Dynamics in Comparative Perspective*, Cambridge: Cambridge University Press, <https://doi.org/10.1017/CBO9781139683524>.

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transfer pricing reliant on inflated freight and insurance costs, the price cap should be set using the ‘cost, insurance and freight’ (CIF) price rather than the ‘free on board’ (FOB) price currently used.<sup>3</sup>

- President Trump’s meeting with Putin in Alaska in August 2025 and his attempts to push for direct negotiations between the Russian president and Ukrainian president Volodymyr Zelenskyy have created a high degree of uncertainty over the future of sanctions. These recent developments have reinforced ever-present fears in Kyiv and Europe that any US-brokered peace deal would unduly favour Russia and provide insufficient safeguards for Ukraine, and that it could even lead to a relaxation of US sanctions. Nonetheless, given that fighting continues and that at the time of writing prospects of a peace settlement acceptable to Ukraine remain low, coalition policymakers still need to increase the pressure on the Kremlin.
- Even in the event that the Trump administration declines to provide much further support for sanctions on Russia, it would be possible for European countries (including those outside the EU, such as the UK and Norway) to enforce a modified oil-price cap rigorously, owing to their dominance of the marine reinsurance industry and their effective control of the critical Baltic Sea straits, through which 60 per cent of Russia’s seaborne oil exports travel.

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<sup>3</sup> These terms refer to responsibility for costs and risks during the shipping process, and at what point that responsibility is transferred from the seller to the buyer. Under CIF, the seller is responsible for all the costs and risks of shipping, with the buyer assuming responsibility upon delivery. Under FOB, the buyer is responsible for all costs and risks as soon as the goods are loaded onto the ship. For more detail, see Clarkson PLC (undated), ‘What is the difference between CIF and FOB?’, <https://www.clarksons.com/glossary/what-is-the-difference-between-cif-and-fob> (accessed 8 Jul. 2025).

## Introduction

Many claim sanctions have been ineffective in constraining Russia's ability to wage war against Ukraine and are therefore the wrong mechanism to use. However, this paper argues that sanctions have not targeted the most vulnerable points of President Vladimir Putin's regime with sufficient precision. One way of increasing the impact of sanctions would be to address weaknesses in the implementation of one particular measure: the oil-price cap introduced by the G7 countries, the European Union (EU) and Australia (referred to subsequently as the 'coalition countries') in December 2022.<sup>4</sup>

The current cap – intended to reduce the oil revenues that help to sustain both Russia's war effort and its wider economy – has proven less effective than envisaged. Russian market participants and their counterparties have been able so far to find workarounds (for example, on insurance requirements in the shipping industry) that allow Russian oil to be traded at prices above the coalition-determined cap. This paper will focus on how to reshape the sanctions regime to achieve the desired outcome – particularly, on how to deny Russia's ability to find workarounds – and to ensure that the oil-price cap is fully enforced.

The objective of sanctioning a country's exports is to reduce its GDP and foreign currency inflows. If properly applied, such measures can have several negative effects on the target economy. One is to limit that country's ability to finance its imports, thus preventing it from acquiring raw materials or goods necessary to continue the sanction-incurring activity (in Russia's case, its war on Ukraine). Balance-of-payments problems created by export sanctions can also place broader pressure on the target economy. Perhaps most significant, in the case of Russia, is the fact that oil exports are the single most important source of federal budget revenues and play a vital role in supporting the country's informal power structure.

Russia's oil-related export revenues come from the sale of crude oil, premium-to-crude oil products (such as petrol and diesel) and discount-to-crude products (such as fuel oils). Traditional sanctions on commodities exports typically aim to restrict export *volumes*. For instance, as a result of Russia's attempts to blackmail 'unfriendly nations' by cutting natural gas supplies and trying to 'freeze Europe' in the winter of 2022–23, followed by deliberate EU policies aimed at ending its dependence on an unreliable and hostile supplier, the EU has drastically cut its reliance on Russian natural gas. Because Gazprom, Russia's main gas producer, lacks sufficient pipeline infrastructure to redirect these supplies to other markets, reduced trade has significantly curtailed Russia's gas export revenues and brought Gazprom to the brink of bankruptcy.<sup>5</sup>

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<sup>4</sup> For the EU part, see Directorate-General for Financial Stability and Financial Services and Capital Markets Union (2024), 'Oil Price Cap: Frequently Asked Questions – as of 26 January 2024', 26 January 2024, [https://finance.ec.europa.eu/publications/oil-price-cap\\_en](https://finance.ec.europa.eu/publications/oil-price-cap_en). Other partners have similar regulations. See also German Federal Foreign Office (2022), 'Statement of the G7 and Australia on a price cap for seaborne Russian-origin crude oil', press release, 2 December 2022, <https://www.auswaertiges-amt.de/en/newsroom/news/g7-australia-price-cap-seaborne-russian-origin-crude-oil/2567026>.

<sup>5</sup> Sharples, J. (2025), *No Way Back? Challenges to Russian Pipeline Gas in Europe Make Near-Term Rebound Unlikely*, Oxford Institute for Energy Studies, March 2025, <https://www.oxfordenergy.org/wp-content/uploads/2025/03/Insight-166-Russian-Pipeline-Gas-in-Europe.pdf>.

However, such an approach is less effective when it comes to curtailing oil exports. Oil is predominantly transported by sea. Shipments are therefore highly flexible in terms of destination. If sanctions close one market to the seller, supply can be reallocated to others where the sanctions are not observed. In 2022, even before the coalition countries (mainly those in the EU) imposed embargoes on Russian oil imports, expectations of such restrictions contributed to rising global oil prices. When the embargoes came into effect, other countries – primarily China, India and Türkiye – swiftly replaced coalition members as the primary buyers of Russian oil and petroleum products. As a result, instead of experiencing a decline in its oil revenues, Russia benefited from these higher prices to achieve record-high receipts, while coalition countries unintentionally suffered the negative effects.

## **Instead of experiencing a decline in its oil revenues, Russia benefited from higher prices to achieve record-high receipts.**

The intent behind an oil-price cap, such as the one imposed on Russia since late 2022, is that targeting the price rather than the volume of exports should avoid the disruptive market dynamics described above. In principle, it should allow Russia's oil to continue flowing to global markets but at a discounted price, reducing Moscow's earnings without significantly disrupting global supply. The only scenario in which the price cap would lead to a sharp drop in export volumes would be if the cap were set below operational costs, making production uneconomical even in the short term – this should be avoided. In contrast to the inflationary effect of a conventional embargo on oil markets, a price cap should be able to exert downward pressure on global oil prices.

Because the Russian part of the supply would be sold at artificially low prices, other suppliers should be compelled to compete on price. Even if Russia were able to increase its export volumes – despite sanctions on its oil and gas sector preventing this in theory – the extra revenues would support its balance of payments but would not provide the rents that finance the elite, as a lower price would result in a much lower, potentially even zero, profit margin. As this paper explains, it is these rents that matter more than anything else.

In practice, the primary challenge with the oil-price cap used against Russia has been enforcement. In an ideal scenario, if a sufficiently broad and powerful buyers' cartel agreed among all its members to observe the cap, Russia would be left with few or no markets into which it could sell at prices above the cap (the specific price varies according to which category of oil product is being capped – see below). However, China is the world's largest oil importer and not only buys a large proportion of Russia's oil, but would be able to absorb all Russian exports if it so wished. As such, China ideally needs to be an indispensable member of the sanction-imposing coalition. For now, instead, it remains Russia's geopolitical partner in the latter's confrontation with the West. China has rejected using any sanctions and instead has actively helped Russia to circumvent those imposed by the West. As a result, enforcement remains essentially indirect: via the concentrated markets

for oil transportation and insurance, where most key players operate under the jurisdiction of coalition members. These jurisdictions have prohibited shipping and insurance companies from handling Russian oil if it is priced above the cap.

Russian exporters have employed a number of workarounds to circumvent these restrictions. Mostly, these workarounds have involved the use of vessels owned by obscure companies registered in non-coalition countries. In many cases, Russian entities have directly acquired ageing tankers to build a so-called ‘shadow fleet’. However, securing credible insurance for these vessels is still challenging. Most reputable providers of protection and indemnity (P&I) insurance, which is essential for covering the substantial risks associated with oil spills, are based in coalition countries or adhere to those countries’ regulations. Consequently, many ‘shadow fleet’ tankers operate without proper P&I insurance, under mere paper certificates issued by obscure firms and reinsured by unreliable ones.

A key enforcement measure so far has been for coalition authorities to ‘delist’ vessels found to be transporting Russian oil above the price cap. Delisting means that these tankers are barred from coalition-country ports, while companies worldwide that engage with them risk secondary sanctions. Additionally, the US and EU have imposed sanctions on Russia’s state-owned shipping company, Sovcomflot, as well as on key Russian oil exporters and certain insurance providers. These measures have led some major buyers – such as Indian state-owned oil companies and some Chinese ports – to refuse dealings with sanctioned entities, periodically disrupting Russian oil exports. However, Russian exporters have adapted to this by shifting to other methods of sanctions avoidance, such as selling via intermediaries. The use of workarounds like this has prompted some experts and policymakers to question the long-term effectiveness and enforceability of the oil-price cap.

The price cap is currently set at \$60 per barrel for crude oil,<sup>6</sup> \$100 per barrel for premium-to-crude oil products such as petrol and diesel fuel (well above their market prices) and \$45 per barrel for discount-to-crude oil products such as fuel oils.<sup>7</sup> The shipping of these products at above-cap prices and the insurance of such shipments are prohibited for all firms that are subject to the jurisdiction of the coalition countries.

The 18th, and most recent, sanctions package, introduced by the EU in July 2025, envisages a ‘lowering of the Oil Price Cap for crude oil from \$60 per barrel to \$47.60, and the introduction of an automatic and dynamic mechanism for its review in the future. The new system will ensure that the cap is always 15 per cent lower than the average market price for Urals crude in the previous period of six months, resulting in both predictability for operators and downward pressure on Russian energy revenues.’<sup>8</sup>

<sup>6</sup> Council of the EU (2022), ‘Russian oil: EU agrees on level of price cap’, press release, 3 December 2022, <https://www.consilium.europa.eu/en/press/press-releases/2022/12/03/russian-oil-eu-agrees-on-level-of-price-cap>.

<sup>7</sup> EU Directorate-General for Neighbourhood and Enlargement Negotiations (2023), ‘Ukraine: EU and G7 partners agree price cap on Russian petroleum products’, news article, 4 February 2023, [https://enlargement.ec.europa.eu/news/ukraine-eu-and-g7-partners-agree-price-cap-russian-petroleum-products-2023-02-04\\_en](https://enlargement.ec.europa.eu/news/ukraine-eu-and-g7-partners-agree-price-cap-russian-petroleum-products-2023-02-04_en).

<sup>8</sup> European Commission (2025), ‘EU adopts 18th package of sanctions against Russia’, press release, 18 July 2025, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_25\\_1840](https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1840).

But it is not entirely clear what is meant by a ‘market price for Urals crude in the previous period of six months’. If the cap is observed, there is effectively no market price and this new mechanism would just steadily drive the price down. Such a mechanism is a workable solution, but only if Russian circumventions are sufficiently minimized. In other words, the price cap must be rendered watertight or ‘sealed’ to be truly effective.

## What is wrong with the current approach to sanctions?

The range of sanctions deployed against Russia to date (see Box 1) has consisted of scattergun measures seeking to restrict Russian access to military and dual-use technologies, target the real economy at a generalized level, and affect financial flows and transactions (most prominently, by sanctioning specific individuals with links to the Putin regime). However, this broad-based approach lacks a comprehensive and systemic political-economic dimension and, conversely, has failed to achieve results at the scale and speed required to influence the course of the war.

### Box 1. Russia is currently the world's most-sanctioned country<sup>9</sup>

Sanctions imposed on Russia since 2022 include:

#### Targeted sanctions

These have been imposed on more than 11,000 people (including government officials, oligarchs, military officers and propagandists), as well as on almost 7,000 entities. Sanctions have included asset freezes and travel bans restricting entry into the EU, the UK, the US and other jurisdictions. Almost 500 delisted vessels and 94 aircraft are also sanctioned.<sup>10</sup>

#### Financial sanctions

These have included the following:

- A ban on Western entities making new investments in the Russian economy.
- A ban on operations in US dollars and euros for nearly all major Russian banks, including Gazprombank.
- A ban on Russian banks performing transactions via the SWIFT system of payment transfers.
- A ban on Western companies using Russia's Mir system of payment transfers. (Visa and Mastercard also no longer operate in Russia.)

<sup>9</sup> Ashurst (2025), ‘Russia Sanctions Tracker – EU’, 27 February 2025, <https://www.ashurst.com/en/insights/eu-sanctions> (accessed 21 Mar. 2025); U.S. Treasury Office of Foreign Assets Control (undated), ‘Ukraine-/Russia-related Sanctions’, <https://ofac.treasury.gov/sanctions-programs-and-country-information/ukraine-russia-related-sanctions>; S&P Global Market Intelligence and S&P Global Commodity Insights (2024), ‘Sanctions against Russia – a timeline’, 6 November 2024, <https://www.spglobal.com/market-intelligence/en/news-insights/articles/2024/11/sanctions-against-russia-8211-a-timeline-69602559>.

<sup>10</sup> Atlantic Council (undated), ‘Russia Sanctions Database’, <https://www.atlanticcouncil.org/blogs/econographics/russia-sanctions-database> (accessed 21 Mar. 2025).

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- A ban on buying Russian treasury bills, and on the use of other instruments for providing credit to the Russian state and state-owned companies.
- Freezes on the reserves of Russia's central bank in the coalition countries.
- Secondary sanctions on banks (including in third countries) involved in circumventing sanctions.

### Sanctions on exports to Russia

The categories of sanctioned exports have included:

- High-tech goods (semiconductors, microelectronics, optics, etc.), aerospace components and dual-use goods.
- Technology, tools and equipment for the production of such goods.
- Some luxury goods.

### Sanctions on Russian exports

These have included:

- An embargo on imports of seaborne crude oil and petroleum products by the coalition countries.
- The coalition's 2022 price caps on oil exports to third countries.
- Embargoes on imports of coal, ferrous and some non-ferrous metals, gold, diamonds and other commodities of importance to the Russian economy by the coalition countries.

### Sectoral sanctions

These have covered the following categories:

- **Culture and sport.** Measures in these areas have included a ban on the participation of Russian athletes (under the Russian flag, at least) in international sporting events.
- **Defence and aerospace.** Bans on Western exports of, and Russian access to, defence technologies. Prohibition on Russian defence cooperation with relevant Western firms.
- **Maritime and transport.** Bans on Russian ships entering Western ports. Restrictions on Russian aviation in international airspace.
- **Media and information.** Measures to block Russian state media outlets, such as RT and Sputnik, from broadcasting in the coalition countries. These include, in particular, actions targeting Russian disinformation efforts.
- **Services.** Restrictions on Western consulting, auditing and legal services in Russia.
- **Technology and IT.** Measures targeting Russian technology firms and limiting access to Western software and IT services.
- **Visa and travel restrictions.** A ban on flights and direct travel by car and rail to some coalition countries. (For example, Finland has closed its border to Russia completely.)

The primary aim of these sanctions is to force the Kremlin to make different political, tactical and strategic decisions. In principle, such decisions should be driven by Russia's incapacity to wage war due to a lack of critical materiel or manpower; by the fact that sanctions may raise the costs of the invasion above the anticipated gains for Russia; and/or by the political threat to Russian leaders from continuing the war.

Export restrictions, on their own, will not render Russia incapable of waging war. For instance, fully cutting off the supply of spare parts to a market economy like Russia's, with its network of intermediaries in countries that do not observe sanctions, is unfeasible. Although sanctions that increase Russia's import costs create a measure of deterrence against further Russian aggression, these are insufficient for establishing absolute deterrence. For example, debilitating Russia's banks makes it more complicated for Russia's defence industry to procure imports,<sup>11</sup> but it does not prevent it from doing so altogether.

Targeting imports related to critical stages of production, especially where Russia depends on single suppliers in countries complying with sanctions, is a potentially more promising approach, but it has yet to be applied widely.<sup>12</sup> Such measures could be enforced, for example, by paying producers of critical goods and services to trace their supply chains through 'know your client' procedures, and at the same time, fining them for any of their products found in Russia.

Put another way, an export-restriction strategy would prevent Russia from developing and producing certain modern weapons, and it would raise the cost to Russia of waging war, but Russia would still be able to continue to service its war needs for some time. The country has extensive stockpiles of Soviet-era weapons, as well as a large, if increasingly limited, defence industry.<sup>13</sup> Moreover, this industry will continue to be reinforced by imports from China, Iran and North Korea. Even if completely deprived of Western-made parts and cutting-edge technologies, Russia could still produce plenty of deadly weapons such as artillery shells, rocket launchers, guided glide bombs, and unmanned aerial and ground vehicles.

## **Given the politically existential nature of the war for Putin, the Kremlin can be expected to mobilize as many financial resources and as much labour as it believes necessary for victory.**

Given the politically existential nature of the war for Putin, the Kremlin can be expected to mobilize as many financial resources and as much labour as it believes necessary for victory. Prioritizing military strength is a deep-rooted

<sup>11</sup> Hilgenstock, B., Ribakova, E., Vlasyuk, A. and Wolff, G. (2024), *Using the financial system to enforce export controls*, Working Paper, Brussels: Bruegel, [https://www.bruegel.org/sites/default/files/private/2024-04/WP%2010%202024\\_0.pdf](https://www.bruegel.org/sites/default/files/private/2024-04/WP%2010%202024_0.pdf).

<sup>12</sup> Galeev, K. (@kamilkazani) via X (2024), 'If Russia has been under the unprecedentedly wide sanctions for almost two years [...]' [thread], 28 January 2024, <https://x.com/kamilkazani/status/1751679332609675762>.

<sup>13</sup> Boulègue, M. (2025), *Russia's struggle to modernize its military industry: How sanctions, war and 'innovation stagnation' are weakening Moscow's capabilities*, Research Paper, London: Royal Institute of International Affairs, <https://doi.org/10.55317/9781784136468>.

tradition in Russia. Russia's economy will incur a high cost if its leaders were to continue waging the war under mounting pressure. But Putin would not have started the war had he rationally weighed the costs and benefits for the country. Now, he seems to believe that his political survival depends on winning the war regardless of the costs. That is why the sanctions imposed thus far, though unprecedented against a major power, cannot on their own force Putin to withdraw Russian troops from Ukraine.

Some researchers emphasize the potential of measures aimed at Russia's GDP and balance of payments,<sup>14</sup> in particular citing the rationale that targeting Russia's economy will lead to a decrease in the well-being of its population, in turn putting pressure on the leadership. But this idea is less potent when democratic methods for unseating unpopular leaders are in effect unavailable, as is the case in Russia. While Putin values his popularity, the president's public image is manipulated in his favour by the Kremlin's political technologists. Additionally, a significant part of the population still harbours the imperial belief that territorial gains enhance a country's wealth. Despite the clear evidence that the annexation of Crimea in 2014 made Russians poorer, and despite the decline in real disposable incomes during the first year of the full-scale invasion,<sup>15</sup> public support for the war and Putin's popularity remained relatively unaffected.<sup>16</sup> A scenario involving grassroots protests is now less likely, especially given the increasingly repressive measures put in place by the Kremlin to prevent a reoccurrence of large-scale protests like the Bolotnaya Square demonstrations of 2011–12.<sup>17</sup> Only a degree of impoverishment well beyond the reach of the current sanctions regime could possibly prompt such a popular uprising.

A further limitation of broad-based economic sanctions is that the current approach is unlikely to hit the regime hard enough. Restrictions on Russia's exports are likely to decrease its GDP by no more than 10–12 per cent.<sup>18</sup> While very significant by Western standards, this would not be catastrophic for an emerging market country like Russia, in part because the amplitude of economic cycles is much greater than in developed economies. Russia weathered a decline of 7.8 per cent in 2009, and the regime has become far more repressive since then.

However irrational the fundamental motivations behind the full-scale invasion, Putin is rational when it comes to his regime's survival. This reflects the winner-takes-all nature of Russia's politics, premised on the understanding that another large policy mistake could result in his replacement or even the collapse of the regime. Paradoxically, this means that Putin and his immediate circle have strong motives for continuing the war, despite its possible detrimental impact on the economic well-being of Russian citizens. An unending war is in some respects politically

<sup>14</sup> See, for example, Snegovaya, M., Fenton, N., Dolbaia, T. and Bergmann, M. (2025), *The Russian Wartime Economy: From Sugar High to Hangover*, report, Washington, DC, Center for Strategic and International Studies, <https://www.csis.org/analysis/russian-wartime-economy-sugar-high-hangover>.

<sup>15</sup> Vyugin, O., Gurvich, E., Itskhoki, O. and Yakovlev, A. (2023), 'Worse Than a Crisis. The 2022 Russian economic anomaly: how it works, and where it is headed', Re: Russia, 8 February 2023, <https://re-russia.net/en/expertise/052>.

<sup>16</sup> Levada Centre (undated), 'Одобрение органов власти' [Approval of authorities], <https://www.levada.ru/indikatory/odobrenie-organov-vlasti> (accessed 1 Jul. 2025).

<sup>17</sup> Lassila, J. (2019), *Glitches in the Kremlin's politics of Fear: The dynamics of repression in Russia between 2012 and 2019*, briefing paper, Helsinki: Finnish Institute of International Affairs, <https://fiia.fi/julkaisu/glitches-in-the-kremlins-politics-of-fear>. See also Reznikova, A. and Korostelev, A. (2024), 'A study into repression under Putin', Proekt.media, 22 February 2024, <https://www.proekt.media/en/guide-en/repressions-in-russia-study>.

<sup>18</sup> Authors' estimation based on current export-to-GDP ratio of about 23 per cent.

necessary for the regime to justify the sacrifices made to date, in terms of both human casualties and economic hardship that Russian citizens have endured since the invasion.<sup>19</sup>

Notwithstanding these factors, the regime's economic vulnerabilities still provide an opportunity for influencing Putin's decision-making. Rather than giving up on sanctions on the basis that the arguments articulated above make them ineffective, Ukraine's allies need to exploit Putin's interest in staying in power. Financial and energy-related measures are the best way to do this. But such measures need to be more tightly focused on areas of the Russian economy where disruption can do Putin the most damage. As the rest of this paper shows, the oil market is the place to start.

## Oil rents are the Kremlin's weak point

To force a change in Russia's behaviour in a way that leaves Ukraine sovereign and whole, Western policymakers must create a real threat to Putin's regime. This threat must be perceived by Kremlin officials as outweighing that presented by a military and political retreat. Properly designed and applied sanctions, allied to Ukrainian military success on the battlefield, offer the best chance of accomplishing this.

Unlike 'classic', formalized dictatorships that appeared resilient to sanctions,<sup>20</sup> the Putin regime maintains its stability through a peculiar combination of fear and rent distribution.<sup>21</sup> The regime's backbone is an informal patronal network known as the 'vertical of power'.<sup>22</sup> Within this network, loyalty is sustained using rents as 'carrots' and fear as a 'stick'. Putin wields power only for as long as his subjects and the country's elites believe that he will hold it indefinitely and thus be able to punish disobedience and reward loyalty.<sup>23</sup> Yet this loyalty will last only as long as elites value their future gains from rents more highly than the potential gains from abandoning the regime.<sup>24</sup>

Under the right conditions, a hitherto stable authoritarian regime such as Russia's can quickly and dramatically become unstable. A change of expectations creates a dynamic similar to that of a bank run. The meltdown of the Soviet Union was arguably the most famous case, but similar collapses have occurred in post-Soviet states that inherited parts of the former Soviet patronal networks.<sup>25</sup> An obvious trigger for a revolution or internal coup is a fiscal crisis that prevents the regime from distributing rents. So-called 'limited access order' regimes such as Russia's –

<sup>19</sup> Kendall-Taylor, A. and Frantz, E. (2023), 'Putin's Forever War', *Foreign Affairs*, 23 March 2023, <https://www.foreignaffairs.com/ukraine/putins-forever-war>.

<sup>20</sup> Sabatini, C. and Isard, L. (2025), *Understanding and improving sanctions today: Why and how many sanctions fail, and what to do about it*, Research Paper, London: Royal Institute of International Affairs, <https://doi.org/10.55317/9781784136550>.

<sup>21</sup> North, D. C., Wallis, J. J. and Weingast, B. R. (2009), *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, Cambridge: Cambridge University Press.

<sup>22</sup> Magyar, B. and Madlovics, B. (2020), *The Anatomy of Post-Communist Regimes: A Conceptual Framework*, Budapest and New York: Central European University Press.

<sup>23</sup> For a detailed explanation of the difference between patronage and 'patronal' networks, see Hale, H. E. (2025), *Patronal Politics: Eurasian Regime Dynamics in Comparative Perspective, Problems of International Politics*, Cambridge: Cambridge University Press.

<sup>24</sup> Solnick, S. E. (1999), *Stealing the State: Control and Collapse in Soviet Institutions*, Cambridge, MA: Harvard University Press.

<sup>25</sup> Ibid.

that is, ones that depend on the personified allocation of rents – are generally more susceptible to fiscal crises than liberal democracies.<sup>26</sup> Even if regimes manage to partly substitute one source of rent with another, cuts and reallocations of rents fuel elite grievances detrimental to the regime's stability.

In short, Russia's vertical of power is rigid, fragile and vulnerable to changes in the flow of rents. It is vulnerable to changes in expectations among the elites and to events that might undermine Putin's reputation as tough and near-invincible. It is crucial for the regime to show both its internal and external audiences that the status quo will hold. Compromise (for example, over Ukrainian sovereignty) could undermine the leader's reputation and jeopardize the vertical of power. From this perspective, the invasion of Ukraine serves as a signalling game in Putin's relationship with the West, particularly in the context of the ultimatums presented by Russia to NATO in December 2021, although they were also necessary as a signal to the Russian public.<sup>27</sup>

Despite the failure to achieve his initial goals, Putin does not want a compromise settlement in which Ukraine would retain its sovereignty and obtain meaningful security guarantees. Unless Putin manages to impose on Ukraine a peace deal on terms allowing Russia to destroy Ukraine's sovereignty and national identity while also pushing NATO back to its pre-enlargement borders, he is unlikely to halt hostilities unless their continuation poses a greater threat to regime stability and survival than retreat does.

## **While the value of oil rents is equivalent to less than 10 per cent of GDP, cutting them off would be the most effective way of destabilizing the regime.**

This is where an enhanced oil-price cap could come in. The primary source of political rents in Russia is its oil and gas sectors. These rents are redistributed through the federal budget, as well as through extra-budgetary channels via a network of offshore companies. The latter are formally private but effectively controlled by the regime. While the value of oil rents is equivalent to less than 10 per cent of GDP,<sup>28</sup> cutting them off would be the most effective way of destabilizing the regime. A credible threat to eliminate oil rents is thus a potentially powerful tool for changing – or at least constraining – Russia's behaviour, whether or not Putin is in power.

<sup>26</sup> North, Wallis and Weingast (2009), *Violence and Social Orders*.

<sup>27</sup> Dubrovskiy, V. (2022), *How to stop Putin's war against Ukraine*, The Foreign Policy Centre, April 2022, <https://fpc.org.uk/wp-content/uploads/2022/04/Commentary-How-to-stop-Putins-war-against-Ukraine.pdf>.

<sup>28</sup> World Bank (undated), 'Oil rents (% of GDP) – Russian Federation', <https://data.worldbank.org/indicator/NY.GDP.PETR.RT.ZS?locations=RU> (accessed 21 Mar. 2025).

## Russia is already under fiscal pressure

The demands of war are straining Russia's federal budget. Military spending had been projected to reach R14.7 trillion (\$170 billion) in 2024,<sup>29</sup> but is likely to have been higher still: official spending alone is likely to have exceeded R12 trillion (instead of the envisaged R10.8 trillion),<sup>30</sup> before hidden costs are accounted for. In 2025, military expenditure is set to rise to R13.5 trillion on the official measure, and to R26.4 trillion including hidden budget items. This would mean overall military spending consuming up to 63 per cent of the federal budget. By comparison, its share was just 14–16 per cent before the February 2022 invasion.<sup>31</sup>

In the 'guns or butter' dilemma, the Kremlin has opted for the former, with education, regional subsidies and similar expenditures cut or frozen. While inflation is exceeding 9 per cent,<sup>32</sup> social expenditures this year are to be cut by 16 per cent to R6.5 trillion.<sup>33</sup> In 2023, Minister of Finance Anton Siluanov called the budget for 2024 the 'victory budget'. At that time, the prospective budgets for 2025 and 2026 envisaged some normalization of military expenditure. As it turns out, this is not to be the case for 2025, and no reduction is foreseen by the Russian Ministry of Finance for the following two years. Instead, Russians will have to adjust to a 'new normality' of tightening belts for their country to become one of the most militarized in the world.

Despite the high level of military spending, the federal budget deficit has remained relatively low and falling: the deficit was recorded at 2.3 per cent of GDP in 2022, before falling to 1.9 per cent in 2023 and 1.7 per cent of GDP in 2024.<sup>34</sup> This trajectory reflects the impact to date of high oil prices on government revenues, as well as the artificial and temporary economic boom created by the boost in military production and the injection into the economy of large amounts of money for military salaries and compensation payments for dead or wounded combatants. However, these factors are no longer present. Conversely, despite tax hikes that were meant to reduce the budget deficit to just 0.5 per cent in 2025, the outcome is anticipated at 1.7 per cent (about R3.8 trillion).<sup>35</sup> That figure may eventually

<sup>29</sup> Grozovski, B. (2023), 'The War Tax in Russia', Kennan Institute 'The Russia File' blog, 2 November 2023, <https://www.wilsoncenter.org/blog-post/war-tax-russia>.

<sup>30</sup> Luzin, P. (2024), 'Российский ВПК и армия на исходе третьего года войны' [Russian military-industrial complex and army at the end of the third year of the war], *Moscow Times*, 28 December 2024, <https://www.moscowtimes.ru/2024/12/28/rossiiskii-vpk-i-armiya-na-ishode-tretiego-goda-voiny-a151594>.

<sup>31</sup> Grozovski, B. (2023), 'Russia's Unprecedented War Budget Explained', Kennan Institute 'The Russia File' blog, 7 September 2023, <https://www.wilsoncenter.org/blog-post/russias-unprecedented-war-budget-explained>.

<sup>32</sup> Bank of Russia (2025), 'Информационно-аналитический комментарий об инфляции в Москве в декабре 2024 года' [Information and analytical commentary on inflation in Moscow in December 2024], 23 January 2025, <https://www.cbr.ru/press/reginfl/?id=54178>.

<sup>33</sup> *Moscow Times* (2024), 'Путин утвердил рекордный военный бюджет и сокращение расходов на социальную поддержку россиян' [Putin approves record military budget and cuts in spending on social support for Russians], 1 December 2024, <https://www.moscowtimes.ru/2024/12/01/putin-utverdil-rekordnii-voennii-byudzheta-i-sokraschenie-rashodov-na-sotsialnuyu-podderzhku-rossiyan-a149215>. (These figures can be also found in the official Russian Ministry of Finance document at [https://minfin.gov.ru/common/upload/library/2024/11/main/0759\\_Budget\\_2025-2027.pdf](https://minfin.gov.ru/common/upload/library/2024/11/main/0759_Budget_2025-2027.pdf), but only from Russian IP addresses.)

<sup>34</sup> Kryzhnyi, A. (2025), 'Russia ended 2024 with record budget deficit, The Moscow Times reports', *Ukrainska Pravda*, 21 January 2025, <https://www.pravda.com.ua/eng/news/2025/01/21/7494628>.

<sup>35</sup> *Moscow Times* (2025), 'Russia Moves to Revise 2025 Budget on Lower Energy Revenues and Wider Deficit', 11 June 2025, <https://www.themoscowtimes.com/2025/06/11/russia-moves-to-revise-2025-budget-on-lower-energy-revenues-and-wider-deficit-a89416>.

be much higher.<sup>36</sup> Russia's budget deficit may seem small compared to, for example, the 3 per cent of GDP stipulated in eurozone criteria, but Russia's lack of access to international financial markets means that even a deficit of under 2 per cent is more difficult to manage.

Further deterioration of Russia's fiscal imbalances, coupled with no access to world financial markets, would leave the Russian authorities with hard choices if they are to maintain current state spending levels, including the following:

- **Withdrawing money from the National Wealth Fund.** The fund held R2.8 trillion in liquid assets as of 1 June 2025, equivalent to 1.3 per cent of estimated 2025 GDP. It contains only \$21 billion net of gold that is conditionally liquid due to sanctions.<sup>37</sup> This is an emergency reserve barely able to cover a one-year budget deficit. Having remained relatively stable over much of the last two years, the fund's holdings decreased sharply in value during the last quarter of 2024 and the first half of 2025.
- **Monetary emission.** Also colloquially known as 'printing money', monetary emission would add to inflationary pressures, already exacerbated by military-related spending and by defence-industry salaries that do not contribute to the supply of marketable goods or services. Inflation could be potentially contained by selling the central bank's remaining currency and gold reserves, but this way of upholding the price stability would further magnify macroeconomic distortions and still not last for more than two years under current conditions.
- **Domestic market borrowing.** The government could borrow in the domestic market to finance the deficit, and some authors consider this source abundant due to high level of assets of the Russian banking system.<sup>38</sup> But more nuanced analysis suggests that the scope for doing so is limited for a number of reasons.

While bank assets are indeed abundant and growing, they are currently mostly converted to private sector and household loans and securities that are vital to keep the economy running. Deficit financing of this type crowds out private investment and thus hinders economic growth, as the government's borrowing diverts funds that would otherwise have been available for lending into the real economy.

Although the banking system remains relatively stable, warning signs<sup>39</sup> point to trends that could jeopardize its ability to purchase more treasury bills. Moreover, many loans and securities (such as those of state-owned enterprises) are very likely to become non-performing if oil export revenues are cut.

<sup>36</sup> MMI via Telegram (2025), 'ФЕДЕРАЛЬНЫЙ БЮДЖЕТ: НЕСПОСОБНОСТЬ ПРАВИТЕЛЬСТВА КОНТРОЛИРОВАТЬ РАСХОДЫ МОЖЕТ ПОМЕШАТЬ СНИЖЕНИЮ СТАВКИ' [Federal Budget: Government's Inability To Control Spending Could Hurt Rate Cut], 7 July 2025, <https://t.me/russianmacro/21261> (accessed 8 Jul. 2025).

<sup>37</sup> *Moscow Times* (2025), 'Russia's National Welfare Fund at Risk of Depletion By 2026, Economists Warn', 9 June 2025, <https://www.themoscowtimes.com/2025/06/09/russias-national-welfare-fund-at-risk-of-depletion-by-2026-economists-warn-a89395>.

<sup>38</sup> See, for example, Snegovaya, Fenton, Dolbaia and Bergmann (2025), *The Russian Wartime Economy: From Sugar High to Hangover*.

<sup>39</sup> *Moscow Times* (2025), 'Russia at Rising Risk of Systemic Banking Crisis, State-Linked Economists Warn', 29 May 2025, <https://www.themoscowtimes.com/2025/05/29/russia-at-rising-risk-of-systemic-banking-crisis-state-linked-economists-warn-a89268>.

(There is also the problem that many loans in Russia are concealed.) If the risk of a banking crisis materializes, the government would have to spend or lend money to bail out the systemic banks.

Even more importantly, for the Russian government to keep servicing its deficit through deposit-financed borrowing, the main interest rate and treasury yields will need to be kept well above the (already high) rate of inflation plus the rate of GDP growth. Under these conditions, new bank deposits invested in treasury bills create a semi-closed loop of government expenditure that might provide resources for deficit financing, and also partially absorb the emitted money so their emission does not result in growth in aggregate demand, hence inflation. This mechanism is effectively akin to a Ponzi scheme, in which the debt would accumulate exponentially (the so-called ‘snowball effect’), while interests paid on the deposits would add to the monetary pressure – just as happened in mid-1990s, ending with an economic crisis with severe political consequences.

Currently, the central bank’s main interest rate is 18 per cent, while Russian treasury yields are about 15 per cent for both a 20-year bond<sup>40</sup> and a one-year bond.<sup>41</sup> Although Russian state debt is currently low – the IMF estimates it at only 21.4 per cent of GDP<sup>42</sup> – such high interest rates combined with a dramatic increase in the budget deficit may soon render that debt unsustainable. A Ponzi scheme is a finite game, as the crisis of 1998 demonstrated so clearly. Thus, even though the snowball effect takes time to gain momentum, the effect on expectations could be devastating.

- **Raising taxes and cutting non-military expenditure.** Both of these measures are envisaged for 2025 and beyond. Personal income tax has become progressive, with higher rates added for those on higher incomes after more than 20 years of being set at a flat rate. The corporate tax rate will rise from 20 per cent to 25 per cent in 2025. The government anticipates receiving an additional 2.5 trillion roubles through higher taxes.<sup>43</sup> Meanwhile, social and other expenditures are set to decrease. These actions will be unpopular among regime supporters and members of Russia’s elites, as well as with the wider public. For instance, federal subsidies to the regions are set to decline from R3.6 trillion in 2024 to R3.3 trillion in 2025. Such a reduction has the potential to weaken loyalty to Putin and his regime, as these subsidies are the most important source of rents for elites in regions such as Chechnya.

To various degrees, Russia’s authorities are already employing, or planning to employ, the methods outlined above. But a sharp exacerbation of fiscal imbalances – for example, caused by a loss of oil revenues – could increase the pressure on the regime to take additional unpopular or unsustainable measures –

<sup>40</sup> Trading Economics (undated), ‘Russia 20 Year bond Yield’, <https://tradingeconomics.com/russia/20-year-bond-yield> (accessed 7 Jul. 2025).

<sup>41</sup> Trading Economics (undated), ‘Russia 52 Week Bill Yield’, <https://tradingeconomics.com/russia/52-week-bill-yield> (accessed 7 Jul. 2025).

<sup>42</sup> IMF DataMapper (undated), ‘Datasets: Russian Federation’, <https://www.imf.org/external/datamapper/profile/RUS/1000> (accessed 7 Jul. 2025).

<sup>43</sup> Wiśniewska, I. (2024), ‘Russia’s budget for 2025: war above all’, Centre for Eastern Studies, 22 November 2024, <https://www.osw.waw.pl/en/publikacje/osw-commentary/2024-11-22/russias-budget-2025-war-above-all>.

maybe as soon as late 2025. Such pressures would make it harder for the Russian authorities to grow their way out of trouble or to prop up the economy with fiscal stimulus, putting the regime itself under significant pressure.

This level of pressure would disrupt the vertical of power and put it in jeopardy, unless it is quickly and deliberately replaced from the top by a non-patronal structure, as in a classic dictatorship<sup>44</sup> – a task that cannot be accomplished within just one or two years. Thus, the oil-price cap would pose a credible threat to the regime if it were sealed and gradually lowered in a short timeframe. And it would do so without provoking a spike in oil prices that harms the coalition countries. In our view, if supplemented with sufficient military aid to Ukraine, a sealed cap would pose a threat to the regime's stability comparable to that arising from a cessation of hostilities or even a withdrawal from Ukraine. Imposing precisely this kind of policy dilemma on the Kremlin should be the aim of further oil market sanctions.

## Why targeting oil rents is the most effective way to apply pressure

Reducing the flow of oil rents is key to giving the regime pause in its political-economic calculations over the war, as hydrocarbons are Russia's only exports generating substantial budget revenues. Such revenues exceeded R11 trillion in 2024, and were initially forecast to reach almost the same level – R10.9 trillion – in 2025.<sup>45</sup> Sanctioning other exports has less of an impact on Russia, and in some cases (such as rare earth minerals or liquefied natural gas) is disruptive for coalition countries.

Crude oil and petroleum products account for most of Russia's hydrocarbon rents, and their importance has increased since the drastic reduction in the EU's consumption of Russian natural gas in 2023. Natural gas exports brought in only about R500 billion in budget revenue in that year, out of a total of more than R9 trillion from all hydrocarbons.<sup>46</sup> Their contribution will further decrease in 2025 due to the discontinuation of gas transit through Ukraine. By contrast, approximately 75 per cent of Russia's oil is exported.<sup>47</sup>

<sup>44</sup> Yakovlev, A., Dubrovskiy, V. and Danilov, Y. (2025), 'Putin's New Hermit Kingdom: At War With the West and Its Own Elites, the Russian Regime Inches Toward a Fully Closed Dictatorship', *Foreign Affairs*, 16 March 2025, <https://www.foreignaffairs.com/russia/putins-new-hermit-kingdom-closed-dictatorship>.

<sup>45</sup> RBC.ru (2024), 'Власти определили источники роста доходов в бюджете' [The authorities have identified sources of revenue growth in the budget], 30 September 2024, <https://www.rbc.ru/economics/30/09/2024/66f7cc7f9a794789d12bfbc>. The Ministry of Finance had to reconsidered this figure in the light of the fall in oil prices, and now it stays at R8.3 trillion. See *Moscow Times* (2025), 'Russia's National Welfare Fund at Risk of Depletion By 2026, Economists Warn', 9 June 2025, <https://www.themoscowtimes.com/2025/06/09/russias-national-welfare-fund-at-risk-of-depletion-by-2026-economists-warn-a89395>.

<sup>46</sup> Reuters via Moscow Times Russian Service (2023), 'Россия в 23г может потерять две трети доходов от экспорта газа -- расчеты Рейтер' [Russia could lose two-thirds of gas export revenues in '23 -- Reuters estimates], 6 December 2023, <https://www.moscowtimes.ru/2023/12/06/rossiya-v-23g-mozhet-poteryat-dve-treti-dokhodov-ot-eksporta-gaza-raschety-reyter-a115410>.

<sup>47</sup> Authors' calculation based on Russian government data.

Considering that about 95 per cent of Russia's exports of crude oil and petroleum products are shipped by sea,<sup>48</sup> embargoing pipeline transportation would be less effective (even if doing so remains necessary to close loopholes and reduce some EU countries' dependence on Russian suppliers). Cutting all budget revenues from seaborne oil and oil product exports, meanwhile, could deprive Russia's federal budget of approximately R9–10 trillion (the exact amount will vary with changes in oil prices). By some calculations, restricting Russian revenues in this way could triple the size of the budget deficit to 5–6 per cent of GDP, create a gap in the current account of the balance of payments exceeding \$100 billion (roughly another 5–6 per cent of GDP), and cause Russian GDP to decline by 9–10 per cent in real terms. Additionally, the artificial economic boom that occurred in 2023–24 is widely forecast to end this year.<sup>49</sup>

Cutting revenues from seaborne exports would therefore amplify the effects of that slowdown, potentially leading to a full-fledged economic crisis and, a simultaneous crisis for Russia's patronal vertical of power due to the near-elimination of the elite's main source of rents.

## Stronger enforcement of the oil-price cap is crucial

The chief argument for tightening the coalition countries' existing oil-price cap is that other ideas for reducing Russia's oil-price rents seem unfeasible. Only two have been put forward so far: engineering a decline in global oil prices; and imposing an effective global embargo on Russian oil, oil products and uranium through secondary sanctions on the countries that buy them. US president Donald Trump has pledged to do both.<sup>50</sup>

The current market situation and OPEC's new policy of increasing oil supply should indeed drive the price down. History suggests oil-price fluctuations can have political impacts: the decline in oil prices in the late 1980s was among the main factors that weakened the Soviet Union, for which oil rents were similarly important as for modern Russia.

However, changes in the structure of oil markets in recent decades, driven by the US-led expansion in shale oil production, would limit the effectiveness of such a plan. Shale oil now accounts for about 10 per cent of global production,<sup>51</sup> but

<sup>48</sup> Zhukov, E. (2023), 'Почти всю свою нефть Россия продает Китаю и Индии' [Russia sells almost all its oil to China and India], Deutsche Welle, 27 December 2023, <https://www.dw.com/ru/novak-pocti-vsu-svou-neft-rossia-prodaet-kitau-i-indii/a-67832673>.

<sup>49</sup> Sandbu, M. (2025), 'Russia's war economy is a house of cards', *Financial Times*, 12 January 2025, <https://www.ft.com/content/61adaed4-ac9a-4891-afb6-b3ad648c58ad>. See also IMF (2025), 'World Economic Outlook Growth Projections', 17 January 2025, <https://www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025>.

<sup>50</sup> O'Sullivan, D. (2025), 'Peace through oil: Trump claims war in Ukraine could end if price of oil decreases', Euronews, 25 January 2025, <https://www.euronews.com/2025/01/24/peace-through-oil-trump-claims-war-in-ukraine-could-end-if-price-of-oil-decreases>; Malenko, A., Holland, S. and Peleschuk, D. (2025), 'In reversal, Trump arms Ukraine and threatens sanctions on countries that buy Russian oil', Reuters, 14 July 2025, <https://www.reuters.com/business/aerospace-defense/trump-send-patriot-missiles-ukraine-us-envoy-visits-kyiv-2025-07-14>.

<sup>51</sup> Di Fiori, L. et al. (2025), 'Snapshot of global oil supply and demand: February 2025', McKinsey Oil & Gas blog, 11 March 2025, <https://www.mckinsey.com/industries/oil-and-gas/our-insights/oil-and-gas-blog/snapshot-of-global-oil-supply-and-demand>.

it is costlier to produce than Russia's conventionally extracted oil, and a large part of shale production becomes uneconomic if prices fall below \$60 per barrel.<sup>52</sup> If the price fell below this value, its producers would close wells and cut production, and declining availability would keep the price from falling further. Besides, the US would likely intervene to uphold the price if it fell too far, especially given the strength of relations between US shale oil producers and the Trump administration. Although the Russian economy already faces problems due to low oil prices, it can weather a decline for at least a year or two more at the current rate.

A group of US lawmakers led by senators Lindsey Graham and Richard Blumenthal proposed a full embargo on Russian exports of oil, oil products and uranium by sanctioning third countries that continue purchasing these products with a 500 per cent tariff on their exports to the US.<sup>53</sup> President Trump later threatened similar measures, albeit with a tariff rate of 100 per cent.<sup>54</sup>

Though promising in theory, this approach will have limited effect for one main reason: the role of China. China accounted for 47 per cent of Moscow's crude sales in June 2025.<sup>55</sup> As the world's largest importer of crude oil, China could easily absorb all of Russia's exports and, amid growing political ties, can be expected to continue purchasing Russian oil for the foreseeable future. Meanwhile, China's near-monopoly on certain critical minerals gives it strong leverage over the US, as shown by the recent negotiations between the two countries.<sup>56</sup>

## **China accounted for 47 per cent of Moscow's crude sales in June 2025 and, amid growing political ties, can be expected to continue purchasing Russian oil for the foreseeable future.**

China has no appetite to bow to US economic pressure: beyond the obvious economic interest, doing so would be regarded as a political humiliation, even before China's perceived interest in preserving the Putin regime is considered. Besides, the US is wary of possible disruptions to the oil market that such measures could incur.<sup>57</sup>

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<sup>52</sup> Wethe, D. (2025), 'Sub-\$60 Oil Would Undercut US Shale Production, Citigroup Says', Bloomberg, 14 March 2025, <https://www.bloomberg.com/news/articles/2025-03-14/sub-60-oil-would-undercut-us-shale-production-citigroup-says>.

<sup>53</sup> US Congress (2025), *S.1241 – Sanctioning Russia Act of 2025*, <https://www.congress.gov/bill/119th-congress/senate-bill/1241/text> (accessed 7 Jul. 2025).

<sup>54</sup> Malenko, Holland and Peleschuk (2025), 'In reversal, Trump arms Ukraine and threatens sanctions on countries that buy Russian oil'.

<sup>55</sup> Katinas, P., Wickenden, L. and Raghunandan, V. (2025), 'June 2025 – Monthly analysis of Russian fossil fuel exports and sanctions', Centre for Research on Energy and Clean Air, <https://energyandcleanair.org/june-2025-monthly-analysis-of-russian-fossil-fuel-exports-and-sanctions>.

<sup>56</sup> Hawkins, A. and Rushe, D. (2025), 'US reaches deal with China to speed up rare-earth shipments, White House says', *Guardian*, 25 June 2025, <https://www.theguardian.com/business/2025/jun/27/us-china-rare-earth-shipments-deal>.

<sup>57</sup> Gardner, T. (2025), 'Trump unlikely to enforce tariff threat on Russian oil', Reuters, 25 July 2025, <https://www.reuters.com/business/energy/trump-unlikely-enforce-tariff-threat-russian-oil-2025-07-25>.

## Tightening the oil-price cap to increase the pressure on Russia

Why the current sanctions regime is failing, and how to fix it

An improved version of the current oil-price cap is more likely to succeed. The cap would need to be properly enforced, ‘sealed’ and gradually lowered to build the economic pressure on the Putin regime. The lower the price, the more oil Russia would need to sell to support its balance of payments, and thus the risk of such a sanction creating supply shortages in global markets is low. If Russia followed through on its threat not to supply oil at prices below the cap, it would be a sort of self-imposed embargo, similar in its consequences to the Graham–Blumenthal proposal. But, in this scenario, Russia would lose more than a third of its export revenues. This would necessitate a corresponding reduction in imports, as Russia depends on foreign currency to pay for them, and other financial avenues for acquiring foreign currency are already closed by sanctions. The Russian authorities might have to ration imports to prioritize military needs. This would be economically disruptive for Russia, especially because the decades-long dominance of mining has caused other sectors to decline<sup>58</sup> and Russia’s economy now relies heavily on imports, including in critical sectors such as agriculture.

Unlike an embargo, a well-enforced oil price cap would become self-sustaining. An embargo forces buyers to choose between paying market prices for non-embargoed supplies or violating the embargo to buy oil at a discount. In other words, there is a built-in incentive for importing countries to breach the conditions of the embargo. In contrast, a price cap benefits buyers because it affects price, not supply. Any discounts offered by a seller would likely remain smaller than the gap between the market price and the cap. Put another way, discounted supplies would still be costlier than those under the cap. If the cap is then progressively lowered, the seller’s incentive to circumvent it increases – but so does the motivation for buyers to uphold the cap and secure the savings it provides.

A potential concern is that countries purchasing Russian oil outside the embargo – such as China, India and Türkiye – are the main beneficiaries of the price cap, as a lack of competition among buyers allows them to acquire larger volumes of oil at a cheaper price. However, this situation is a reflection of how the coalition’s embargo functions in practice. The original idea behind the price cap, first proposed in early April 2022, was to serve as a substitute for a full embargo, which had not yet been agreed and whose prospects were uncertain due to the severe impact it would have had on EU economies. Under that original idea, the benefits would have been more evenly shared. To help address this unfairness, we propose that ‘white-listed’ buyers contribute half of their discount to a fund supporting Ukraine (see below).

Enforcement is key because otherwise a seller can boycott proposed transactions at the capped price, instead selling its oil at a slight discount to market prices but still above the cap. In that event, buyers must choose between accepting a seller’s higher prices or insisting on the lower, capped price. If they choose the latter, the risk is that Russia refuses to sell at the capped price (in the knowledge that other buyers are willing to violate the cap) and that importing countries then have to buy at a market price from another supplier. This explains why Russian oil trades at a discount wider than the normal Brent–Urals spread, but still often above the current \$60 per barrel cap.

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<sup>58</sup> This phenomenon is often referred to as ‘Dutch disease’.

Collective action on the part of buyers or stronger enforcement is needed to make the cap work. While individual buyers lack the market or political power to enforce a cap, and their collective action seems unfeasible as of now, a seller's ability to boycott capped transactions diminishes once third-party enforcement reaches a critical threshold: if a large enough share of the exported commodity is being sold below the cap, buyers are in a strong position to insist on paying no more than the capped price. Thus, if means of enforcement are robust from the outset, further price reductions and wider compliance should become self-sustaining.

China might still choose to prioritize its geopolitical interests over economic ones and continue purchasing Russian oil at prices above the cap. But this would only apply to the share of Russian exports that evade price cap enforcement – i.e. up to 40 per cent of export volumes, as around 60 per cent are subject to strict enforcement due to the need to transit through the Baltic Sea straits (see below).

Such a decision would effectively require China to subsidize the Russian economy at its own expense. However, China has so far demonstrated a pragmatic approach to its cooperation with Russia – illustrated, for example, by natural gas deals that are barely profitable for Russia due to the extremely low prices paid by China.<sup>59</sup> While China does continue to assist Russia in circumventing sanctions, it does so primarily when such actions serve China's own interests.

The necessary enforcement threshold has not yet been achieved. When the market price exceeds the cap, only about 10 per cent of Russian seaborne crude oil exports are shipped in tankers owned or insured by firms based in EU or G7 countries.<sup>60</sup> This share is too low to make the existing cap effective.<sup>61</sup> It remains too easy for Russia to avoid sanctions by falsifying shipping documentation, and by finding loopholes Russian exporters can exploit in their choice of maritime insurance and transportation. These workarounds significantly diminish the cap's efficacy, as observed from mid-2023 until recently, when average Russian oil prices remained above the cap despite some discounting by Russian sellers.

## How to 'seal' the price cap

The primary mechanism for enforcing the oil-price cap is through insurance. A tanker is a high-risk vessel that needs to be insured against accidents, including those that cause environmental damage. This is especially true in respect to old and potentially less reliable tankers. Only a few companies worldwide have the financial capacity to insure against risks of such magnitude. The fact

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<sup>59</sup> Bgnés (2024), 'Bloomberg: The price of gas from Russia to China will be reduced by 28% in the coming years', 24 April 2024, <https://www.bgnés.com/world/bloomberg-the-price-of-gas-from-russia-to-china-will-be-reduced-by-28-in-the-coming-years>.

<sup>60</sup> Hilgenstock, B., Pavvytska, Y. and Ivanchuk, I. (2024), *KSE Institute Russia Chartbook: Russia's Economy At The End Of 2024: Weak Ruble, Growing Macro Imbalances, Economic Management Increasingly Challenging*, Kyiv: KSE Institute, December 2024, [https://sanctions.kse.ua/wp-content/uploads/2024/12/Chartbook\\_December\\_2024-1.pdf](https://sanctions.kse.ua/wp-content/uploads/2024/12/Chartbook_December_2024-1.pdf). According to Black Sea News, about 30 per cent of Russia's crude oil export from its Baltic ports is carried by Greek tankers. This discrepancy is yet to be explained. See Black Sea News (2024), 'Ways to Reduce Russia's Revenues from Seaborne Crude Oil and Petroleum Products Exports. Part 2', report, <https://www.blackseanews.net/en/read/226292>.

<sup>61</sup> At the time of writing, the share of 'normal' tankers has expanded because discounted Urals crude is traded at below-cap prices due to the decline in global oil prices.

that almost all of them are in coalition countries' jurisdictions ought to make enforcement possible.

However, in practice, enforcement often remains ineffective. First of all, there are suspected issues with enforcement of the sanctions even among the coalition countries, on both the insurance<sup>62</sup> and, probably, transportation<sup>63</sup> sides.

Maritime regulations contain no formal restrictions on the use of insurance certificates issued by less-than-reputable companies. An oil tanker can sail under a 'paper' insurance certificate not backed by genuine and responsible guarantees issued by a reinsurance company that has enough liquid assets and is under strict prudential control.<sup>64</sup> Russia already exploits this loophole, deploying a 'shadow fleet' of mostly old tankers sailing under other countries' flags. By registering ships in countries with less stringent regulations and opaque ownership rules, Russia can use these 'flags of convenience' to hide the true ownership of the vessels and the origin of the oil. It is estimated that these ships transport up to 85–90 per cent of Russia's oil exports.<sup>65</sup>

Transfer pricing is another circumvention strategy used by Russia. The price a buyer pays consists of the shipment's price at the point of departure (known as the 'free on board', or FOB, price), plus the freight and insurance costs that together make up the so-called 'cost, insurance and freight' (CIF) price. The freight and insurance costs can be artificially inflated so that the price cap – which is currently set at the FOB price – is formally respected without materially reducing the overall revenue the seller receives from the transaction. The difference between the capped (i.e. FOB) price and the true end-price is then hidden in freight and/or insurance fees that flow to offshore companies controlled by a Russian business that is, in turn, informally affiliated with the state and its 'vertical of power' through the patronal networks.

Furthermore, the buyer can be a Russian-owned or Russia-linked foreign intermediary (such as Nayara Energy Limited, a company based in India and which is subject to EU sanctions as the operator of a refinery that is co-owned by Rosneft)<sup>66</sup> that resells the crude oil at market prices or processes it and resells it as oil products. Russia is also known to use, for example, Hong Kong-based firms affiliated with Russian business.<sup>67</sup>

When these sorts of intermediaries are used, the oil rent does not go straight to Russia's federal budget, as the official price paid to the Russian seller remains under the cap. Instead, the extra fees are channelled into unofficial, extra-budgetary

<sup>62</sup> Fenwick, J. (2024), 'UK-linked firms suspected of busting Russia sanctions', BBC News, 11 October 2024, <https://www.bbc.co.uk/news/articles/c5y97k4w7llo>.

<sup>63</sup> BlackSeaNews (2024), 'Ways to Reduce Russia's Revenues from Seaborne Crude Oil and Petroleum Products Exports. Part 2'.

<sup>64</sup> Nightingale, A., Lee, J. and Longley, A. (2023), 'How Russia Punched an \$11 Billion Hole in the West's Oil Sanctions', Bloomberg, 6 December 2023, <https://www.bloomberg.com/news/features/2023-12-06/oil-prices-how-russia-punched-an-11-billion-hole-in-west-s-sanctions-regime>.

<sup>65</sup> International Working Group on Russian Sanctions (2024), *The Path Forward on Energy Sanctions: A Toolkit to Step Up Pressure on Russia in 2025*, Working Group Paper #21, 15 November 2024, [https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2024-11/working\\_paper\\_21\\_energy\\_sanctions\\_11-15-2024\\_final2.pdf](https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2024-11/working_paper_21_energy_sanctions_11-15-2024_final2.pdf).

<sup>66</sup> EUR-Lex (2025), 'Council Decision (CFSP) 2025/1478 of 18 July 2025 amending Decision 2014/145/CFSP concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine', 18 July 2025, <https://eur-lex.europa.eu/eli/dec/2025/1478/oj/eng>.

<sup>67</sup> US Department of Treasury (2023), 'Treasury Tightens the Price Cap with New Sanctions and Updated Guidance', press release, 20 December 2023, <https://home.treasury.gov/news/press-releases/jy2008>.

funds, which can be redistributed among members of the elites or allocated for purposes such as buying embargoed components, donating to the political campaigns of Putin-friendly politicians in other countries, or financing other covert Russian operations. Individual targeted sanctions against particular buyers could therefore be effective in case of well-established companies like Nayara, but not against other, more opaque middleman firms that are easy to create and shut down.

In addition, the price of transported oil may be formally below the cap but actually above it, as the true price is often misreported. This is quite easy to do when the buyer and the seller are affiliated, or at least trust each other and are willing to collude on circumvention.

‘Sealing’ the oil-price cap to prevent such circumvention schemes from working is challenging, but not impossible. The Working Group on Russian Sanctions has recommended setting up a blacklist of ‘shadow fleet’ tankers and closing the Baltic straits to potentially dangerous and improperly insured vessels.<sup>68</sup> The proposed measure would not only address sanctions evasion, but would also reduce the risks of oil spills.<sup>69</sup> Given that about 60 per cent of Russia’s oil and petroleum products exports have to pass through the Baltic straits to reach their markets, the closure of navigation to ‘shadow fleet’ vessels should enable enforcement of the cap to start to become self-sustaining, although it may not necessarily eliminate transfer pricing. Some related measures – such as identifying vessels by their unique code numbers rather than just by their names and owners, which can often change – were implemented in the Biden administration’s final sanctions package in January 2025.<sup>70</sup>

## Recommendations

Sealing the oil-price cap, as outlined above, and then lowering it needs to become the primary focus of efforts to increase the pressure on Russia. Four principal measures in particular would address Russia’s attempts to circumvent the cap:

1. Coalition countries must put more resources into enforcing the restrictions they have already imposed on insurance and freight firms based in their jurisdictions, and into improving scrutiny of compliance with the cap. Non-compliance should be regarded as a violation of sanctions.
2. Ships sailing with less-than-reputable insurance should be legally prohibited worldwide. If this is not achievable, at minimum such ships should be banned by coalition countries on environmental grounds. This could be done by rating

<sup>68</sup> International Working Group on Russian Sanctions (2024), *Action Plan 3.0: Strengthening Sanctions Against the Russian Federation*, Working Group Paper, 15 May 2024, [https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2024-05/actionplan\\_3.0\\_5-14-2024\\_final3\\_update.pdf](https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2024-05/actionplan_3.0_5-14-2024_final3_update.pdf).

<sup>69</sup> The environmental risks associated with spills from ‘shadow fleet’ ships were seen in the sinking of the *Volgoneft-212* and near-simultaneous running aground of the *Volgoneft-239* in heavy storms in the Black Sea in December 2024. These two vessels were carrying more than 9,000 tonnes of heavy fuel oil. Initial estimates suggested 3,000 tonnes of this oil leaked out into the sea.

<sup>70</sup> U.S. Department of State Office of the Spokesperson (2025), ‘Sanctions to Degrade Russia’s Energy Sector’, fact sheet, 10 January 2025, <https://2021-2025.state.gov/office-of-the-spokesperson/releases/2025/01/sanctions-to-degrade-russias-energy-sector>.

insurance companies based on objective criteria and by strengthening regulatory oversight secured by the industry's self-governance, in a similar way to mandatory car insurance.

Coalition countries can capitalize on their prominence in the fields of maritime regulation and insurance to impose these standards more widely. Denmark, Germany and Sweden have already begun inspecting tankers sailing through their waters for valid insurance certificates. So far, however, they only 'delist' tankers that fail to present valid insurance. This approach is insufficient, as most sanctioned vessels continue operating – albeit with some restrictions.<sup>71</sup> The next step should be to ban tankers without valid insurance from sailing in those countries' waters altogether and to enforce those banning orders by stepping up physical interventions if necessary, effectively closing the crucial Baltic Sea straits to the 'shadow fleet'. Inadequate or fraudulent 'paper' insurance is a wider industry problem that needs to be fixed, regardless of the status of sanctions on Russia. The need to end Russia's war on Ukraine is a compelling reason to do so.

3. In order to make transfer pricing irrelevant, coalition countries should set the oil-price cap at the CIF price rather than at the FOB price. Alternatively, they should set limits on the freight and insurance costs for different types of transportation. The first option would require differentiation of price caps set by the sanctioning coalition between buyers, as factors such as shipping distance and port fees impact the actual cost of shipping. As a result, the latter may become higher than the cost envisaged by a single cap on CIF price and some sales could then become uneconomically low-priced, resulting in diminished supply and an increase in global oil prices.
4. Coalition countries should create a 'white list' of buyers that are neither 'fake' nor affiliated with Russian private or state-owned capital. Coalition countries should modify the price-cap rules so that proper insurance could be issued only for shipments sold to white-listed buyers. Coalition countries should also oblige such companies to pay half the difference between the price cap and the Brent crude benchmark price into a fund supporting Ukraine. This could make transfer pricing and misreporting of prices much more difficult, while providing an additional source of aid to Ukraine. It would also further screen out any Russian-affiliated buyers because supporting Ukraine is regarded as a criminal offence in Russia.

Implementing these ideas would not be without difficulties and risks. Enforcing a ban on 'shadow fleet' tankers passing through the Baltic straits, in particular, would risk provoking an escalation by Russia. But the seizures of Russian 'shadow fleet' tankers by Finland in December 2024 and Germany in March 2025 offer a precedent, and suggest effective interdiction capabilities are slowly being achieved.<sup>72</sup> A 'white list' of reputable buyers would require thorough due diligence of companies' origins

<sup>71</sup> Nekrasov, D. (2025), 'Как легко убедиться, что санкции против России вообще не работают' [How to easily verify that sanctions against Russia do not work at all], *Moscow Times*, 30 June 2025, <https://www.moscowtimes.ru/2025/06/30/kak-legko-ubeditsya-cto-sanktsii-protiv-rossii-voobsche-ne-rabotayut-a167492>.

<sup>72</sup> Reuters (2025), 'Germany launches additional measures against Russia's 'shadow fleet'', 1 July 2025, <https://www.reuters.com/world/germany-launches-additional-measures-against-russias-shadow-fleet-2025-07-01>; Sapio, M. (2025), 'Finland charges suspected Russian shadow fleet ship crew over cable sabotage', *Politico*, 11 August 2025, <https://www.politico.eu/article/finland-files-criminal-charges-against-crew-of-russian-shadow-fleet-ship>.

and ultimate beneficiaries, although this is also possible given sufficient political will. The oil-price cap introduced in 2022 is a new kind of sanction, and fresh ideas for improving its enforcement should be debated and implemented.

The next step, once these measures are implemented and the cap is working properly, should be to instigate an automatic reduction of the capped price in steady increments (by \$10 per barrel for each month that Russian troops are still occupying Ukraine, and by \$5 per barrel for each significant Russian air attack on Ukraine), down to the operational cost of production and transportation plus some symbolic margin (for example, around \$25–35 per barrel for crude oil<sup>73</sup> and corresponding prices for oil products), in order to keep Russian oil on the market and avoid the risk of a sudden hike in oil prices like that of early 2022.

The coalition countries should start by reviewing the price cap on petroleum products, setting it below the market level, then making it subject to a similar steady decrease. This mechanism would be more effective than simply lowering the cap as a one-off action, as recently proposed by a number of countries.<sup>74</sup> A schedule of decreases would strongly affect the expectations of the Russian political elite by signalling to them the finiteness of the game, while giving them some room for manoeuvre to prevent severe long-term harms to the Russian economy and stop oil industry assets from falling into disrepair. If done without compromise, the measures set out in this paper would demonstrate the coalition's resolve and determination and send a clear signal to Russian elites that the Putin regime's 'vertical of power' is unsustainable.

## Conclusion

How far might an improved, incrementally declining oil-price cap go in changing Putin's position, for example forcing him to make concessions to Ukrainian demands in peace negotiations or even prompting the Russian president to withdraw troops from Ukraine? As this paper has argued, a watertight and comprehensively enforced oil-price cap – combined with sufficient military aid to Ukraine – has the potential to target a critical financial and institutional vulnerability in Putin's regime and in the 'vertical of power' on which it depends.

But the paradox is that increased pressure on Russia's economy in some respects provides an added motivation for Putin to justify to the Russian public the potential sacrifices involved in fighting the war. If these sacrifices were perceived to have been made in vain, the president's position could become perilous. Imperial sentiments and resentments, which resonate with a large part of Russian society, serve as an alternative source of legitimacy when public well-being suffers. Putin leans on such narratives when he is unable to deliver economic gains. The same could happen in a sanctions-induced crisis, which the Russian leadership would promptly try

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<sup>73</sup> Centre for Research on Energy and Clean Air (undated), 'Tracking the impacts of G7 & EU's sanctions on Russian oil', [https://energyandcleanair.org/russia-sanction-tracker/?fbclid=IwAR05Ti8j04RWrgZnKU8\\_53EkqVvYZcNUX3eYSikj643tjE1Eqha7Tz7K9g](https://energyandcleanair.org/russia-sanction-tracker/?fbclid=IwAR05Ti8j04RWrgZnKU8_53EkqVvYZcNUX3eYSikj643tjE1Eqha7Tz7K9g). This cost may, in fact, be much less, as suggested by the International Working Group on Russian Sanctions. See International Working Group on Russian Sanctions (2024), *The Path Forward on Energy Sanctions*.

<sup>74</sup> Reuters (2025), 'Six EU countries call for lowering of G7 price cap on Russian oil', 13 January 2025, <https://www.reuters.com/world/europe/six-eu-countries-call-lowering-g7-price-cap-russian-oil-2025-01-13>.

to frame as ‘artificial’ and ‘created by enemies’. However, if Ukraine is sufficiently supplied with modern weapons and able to withstand military pressure, this propaganda is more likely to fuel frustration than truly mobilize the population – at least that is how it has worked so far, with the share of ardent supporters of the war declining amid the slow tempo of the Russian offensive.<sup>75</sup>

The hope for Ukraine and its Western supporters is that Putin cannot ignore economic ‘laws of gravity’ indefinitely. There may be a limit to the extent that he can enfeeble the Russian economy without endangering his entourage and his own position. The measures proposed in this paper provide a means of pushing Russia towards that limit. At minimum, a revised oil-price cap might increase the pressure on the Russian economy and destabilize the regime’s patronal vertical of power, even if it did not initially force Putin to withdraw troops from Ukraine. At the other end of the spectrum of efficacy, it could have a sufficiently chilling effect on the country’s elites to prompt challenges to Putin’s rule. For so long as the regime is held together by oil rents, the threatened elimination of these rents potentially necessitates an adjustment within the regime to avert this, with or without Putin.

Timing is everything. Putin understands Russia’s vulnerability to an interruption in oil rents. He understands the fragility of the power vertical. The window of opportunity in which to exploit this fragility is narrowing: hydrocarbon-related revenues accounted for about half of the federal budget between 2011 and 2014, but the share has now decreased to 30 per cent and is set to decline further between 2025 and 2027. In this period, the regime also plans to change the composition of the elites, replacing them with ‘warriors and hard workers’.<sup>76</sup> Unless Ukraine’s allies act quickly, this could give Putin enough time to accomplish the transition to a classical dictatorship which would make his regime more resilient to sanctions, akin to North Korea.<sup>77</sup>

It is clear that Putin is not going to concede his maximal demands unless heavily pressured. Nonetheless, it is unclear what the Trump administration will do regarding sanctions on Russia. President Trump’s declared intention is to end the war immediately, while Russia wants sanctions to be lifted as part of any deal – in addition to other exorbitant demands such as permanently denying NATO membership for Ukraine and preventing the presence of European peacekeepers in Ukraine. Trump’s receptiveness – shocking to many policymakers in Europe – to many aspects of the Russian agenda makes it necessary to assess what can be done about Russia’s oil export revenues in the context of any US–Russia rapprochement.

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<sup>75</sup> Re:Russia (2025), ‘Не очень стройный хор лоялистов: почему и в каком вопросе мнение россиян разошлось с мнением Путина’ [A Rather Discordant Chorus of Loyalists: Why and on What Issue Did Russians’ Opinions Differ from Putin’s?], 24 July 2025, <https://re-russia.net/analytics/0326>.

<sup>76</sup> RBC.ru (2024), ‘Путин назвал элитой тружеников и воинов, а не «набивших карманы» в 90-е’ [Putin called the elite workers and soldiers, and not those who “filled their pockets” in the 90s], 29 February 2024, <https://www.rbc.ru/politics/29/02/2024/65e067be9a794724567533b7>.

<sup>77</sup> Yakovlev, Dubrovskiy and Danilov (2025), ‘Putin’s New Hermit Kingdom’.

## Tightening the oil-price cap to increase the pressure on Russia

Why the current sanctions regime is failing, and how to fix it

Yet even if the US were to disengage from the coalition, Europeans have the means to enforce the oil-price cap by themselves, as all genuinely reliable P&I reinsurance – the main mechanism of such enforcement – is provided by European (principally British and Norwegian) firms.

The main fallibility of this strategy would be the difficulty, in the absence of US support, of maintaining secondary sanctions against countries or entities that might trade with Russia in violation of the price cap. The threat of secondary sanctions has discouraged some Chinese and Indian companies from buying the Russian oil at a price above the price cap or serving the ‘delisted’ tankers. As the closure of the Baltic straits through which 60 per cent Russian oil is exported could trigger the price cap’s self-enforcement by the buyers, this measure could compensate for a lack of secondary sanctions. Given the geographical position and the financial dominance of European companies in this area, European countries could conceivably enforce restrictions themselves. The recent actions against the shadow fleet by Finland and Germany show that this is possible.

Donald Trump’s second term is notable for his reluctance thus far to exert any real pressure on Russia. But this US administration is, in fact, identical to some of its predecessors and Western counterparts in believing, at the beginning, that the Kremlin can be dealt with diplomatically, only to find that it cannot. Russia is, in the end, too uncompromising. It remains unclear at this point whether President Trump would be willing to follow through on his earlier ultimatum and impose meaningful additional sanctions if negotiations break down. Even if Trump does attempt to do so, Graham–Blumenthal-type sanctions would likely fail for the reasons outlined above – leaving Trump with little choice but to return to the oil-price cap. In any case, the central idea in this paper will remain possible for as long as Putin is dependent on Russia extracting and exporting hydrocarbons.

It is often observed that sanctions hurt the side imposing them as well as the target. For some types of sanctions, it is certainly true that Western publics will need to make more of a sacrifice than they have done before if Ukraine is to prevail against Russia. However, a modified and ‘sealed’ price cap on Russia’s oil exports would arguably benefit many countries, including those currently buying oil and gas from Russia, by damaging the target economy without significantly reducing the global supply of oil or creating a corresponding price hike as in early 2022.

The longer the war goes on, the more important economics becomes. Russia’s war economy – sustained in large part by oil rents – has been resilient so far, but it is brittle. A tighter, more effective oil-price cap like that proposed in this paper would help considerably in raising the cost of Russia’s invasion of Ukraine and countering Putin’s aggressive ambitions.

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