3. Japan on Russian Oil

Prelims Syllabus: International Relations

Mains Syllabus: GS-II International Relations | Bilateral, Regional and Global Groupings and agreements involving India

Why in News?

- Japan has been purchasing oil from Russia at a price above the $60 per barrel price cap imposed by the Western allies.
- This has led to speculation that Japan may be breaching an agreement reached in 2022 to cap the price of Russian oil.
- The G-7 countries, the EU, and Australia imposed a $60 per barrel price cap on oil purchased from Russia starting in December 2022.
- The move was part of the wider economic sanctions imposed by the West to punish Russia following its invasion of Ukraine.
- This was to restrict the amount of money that Russia can make by selling its oil, but without severely affecting the global oil supply.

Why is Japan breaking ranks with the West?

- While many European countries have reduced their dependence on Russian energy supplies, Japan has stepped up its purchases of Russian natural gas over the past year.
- Japan is the only Group of Seven nation not to supply lethal weapons to Ukraine, and Prime Minister Fumio Kishida was the last G-7 leader to visit Ukraine after Russia's invasion.

- Japan got the U.S. to agree to the exception as it needed it to ensure access to Russian energy. The concession shows Japan's reliance on Russia for fossil fuels.
- Japan has almost no fossil fuel of its own and relies on imported natural gas and coal for much of its electricity.
- Russia accounts for nearly one-tenth of Japan's natural-gas imports.
- Japan's oil import contributes very little to Russia's overall oil production, which was about 10.7 million barrels per day in 2022, and thus does not significantly subvert the West's efforts to restrict the Kremlin's oil revenues.
- Japan was granted an exception to the cap for oil purchased from the Sakhalin-2 project in Russia's Far East.

Future of price cap:

- Several countries including India are believed to be paying more than $60 per barrel to purchase oil from Russia.
- As oil prices rise, the chances of a rift developing even among signatories to the oil price cap arrangement are growing higher.
- Oil traders are subverting sanctions and delivering supplies from Russia for buyers who are willing to pay more than $60 per barrel.
- Continuing the price cap could be difficult as it works against strong economic incentives and it is impossible to keep track of all shipments in such a large, opaque oil market.
- Recently, OPEC and Russia decided to cut their oil output by 3.66 million barrels per day, sending oil prices soaring by 6%.
- Russian Urals, the flagship crude oil sold by Russia, also soared above $60 per barrel, thus breaching the West's price cap.
- Thus it is difficult for the West to implement the price cap that would keep Russia's oil revenues in check despite rising oil prices.