Imposing high tariffs on imported Russian gas: would it be effective?

As Russia's invasion of Ukraine continues and many call for a strengthening of sanctions, an alternative to a full energy embargo has been discussed in the form of European Union tariffs on imports of Russian gas. The Initiative on Global Markets surveyed US and European economists to express their views on this proposal. ***Romesh Vaitilingam*** *writes up the results.*

We asked the EU and US panels whether they agree or disagree with the following statement, and, if so, how strongly and with what degree of confidence:

High tariffs imposed by the European Union on imports of Russian natural gas would be an effective measure to reduce the flow of revenues to Russia while limiting disruption to supplies to Europe.

Of our 43 US experts, 41 participated in this survey; of our 47 European experts, 36 participated – for a total of 77 expert reactions. Nearly three-quarters of the panellists agree or strongly agree with the statement (among whom European experts were more likely to say they strongly agree), most of the rest are uncertain, and a handful disagrees.

Weighted by each expert's confidence in their response, 27% of the European panel strongly agree, 48% agree, 22% are uncertain, and 3% disagree. Among the US panel (again weighted by each expert's confidence in their response), 6% strongly agree, 67% agree, 18% are uncertain, and 9% disagree. Overall, across both panels, 16% strongly agree, 57% agree, 20% are uncertain, and 6% disagree (totals don't always sum to 100 because of rounding).

More details on the experts' views come in the short comments that they are able to include when they participate in the survey. Among those who agree or strongly agree, **Franklin Allen** at Imperial College London says: 'This would reduce the money going to Russia, lessen the damage for European economies and potentially provide funds for rebuilding Ukraine.' **William Nordhaus** at Yale adds: 'High and rising tariffs are clearly the best approach, mainly to avoid quantitative restrictions.' And **Christopher Udry** at Northwestern directs us to a recent VoxEU piece on '[the simple economics of a tariff on Russian energy imports]'.

Among the panellists who say that they are uncertain, **Beata Javorcik** at Oxford comments:

'Russia is likely to retaliate and cut off gas supplies to Europe.' **Austan Goolsbee** at Chicago notes: 'It would hurt them but would also hurt Europe.' And **Lubos Pastor** at Chicago argues: 'This would hurt EU countries unevenly. Within-EU solidarity would be necessary. Gas is hard to substitute in the short run.'

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All of the experts who disagree with the statement add short explanatory comments for their opinions. They include **Pinelopi Goldberg** at Yale who states: 'Sanctions have never worked. And in the present context, the EU would be paying a high price.' **Richard Schmalensee** at MIT protests: 'WTO-illegal, may violate contracts, Russian response uncertain. EU economists seem to favour disruption-contingent price caps.' And **Bengt Holmstrom** at MIT concludes: 'If effective means bringing the war to an end, tariffs won't do it.'

Elasticities and price-setting mechanisms

Several panellists suggest the significance of the elasticities of demand for and supply of Russian gas, as well as the mechanisms by which prices are set. Among those who agree, **David Autor** at MIT remarks: 'High substitutability of non-Russian and Russian gas means that Russia should bear most of the incidence.' **Olivier Blanchard** at the Peterson Institute mentions: 'Russia might decide to sell elsewhere, but at a lower price (Ural discount). May not decrease world supply much.' And **Patrick Honohan** at Trinity College Dublin warns: 'But the effectiveness depends on elasticities of substitution in the importing countries, on which there is a wide range of opinion.'

Others who agree are similarly cautious. **Larry Samuelson** at Yale observes: 'There is a trade-off – higher tariffs would be more effective in limiting revenue but would also pose more disruption.' And **Pol Antras** at Harvard declares: 'Given likely tariff incidence, it sounds like a good policy. But I am less sure supply won't be disrupted. In any case, a risk worth taking.' He directs us to a piece written shortly after the invasion on the case for punitive taxes on Russian energy.

Panellists who say they are uncertain also mention elasticities and likely incidence. **Karl Whelan** at University College Dublin replies: 'Unclear where the short-run incidence of this tariff lies. With difficulties in sourcing alternative supplies, it may just raise EU prices.' **Anil Kashyap** at Chicago states: 'Hard to know about the demand elasticity and speed at which adjustments can be made.' **Daniel Sturm** at the London School of Economics adds: 'It is unclear whether the tariffs would lead to substantial declines in Russian export prices over a relevant time horizon.' And **Christian Leuz** at Chicago concludes: 'Could send very important political and symbolic message. But economic effect hard to predict; depends on demand and supply elasticities and pricing mechanisms.'

Opinions on likely elasticities are also expressed by experts who disagree with the statement. **Jan Pieter Krahnen** at Goethe University Frankfurt states: 'This is a question of tariff incidence; demand for gas is currently price inelastic, revenues for the exporter may thus not fall at all.' And **Michael Greenstone** at Chicago suggests that: 'Near term, tariffs would do little: there aren't substitutes. Longer-term phase-in would work better.'

Full embargo

Finally, two of the experts who agree allude to the alternative sanction to energy tariffs of a full embargo. **Daron Acemoglu** at MIT says: '"Effective" yes, but probably not as effective as complete bans. The exact effect on Europe is also hard to know.' And **Pete Klenow** at Stanford links to a widely discussed report on the potential economic effects on Germany of a stop on all energy imports from Russia.

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Notes:

- *The survey is conducted regularly on different topics by The Initiative on Global Markets, of the University of Chicago Booth School of Business. All comments made by the experts are in the full survey results for the US and European panels.*
- *The post represents the views of its author(s), not the position of LSE Business Review or the London School of Economics.*
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