

The development of Norwegian CO<sub>2</sub>-taxes may illustrate the problem of a small open economy trying to be in the fore-front in applying economic instruments in environmental policies. The design of the instrument both for practical reasons and concerns about competitiveness deviates from a first best tax covering all emissions with the same rate. Unilateral action is facing opposition as long as other countries do not follow suit, and it can be questioned whether it is, over a longer period of time, rational policy for a small country to be out of line with the majority of others in choosing measures to combat a global environmental problem.

Finally, instruments like the Norwegian CO<sub>2</sub>-tax should not be given a final judgement after this short time period. The effects both on the environment and on the structure of the economy will develop over a much longer period of time.