

# **Energy Taxation in a Small, Open Economy: Efficiency Gains under Political Restraints**

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## **Abstract:**

This CGE study analyzes welfare costs in a small, open economy of offering compensation for profit losses in the energy-intensive export-oriented Norwegian industries, when a uniform electricity tax is introduced. We find quite moderate compensation costs, in spite of product prices being determined by external world markets. Explanations are that the Nordic electricity market is still limited enough to respond to national energy tax reforms, and electricity price reductions partly neutralize impacts on profits. The results also hinge on the ability of the compensation scheme to stimulate entry of new firms and products, and thus enhance productivity.

## **keywords:**

energy taxes, competitiveness, electricity markets, compensation