



## ENERGY AND CLIMATE EXCHANGE

### Taxation, Innovation and the Environment

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Solving the world's environmental problems will take strong actions by governments and will necessitate innovation to keep costs manageable. Taxes are seen as an important and effective policy tool, and they are increasingly being used in OECD economies. This study therefore seeks to explore the effectiveness of environmentally related taxation to induce innovation and how the design of the tax impacts the resulting innovation. To investigate, case studies from a number of economies, including Japan, Korea, Spain, Sweden, Switzerland, the United Kingdom and Israel and covering a wide set of environmental issues and technologies are used. The research methods range from econometric analysis to interviews with business owners and executives to investigate how their businesses and industries reacted in the face of environmentally related taxation. While the effect of taxation may be more difficult to measure than other types of environmental policy tools, environmentally related taxation has an appreciable effect in bringing about innovation – both its creation and its adoption. In addition, how environmentally related taxes are designed is vital for their innovation incentives, particularly regarding the predictability of the tax and its stringency. Other tax-based instruments, such as tax advantages for environmentally friendly products or investments, provide fewer incentives for innovation than taxes levied directly on environmentally harmful activities.

**Michael Ash** was seconded to the OECD in January 2009 to work on the taxation, innovation and the environment project, a joint endeavour of the tax and environment directorates. During his time at the OECD, he has been responsible for working with authors of the various case studies and drafting the overall report on this initiative, in addition to contributing to the OECD's work on fossil fuel tax expenditures for the G20. Prior to the OECD, Michael worked for Agriculture and Agri-Food Canada in various policy roles, including the development of a new policy framework for the agricultural sector, a review of subsidy programming for farmers, and Canada's response to BSE (bovine spongiform encephalopathy, or 'mad cow' disease). Michael has an MA in economics from the University of British Columbia (Canada).

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