Foreword

Today's environmental challenges demand the concerted efforts of citizens, firms and governments to encourage less pollution and environmental degradation and change existing patterns of demand and supply. The OECD's Green Growth Strategy (www.oecd.org/greengrowth) *aims to inform debate and assist governments' efforts to develop mutually reinforcing environmental and economic policies – illustrating that "green" and "growth" are compatible.*

Environmentally related taxes can effectively achieve many environmental goals and their use is widening within OECD countries. But to meet environmental targets at least-cost, we must move beyond current technologies and know-how: innovation is critical. The project leading to this synthesis report explores the benefits of environmentally related taxes that will accrue when higher pollution costs make it economically inviting to invest in the development of new green technologies. A number of case studies have been prepared, some investigating the role of tax design and others looking at ways in which environmentally related taxes can encourage innovation.

We can see that environmentally related taxation does induce innovation, with firms responding in positive ways to market signals – developing new products, creating novel means to neutralise pollutants and altering production practices to make them cleaner. To bring about the widest range of innovations, environmentally related taxes must be properly designed, and be predictable to give businesses confidence that the clean technologies they develop today will have a market in the future.

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Taxation, Innovation and the Environment