

## Annex G. UK Firms' Innovation Responses to Public Incentives: An Interview-based Approach (Taxation, Innovation and the Environment)

This case study investigates UK firms and the influence of various policy and market forces on their innovation response. There was a strong correlation between firm-level targets for energy use or greenhouse gas emission targets and R&D (both general and climate change related). Investor and customer pressure also appear to drive process innovation. The effect of the EU ETS was positive for overall innovation but not for climate change related innovation, highlighting the potential issues of predictability of the trading system or the issue of measuring innovation.

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