

Annex I. Japan's Tax on SOx Emissions (Taxation, Innovation and the Environment)

This case study examines the Japanese tax on SOx emissions that was implemented in the 1970s to finance compensation to victims of air pollution. The tax rate rose very quickly after its introduction, peaking in 1987, when the system was reformed. Due to the tax, firms undertook significant abatement and adopted existing abatement technologies. However, the design of the tax brought about unpredictability of the tax rate and a lack of credibility of the overall system, ushering in a period of declining patenting in related technologies, despite increasing tax rates.

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