

constitutes a countervailable subsidy when the appropriate level of environmental effects is exceeded. While this line of reasoning is intuitively attractive from one vantage point, the issue of where the appropriate threshold might lie (10 percent underpricing? 50 percent? the same threshold regardless of resource availability or the impact on the environment?) is an extremely complicated question. In sum, the use of a countervailing-like duty for environmental reasons would require fundamental changes to the current trading rules and could be technically difficult to craft.

As a trade dependent country, ever wary of potential protectionist abuses, Canada has strongly supported discipline in the subsidy/countervail area of trade law. Experience with trade rules abuse necessitates a cautious approach to reform. Any potential loosening, unless very carefully crafted and reasoned, could create an instrument for the use of protectionists in Canadian export markets. Any contemplation of change from the existing rules would also require extensive federal-provincial-private sector consultations.

5. Further Practical Difficulties and Considerations

A range of other relevant issues arise and serve to illustrate the complexity of applying countervailing duties for environmental reasons. Foremost, is the question of effectiveness. Would countervailing-like duties encourage another country to adjust its policies or would such duties simply be considered a cost of doing business? For example, if a country's exports are only 5 per cent of total production of a given product, is it reasonable to expect a countervailing type duty placed on exports to prompt policy changes that will effect all production? Or are more punitive measures, i.e., economic sanctions that go beyond countervailing type duties justified on environmental grounds?²²

As indicated earlier, the issue of environmental effects is problematical. If the environmental effects are primarily local, affecting only the exporting country, should these effects be considered the same as effects which are transborder or global in nature? And when does "local" end and "global" begin, for example, in light of the carbon sink role of forests? Or is the critical difference simply whether the good

²²The effectiveness of economic sanctions and their ability to alter a country's behaviour is dependent upon a wide range of factors in both the sanctioner and target country. See Robert T. Stranks, "Economic Sanctions: Foreign Policy Foil or Folly?", Policy Staff Commentary No.4, Department of Foreign Affairs and International Trade, May 1994. This and other work undertaken by Policy Staff conclude that sanctions are not usually a very effective foreign policy tool.