

For each group, their respective view rests on serious concern about very real public policy issues.<sup>3</sup>

Fundamental questions of what may be the acceptable scope or criteria for introducing countervailing-like duties on environmental grounds, and the practical problems with using such an instrument to encourage a change in a foreign country's policies, have not been fully explored. One important question that we will address more fully in this Paper is: should generally available subsidies, with the important caveat that there is a significant environmental impact<sup>4</sup>, be candidates for countervailing-like duties? The key notion of the question is that of applying a trade instrument to encourage adjustment of subsidization practices that have detrimental environmental effects and affect a tradable good.

## 2. Environmental Concerns

There appears to be broad agreement that subsidies may contribute to environmental degradation.<sup>5</sup> A recent World Bank report stated that: "Some government policies are downright harmful for the environment. Notable here are distorted prices in general and subsidized input prices in particular."<sup>6</sup> A key message of the report was the importance of removing subsidies that encourage excessive use of fossil fuels, irrigation water, pesticides and logging. The report noted that the

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<sup>3</sup>In addition to the Policy Staff paper mentioned in footnote 1, other Policy Staff contributions that have explored how we might bridge the gap in the debate include: "Trade and the Environment: Dialogue of the Deaf or Scope for Cooperation?", by Michael Hart and Sushma Gera (No. 92/11); Section 4 of "Globalization and Public Policy in Canada: In Search of a Paradigm", by Keith Christie (No. 93/01); and "Dangerous Liaisons: The World Trade Organization and the Environmental Agenda", by K. Anne McCaskill (No. 94/14).

<sup>4</sup>"Environmental impact" often refers to specific impacts such as increased pollution, harm to ecosystems or depletion of natural resources, as well as indirect impacts that affect the quality of life. See Robert A. Reinstein, "Trade and Environment: Assessing Environmental Impacts of Trade Measures and Agreements", prepared for the OECD Environment Directorate, November 1993. As countries have diverse views on environmental degradation, reaching multilateral consensus on environmental criteria would be complex in its own right. For example, it could become a particularly daunting task to identify a threshold for subsidization that causes the serious loss of biodiversity.

<sup>5</sup>See World Resources Institute, World Resources 1995-95 and UNCTAD, "Sustainable Development", TD/B/40(2)/6, February 1994.

<sup>6</sup>World Bank, World Development Report (1992), p. 11.