

Financing Innovation

The development and adoption of innovative technologies, both those directly focusing on environmental protection as well as those designed to improve industrial efficiency, is heavily dependent on the availability of financial resources. Japanese financing models could provide insight for Canadian government and industry.

In Japan, government does not give money directly to companies for the purpose of improving environmental performance. Instead, the government creates arms-length private foundations which provide capital to industry, at very low rates of interest ("soft loans"), for the purpose of improving equipment and rationalizing production processes. Additionally, the introduction of market incentives makes it beneficial in the long run, through lower taxes, to install equipment. In effect, the tax serves to stimulate long-term investment in environmental protection.

During the 1970's, the Japanese Government did play a more direct role. Between 1972-78 it provided 1 trillion yen annually, at very low rates of interest, which was invested to equip power stations. One third of these funds were earmarked for pollution control devices.

In Canada there is some question as to whether such financing would be considered an unfair subsidy under the terms of the 1989 Canada/U.S. Free Trade Agreement. However, such financing should be acceptable if it is made available on a competitive basis, as is the case with tax credits for research and development. The federal government is currently considering the creation of financing corporations as one method of providing greater access to low cost capital.

2) DECISION MAKING AND COOPERATION

Institutions

Much of the success which Japan has had in the field of environmental protection can largely be attributed to cooperation between legislators and industry. In part, this cooperation is a product of necessity; public reaction to serious environmental problems in Japan forced the adoption of an action oriented approach to environmental clean up. It was not, however, easy to forge cooperative relationships across various sectors of society. Japan was subject to the same intense debate, between interests representing industry and those representing the environmental lobby, observed frequently in Canada. However, experience with