

Competitiveness

Governments must carefully design economic instruments aimed at facilitating environmentally sound domestic adjustment so that they do not run afoul of subsidy/countervail disciplines (e.g., the use of firm or industry specific tax incentives), or proprietary rights underpinned by international investment obligations (e.g., tradeable permits could confer property rights under the NAFTA if sold through auction and subsequently subjected to forced reallocation under certain conditions).

Governments must also continue to be sensitive to the impact of economic instruments and regulation on Canadian competitiveness. One potentially helpful approach in this regard is to combine an emission charge or a charge on a final product with tax credits (perhaps transferable or "tradeable") for subsequent use only in investment in pollution abatement technology.

More generally, we should encourage R&D through high standards, but with an adjustment period appropriate to the capacity of a given sector or industry to respond imaginatively. Where possible, the strengthening of domestic standards should take place concurrently with, or at least not too far in advance of, the establishment of consensual international norms on the environment (e.g., the Montreal Protocol on ozone depleting substances) to ensure a level playing field with our major competitors. In this regard, Canada cannot resolve on its own issues such as global warming (e.g., through a carbon tax on fossil fuels or tradeable permits to reduce carbon dioxide emissions beyond already announced commitments). To attempt to do so would not be environmentally effective (Canada accounts for only about 2% of global CO₂ emissions generated by burning fossil fuels), and would put Canadian industry at a competitive disadvantage. Clearly this is an area where Canada should continue to seek international agreement on further reduction targets and timing applicable to all major players.

VI. Conclusions

The internationalization or integration of the world's economies is a complex and incomplete business. The previous pages have described some of this complexity and pointed out several important linkages between and among different policy fields. In addition to prescriptive guidance at the micro level, this review also suggests a number of tentative general conclusions.

The open, multilateral trading system has served Canada well, both because it has helped to improve and secure access outside North America for Canadian exports