

case studies on how natural resource pricing practices may contribute to environmental degradation.¹²

Nonetheless, it is also clear that, in several circumstances, increases in resource-user charges, such as for water and forests, may support environmental objectives. For example, the underpricing of water could result in excessive use, which in the long-term could result in the loss or reduced productivity of land due to salinization or waterlogging.¹³ Subsidies, by lowering costs to producers, may contribute to market failure and the accompanying negative environmental effects. The reduction of direct subsidies would comprise a step toward the fuller internalization of environmental costs.

If natural resources are underpriced, trade and trade liberalization may have an adverse environmental impact. This, however, does not imply that trade or trade liberalization should be avoided, nor that trade measures are the most appropriate response to subsidization of resource use. Rather, as a first best solution, an appropriate domestic environmental policy, crafted to internalize environmental costs, is required to avoid negative environmental impacts. The removal of local price distortions would be of benefit to the environment. Nonetheless, could trade measures play a useful supporting role? More specifically, could environmental countervail-like duties encourage a country to move toward internalizing its environmental costs by adjusting its resource pricing policy?

significant progress in taking environmental issues into account in the formulation of structural adjustment programs, but that more needs to be done if such programs are to adequately promote sustainable development. UNCTAD, TD/B/40(2)/6, p.11.

¹²This raises another complexity and case specific factor in the countervail-environment debate. Detailed work on specific causality would be required to ascertain how a country's natural resource policies contribute to environmental degradation.

¹³The World Bank's Operational Directive on Environmental Assessment provides that all approved Bank projects that could have significant adverse effects on the environment are subject to environmental assessments. World Bank, World Development Report (1992), p.81.