

Executive Summary

This Paper raises some questions on the possible application of countervailing-like duties in response to environmental concerns. There has been little constructive international dialogue on the issue. An important question is: should natural resource pricing practices, with the caveat that there is a significant environmental impact, be candidates for countervailing-like duties? To pose the question of whether such subsidies should be countervailable, however, is not to suggest that it is acceptable to use countervailing-like duties to compensate for differences in countries' environmental standards that are appropriate in terms of differences in local ecosystems, including resource availability.

Under World Trade Organization rules, "generally available" subsidies are not subject to countervailing duties, and many government practices with subsidy-like effects are not considered "subsidies". Yet from a certain environmental perspective, these trade rules may pose a problem. Increases in resource user charges to reflect costs more fully, such as for water and forests, may well support environmental objectives. If natural resources are underpriced, trade and trade liberalization may have an adverse environmental effect. This, however, does not imply that trade or trade liberalization should be avoided. Rather, as a first best solution, it implies that appropriate domestic environmental policies to internalize environmental costs are required to avoid negative environmental effects. Moreover, fuller cost internalization for a particular resource will lead to different pricing results in each country, and this legitimate, market-based variation should be taken fully into account.

The questions surrounding what multilateral trade-related discipline to apply to subsidies in this broader sense are fundamental for the trade-environment interface. With the conclusion of the Uruguay Round, and the decision for the World Trade Organization to establish a committee on trade and environment, there is an opportunity to consider countervailing-like duties more fully in an environmental context, and to make recommendations on the matter. This said, there should be no illusion about the intensive effort that would be required to address this very complex issue properly.

In sum, the Paper explores how we might begin to address more methodically one important issue in the trade and environment universe. The Paper highlights the complexities of the issues involved and the dangers that such an exercise could be captured by those whose protectionist instincts are as strong if not stronger than their environmental concern. The questions raised pose serious doubt that multilateral agreement could easily be reached on operationalizing countervailing rules to address