

containing "subsidized" inputs is traded or not? In establishing an environmental criterion, would there be a need to have some form of "environmental injury" test analogous and in addition to the economic injury to producers in the importing country that must be established under current international subsidy rules? In this respect, there is no reason to believe that the extent of detrimental environmental effects is directly related to the value of a subsidy. For example, the production of two firms receiving the same subsidy could have very different environmental effects because of different technologies employed. These types of considerations may make the use of an environmentally related countervail unpractical. They certainly require close and careful further analysis.

A significant further point to reflect on is how restrictions on imports, such as a countervailing-like duty on environmental grounds, would influence producers in the importing country, and the environmental effects stemming from this impact. Restricting imports will alter the incentives for domestic producers and may stimulate production. Unless appropriate policies are in place in the importing country, an increase in its production may contribute to environmental degradation. Indeed, countervailing-like duties could lead to an environmentally perverse result in a case where domestic production is environmentally more unsound than the production of the foreign imports, and the imports are restricted. Thus, the criteria for the use of a countervail-like duty for environment related purposes may need to consider the environmental and subsidy practices in the country seeking to use the trade measure.²³ This could go some way to ensuring that countervail-like duties are more completely directed at an environmental objective. One option would be to allow the countervail of such subsidies only if domestic firms in the importing country in the same sector were not themselves recipients of such subsidies, or to adjust the countervail duty to take into account differences in subsidy programs. Perhaps, for environmental reasons, there could be a case for linking domestic policy adjustment in the importing country to the use of countervailing-like duties.

²³A net subsidy concept was proposed by Canada (MTN.GNG\NG10\W\25) during the Uruguay Round, but did not muster enough support from the other contracting parties for inclusion in the final agreement. Under this concept, the determination of the amount of the subsidy would be based on the difference between the subsidy on imports and the subsidy on the domestic product. The Canadian proposal did not raise the net subsidy concept in an environmental countervail context.