WINDOW ON THE

WEST

A LOOK AT LIFE AND POLICY IN WESTERN CANADA

JUNE 2011 | www.cwf.ca

Addressing the Infrastructure Funding Gap

INSIDE

The West's dynamic green energy economy

A longstanding election truism is shattered

Common themes in the energy debate

What is the "true" value of water?

Canada West FOUNDATION

CANADA WEST FOUNDATION IS 40 YEARS STRONG!

In 1971 the Canada West Foundation was established to give the people of the West—British Columbia, Alberta, Saskatchewan and Manitoba, a voice for their dreams, interests and concerns. In doing so, the goal was to put the West on the national agenda and be at the forefront of the most important issues and debates.

Since then, the Canada West Foundation has successfully met that goal, proving itself to be one of Canada's premier research institutes. The Canada West Foundation is the only think tank dedicated to being the objective, nonpartisan voice for issues of vital concern to western Canadians.

This year we celebrate 40 years of representing western viewpoints across Canada. We are proud of our accomplishments and know our research and commentary has improved government policy and decision making.

Today the West is in, but we won't stop there. We continue to promote important issues and debates that provide made-in-the-West solutions to national problems and keep the West thriving.

CANADA IS STRONGER WHEN THE WEST IS THRIVING!

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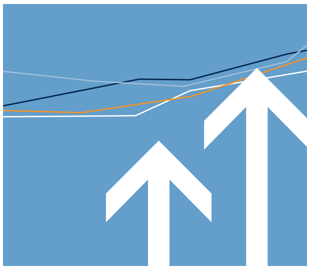

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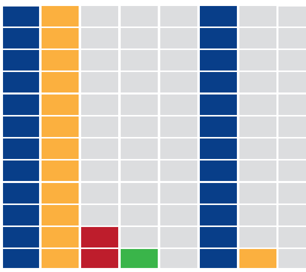

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WINDOW ON THE WEST

WINDOW ON THE WEST serves as a quarterly look into life and policy in western Canada. Through interviews, articles based on CANADA WEST FOUNDATION research, and viewpoints from thinkers across the West, WINDOW ON THE WEST gives an overview of the issues facing the four western provinces. WINDOW ON THE WEST is published four times a year by the CANADA WEST FOUNDATION.

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It's about impact.

In the think tank world, it is perhaps too rare a luxury to be able to boast a research platform that has both broad appeal and currency with the general public. Often there are research topics that, while integral to the proper function of the nation—like senate reform—are not what can legitimately be called "top of mind" issues for many mainstream western Canadians.

It is exciting, therefore, to cover so many topics in this edition of WINDOW ON THE WEST that have an "everyday" impact. Most western Canadians live and drive everyday in cities that are in sorry need of infrastructure spending to catch up with population growth. As you mull over the size of your property tax bill this month, Casey Vander Ploeg is suggesting there is another—perhaps better—way to pay for infrastructure. Floating the idea of a "penny tax" is perhaps controversial, but the idea presented in our cover story has merit and is worth a read.

An equally provocative "everyday" issue involves the pricing and payment of water. Unless we are buying it by the bottle, the price of water is too often taken for granted. Much more than just another cash grab, the issue of water pricing is about managing the demand and use of water and ensuring the long-term access and supply of water is sufficient to meet consumer and industrial demand. As you set up the sprinklers for the summer, you might want to review Larissa Sommerfeld's article on the potential of an end to free water.

Next month, the provincial energy ministers will be meeting in Kananaskis and the build up suggests that these discussions will include a heavy focus on the development of a national energy strategy. The Canada West Foundation and others have been out in front of this trend by calling for a Canadian energy strategy and William Kimber's article is a good primer on a topic that will be on the mind of policymakers and the public in the coming weeks.

Jason Azmier
Editor-in-Chief

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BY CASEY G. VANDER PLOEG

Pennies for Our Cities

Proposing a Fresh Approach to Boosting Public Investment in Western Canada's Civic Infrastructure

The combined infrastructure shortfall in western Canada's largest cities over the next ten years is

$41.5 BILLION

or almost $4.2 billion annually.

THERE CAN BE NO DOUBT that infrastructure in Canada has become a serious issue. Since the 1960s, the pace of investment in the total government public capital stock has fallen and the infrastructure funding shortfalls reported by individual cities run into the billions. But just how big is the problem?

In 1988, the total infrastructure funding shortfall for local governments in Canada was estimated at about $12 billion, an amount representing 2.7% of GDP. This funding shortfall has steadily grown. In 2007, the funding shortfall was estimated at $123 billion, or 8.0% of GDP. According to the Federation of Canadian Municipalities (FCM), this is just the amount of investment required to bring existing assets back to serviceable standards. FCM estimated another $115 billion is required for new infrastructure investments.

Faced with a pending crisis, the federal, provincial, and municipal governments have begun to invest much more heavily in Canada's stock of urban public infrastructure over the past ten years. This increased infrastructure investment has come through expanded federal and provincial capital grants, new federal and provincial fuel tax-sharing with municipalities, several tri-partite national infrastructure programs in the mid-1990s, a full rebate on the GST paid by municipalities and more recently, billions of dollars in new capital funding under the national economic stimulus program.

While all of this suggests at least a measure of progress in addressing the nation's urban infrastructure liability, the fact remains that the funding gap reported by Canadian cities—the shortfall between needed infrastructure investments and the funding dollars available—remains very large. What is more, there is evidence to suggest that the gap continues to grow. In short, Canadians and their governments have yet to get a firm handle on the nation's growing urban infrastructure funding challenge.

There is additional risk moving forward. The federal and all provincial governments are currently running sizeable budget deficits. The worldwide economic slowdown has resulted in a tapering of tax revenue growth as operating and capital expenditures are increasing. Sooner or later, the federal and provincial books will have to be drawn back into fiscal balance. Historically, capital investment has always served as one of the first targets for reduced spending when budgets are tightened.

In the future, then, there is certainly the potential for recent progress on the infrastructure front to stall. Now is an opportune time to consider creative and innovative funding options to keep critical urban infrastructure investments flowing.

Enter the idea of a "penny tax"

The idea of a small locally-levied sales tax is an innovative option that would enable western Canadian cities to get a better handle on their infrastructure funding challenges. Viewed simply, the tax would amount to a small 1% value-added local sales tax that is piggy-backed off the federal GST. These types of local sales taxes are generally referred to as the "local option sales tax." But because the tax rate is often fixed and capped at one cent on each dollar subjected to the tax, many prefer to use a more colloquial term for the levy—the "penny tax."

The notion of a broad-based and locally-levied sales tax may be somewhat foreign in the Canadian municipal context, but the same cannot be said to hold for most other nations around the world. The US experience is particularly instructive.

In the 1970s and 1980s, a number of US states enacted property tax limitations following passage of California's Proposition 13 in 1978. These limits restricted the amount by which property taxes could be increased, which eventually caught local governments in the US in a revenue squeeze. Rather than remove the property tax limits, local governments in many states were

In 1961, local infrastructure was only 17.7% of the total public infrastructure in Canada. Due to urbanization, the local share had increased to

33.3% IN 2010.

provided with access to various forms of sales taxation. As a result 36 US states and various local governments levy some form of local sales tax. About 12% of all local government tax revenue in the US accrues from various forms of local sales tax.

Attempts to introduce any type of new tax run the very real risk of evoking considerable public reaction—much of which will be negative if not overtly hostile. Some rather heavy girders are needed underneath any penny tax proposal—a set of specific features that make the idea acceptable if not attractive. A local penny tax for infrastructure must incorporate a number of unique features that would increase acceptability and legitimacy of the tax, and make it an attractive option that enjoys popular support.

Specifically, a well-designed penny tax must: 1) piggy-back off the GST; 2) have a capped tax rate; 3) be subject to voter approval; 4) clearly earmark revenues for critical infrastructure projects; 5) have an automatic sunset period; and, 6) excess revenues that rebate back to taxpayers in the form of property tax reductions. These features can combine to produce a very accountable and transparent tax and, in my opinion, these features are non-negotiable.

Making the case

The critical rationale for supporting a penny tax option over other infrastructure financing tools lies in understanding the larger fiscal and policy context of cities.

Fiscally, a more diverse municipal tax system that included a local penny tax would result in better revenue growth for cities. Unlike the property tax, which attaches only to one aspect of the economy—real estate—a small local sales tax casts its net across the full range of goods and services in the local economy. A penny tax will allow cities to capture the effects of inflation

DESIGNING A PENNY TAX

1. PIGGY-BACK OFF THE GST	Areas with a penny tax pay GST at a 1% higher rate than those that have not imposed the penny tax.
2. CAP THE PENNY TAX RATE	The maximum rate of taxation is set in the enabling legislation governing any local penny tax regime.
3. VOTER APPROVAL	Implementation of the penny tax is dependent on voter approval through a local plebiscite or referendum.
4. EARMARK THE REVENUE	Legislatively assign the revenue from the penny tax source to funding specific infrastructure expenditures.
5. A SUNSET PROVISION	The tax is only in effect during a specific time period or cycle.
6. REBATE EXCESS REVENUE	Excess revenue over and above the cost of the designated projects is returned to taxpayers through lower property tax rates and/or other rebates.

SINCE 2000
local investment has shown a considerable rebound, and investment today is very close to reaching levels of the past.

and to retain a small but important portion of the economic growth occurring within the local region, and direct it to the infrastructure needed to accommodate that growth.

Demographically, a penny tax would enable cities to better cope with the rapid pace of urbanization and compensate for current patterns of population growth. Urban population growth—much of which now occurs not in the large "anchor" cities of our city-regions but in "metro-adjacent" municipalities just outside—meets up with a lack of diversity in municipal tax tools to press city finances. Without diversity, the burden of sustaining municipal services and the underlying infrastructure lands squarely on local property taxpayers as opposed to those who use the services and infrastructure. A small local penny tax helps ensure that all those coming into a city to use its services and infrastructure also help to pay for that infrastructure.

Economically, a small 1% penny tax has a minimal impact on tax competitiveness, particularly if the expenditures are dedicated to critical urban infrastructure, which is just as important to overall economic competitiveness as a competitive tax regime. Broad based value-added sales taxes are also among the most economically benign taxes possible.

Politically, because the penny tax is a local sales tax initiated and levied through local action it is unencumbered by top-down imposition—a particularly attractive option for cities. If local municipal interests in a certain infrastructure funding issue exceed the larger federal and provincial commitment, then the local interest can be given the tax tools and resources to push ahead.

The implementation of a penny tax would face some difficult challenges that require further exploration. First, linking the tax to the GST base does raise some issues of administrative feasibility and the provinces would have to amend the enabling legislation that governs municipalities. Second, sales taxes employed locally run the risk of producing economic distortions by shifting retail sales activity and consumer behaviour from one region to another. Third, now may not be the best time for a new municipal tax initiative—the economy that is restricting the fiscal capacity of the federal and provincial government to adequately fund infrastructure is the same economy that may not now need another tax imposed upon it.

Finally, as it relates to Alberta, the absence of a broad-based sales tax is a defining feature of the province's political culture. Any proposal for a penny sales tax in Alberta would represent a clear and radical departure from the fiscal status quo. As such, it will attract significant attention, much of which could be negative. Voter-approval and earmarking the proceeds for local infrastructure initiatives are strong selling features that would generate support from many Albertans. But those voices could be easily drowned by the broader sentiment of provincial public opinion—a sentiment traditionally opposed to any consideration of a broad-based sales tax. While the idea of a small local penny tax has much to recommend it, the idea remains politically difficult.

While problematic, these challenges are surmountable. A penny tax is conceptually possible, strategically desirable, administratively feasible and is timely innovation that can do much to boost our civic infrastructure investments. W

__Casey Vander Ploeg__ is a Senior Policy Analyst with the Canada West Foundation. He has just released a report entitled The Penny Tax: A Timely Tax Innovation to Boost Our Civic Investments.

BY SHAWNA RITCHIE

The Green Economy

in Action

WESTERN CANADA IS HOME to a growing and dynamic green energy economy. Green companies in western Canada work in everything from bio mass fuel generation, photovoltaic solar cell development, smart grid technologies, to computer software that drives energy efficiency in old buildings.

The green economy is increasingly important in western Canada, not only because it diversifies the economic system and enables better stewardship of natural resources, but also because of the competitive advantage it gives in the international economic sphere. There are four main reasons why "going green" matters from an economic perspective: 1) jurisdictions that do not take action on environmental issues may be penalized by a global market that increasingly demands greener processes and products; 2) there are significant direct and indirect economic costs of degrading the natural capital of a region; 3) there are opportunities to participate in new markets for green products and services; and 4) businesses can save money, and therefore gain a competitive advantage, through less wasteful production systems. Apart from these economic benefits, there are also quality of life factors that argue in favour of green practices and green products.

Developing the green economy is simultaneously more difficult and more imperative in western Canada than in many other places around the world. It is more difficult because we have a very successful non-renewable resource industry and established energy infrastructure, which decreases the incentive to diversify our energy economy, but also more imperative because heavy reliance on a single industry makes us economically vulnerable to volatile commodity cycles.

It is because of the inherent advantages of the green economy and the danger of failing to diversify that it is important to maximize the impact and significance of western Canada's green businesses. This article highlights a few of the key challenges and opportunities facing green companies both today and tomorrow in order to illustrate how the position of the green economy could be strengthened.

The hurdle of commercialization

Commercialization has long been a problem for Canadian entrepreneurs and this is particularly the case for those working in the green economy because often they are dealing with very capital-intensive infrastructure related technologies. Moving from the technology development and implementation stage to commercial marketing is a significant and important hurdle. In an international market, the longer it takes a company to reach commercial capacity, the greater the possibility that they will be too late. The time lag that currently exists between product development and commercial viability is disadvantaging Canadian entrepreneurs and companies in the international marketplace.

> "From the day that a guy like me has an idea to the point where it is a viable business that can grow on its own, Canadians are taking much longer than some of our largest competitors."—Tantalus Systems Corp., British Columbia

The reasons why it is taking western Canadian companies longer to commercialize their innovations, and how to expedite that process, are complex. In general, successful commercialization requires the effective coordination of product marketing and development, commercial management, and financing. There needs to be a host of solutions such as an education system that encourages creativity and innovation, an emphasis on market-oriented research, programs in place that encourage small business growth, and access to financial capital.

Without the coordination of these solutions it will remain difficult for western Canadian green companies to overcome the challenges of commercialization. Successful green companies today have only crossed this hurdle by employing

Various estimates of the size and scope of the green economy in Canada range from

1% TO 10%

of economic output.

A Globe Foundation study of BC's green economy estimates that it contributed

$15.3 BILLION

to the province's GDP in 2008.

some drastic techniques, including operating without revenue while they developed their technology, shifting away from research and development towards an almost exclusive focus on marketing and commercial expansion, and relying on other components of their business to subsidize their green developments until they are commercially viable.

Commercialization remains an impediment to the growth and development of western Canada's green economy.

A reluctant domestic market

There is a general reluctance in the Canadian market to adopt and incorporate homegrown green innovations and technologies. One of the reasons for this is a pervasive culture of risk aversion in Canadian governments and businesses that has persisted despite the green energy legislation passed in Ontario and British Columbia.

This risk aversion means that businesses and governments are hesitant to adopt new technologies that may not have been tested yet in the mass market—which accounts for a significant portion of green innovations. It's not that western Canadians are not interested in improving their environmental performance, but rather that many green innovations are disruptive technologies that pose adoption and implementation challenges for governments, individual companies, and consumers.

Take government as an example: although it may be desirable for governments to use more sustainable technologies, like biodiesel to power their transportation fleets, they also have a responsibility to ensure that public money is spent wisely. Some provincial governments and the federal government are interested in moving toward increased use of biodiesel technology in their transport fleets but currently the infrastructure is not in place to support that kind of technological change. The problems of infrastructure and the need to invest public money wisely results in an inherent conservatism in government, which poses a limit on the extent to which they can adopt and experiment with emerging technologies.

Even in the private sector there are problems associated with adopting new technologies. Many of these technological innovations are only available at a high cost and they have often not yet been tested at a mass level. Companies therefore are taking a significant financial risk in being early technology adopters and they have little incentive to do so.

> "We often say that we are stewards of the land but we are actually stewards of our resources and we have the sun beating down on us and the wind blowing over our land, what about capturing that energy, what would the farm look like then?"—Elton Energy Cooperative, Manitoba

The result of a reluctant domestic market, either for cultural, economic or political reasons, is a heavy reliance on the export market. Currently the success of western Canadian green businesses is tied to the international export market where there are greater economies of scale and, in some cases, a stronger emphasis on green innovations. The international marketplace is where western Canada's green economy is currently most active.

Fixation on large capital-intensive energy solutions

There is something of a fixation in Canada on large, capital-intensive energy solutions. This has been the traditional model for energy systems in Canada and there is a tendency in government and on the part of traditional producers to focus only on these kinds of solutions. By contrast, many of the new technologies being developed by green companies focus on localized, more responsive energy systems.

69%
of western Canadians would support the expansion of green energy, even if it meant paying more than they would for conventional energy.

Large energy projects are often an easy sell as they are simple to explain and the technology is familiar. It is relatively straightforward to get federal and provincial support for these traditional projects. By comparison, many of the emerging green technologies are unfamiliar, may still be in the development phase, and are problematic for a risk-adverse bureaucratic system.

The issue going forward is that large capital projects represent fixed capital costs in a market place that increasingly demands flexibility in energy solutions. Forecasts suggest that in the future energy will need to be more intelligent, more responsive, and more sustainable but there is a disincentive to adopt these today because of the strength of the traditional energy sector. Incorporating greener energy solutions, though, will enable Canadians to use energy resources more efficiently and will overcome some of the barriers currently faced in the distribution and transportation network systems.

Currently, any fixed capital solution can be risky for smaller producers. If the market expands, they may find themselves with insufficient capacity to meet demand, and if the market shrinks, they may have already invested too much. The fundamental problem, then, with any fixed capital solution is that it is not nimble enough to respond to fluctuating market trends. The green economy is finding new ways to deal with the energy needs of tomorrow and they see a role for smaller scale, more distributed energy sources in the energy landscape of the future.

While there are some challenges facing western Canada's green companies there are also reasons to be optimistic about the future. There are many opportunities for expansion and growth within the sector, both locally and internationally, and western Canada has all the resources needed to make this happen including a highly educated population, an expertise in complex energy solutions, and trade relationships with emerging Asian economies.

The western Canadian green economy sector is poised for growth for three reasons. First, there is a growing awareness of the importance of environmental conservation, particularly in places like British Columbia. Second, as a result of this increasing awareness, more and more individuals and businesses are investing in green technology development and implementation. Third, there is a growing demand for energy that is flexible and localized. These three factors are encouraging growth and development in the green economy and are likely to continue.

"I think there is a phenomenal amount of opportunity in western Canada to use our resources, to use the land for things like carbon offsetting or for bio-gas and taking the waste from agricultural crops and moving to things like zero till, those will have major impacts on the Canadian offset system and Canadian emissions."—Greenfield Carbon Offsetters Inc., Saskatchewan

A changing cultural consciousness has an impact on both businesses and governments with regard to their energy consumption patterns. There is pressure on businesses to model and support sustainable energy consumption and many major corporations are striving to "green up" their operations. This is done through increased reliance on renewable energy sources, building according to green energy standards, and supporting organizations that are involved in environmental conservation.

There is similar pressure placed on governments to not only improve their environmental footprint but also to modify their standards and regulations to incent environmental stewardship. For example, rather than treating renewable energy sources like solar panels and wind turbines as a taxable addition to homes

Demand for clean energy solutions has grown from approximately $35 billion a year globally in 2004 to over (2010)

$200 BILLION.

and business (and thereby punishing those who implement them), green technology users could be rewarded through the tax structure for the infrastructure and distribution costs that they have saved the government.

Perhaps the most interesting opportunity for the green economy comes from the increased energy demand in some of the world's emerging economic powers. The growing markets of India, China, and other developing countries represents a massive market for green technology companies, and if western Canadian companies can be at the forefront of providing innovative and adaptable energy solutions to the billions of people living in these developing countries, there is no accounting for how economically and socially significant the green economy could become in the West. W

> "Last year, China installed more wind power turbines than any other country in the world. It is estimated by the International Energy Association that investment in renewables to produce electricity will be $5.7 trillion over the next 25 years."
> —Alberta Wind Power Corp., Alberta

Shawna Ritchie is a policy analyst with the Canada West Foundation. She is the co-author of The Green Grail: Economic Diversification and the Green Economy in Western Canada.

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Through the Gateway, Updated May 2011

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QUARTERLY ECONOMIC WATCH

THE QUARTERLY ECONOMIC WATCH is a collection of current economic and demographic data from the four western provinces with an indepth focus on one aspect of these data. In this edition, Canada West Foundation Senior Economist *Jacques Marcil* examines recent data on annual provincial economic growth in 2010.

Provincial GDP

FUELLED BY POSITIVE GROWTH of GDP in 2010, Western provincial economies are slowly starting to return to their pre-recession activity levels.

Following the drops witnessed in 2009, real gross domestic product (GDP[1]) rebounded in Saskatchewan, Alberta and BC in 2010. The growth in Saskatchewan and BC returned the provinces at or slightly above their pre-recession 2008 production levels while Alberta's advance was not yet enough to make up for lost ground. The Manitoba economy, which barely paused at all during the recession, continued to make modest and steady gains in 2010.

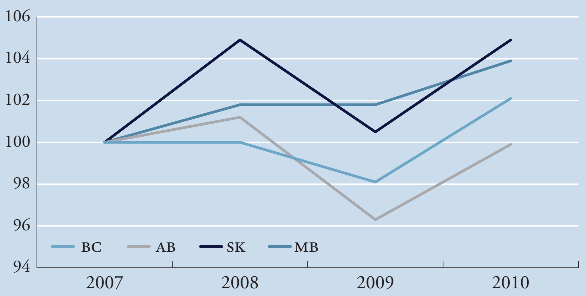
Saskatchewan (+4.4%) led the West in 2010, second only to Newfoundland and Labrador (+4.8%) nationally. BC (+4.0%) and Alberta (+3.8%) were not far behind. Manitoba was tied for last place among provinces at 2.0%, and was the only western province where growth was lower than expected at the start of the year.

Higher oil prices and more firm natural gas prices were among the factors helping stimulate western GDP in 2010. Potash in Saskatchewan and forestry in BC also contributed to growth. Overall, the goods-producing sector, which represents about 40% of the West's economy, averaged gains of 6.0% across the region despite a 1.4% decline in Manitoba, where crop production fell sharply due to bad weather. Growth was more subdued in the West's service sector (+3.0% on average).

What 2011 has in store for the West will depend on many factors, including commodity prices, the US economic performance, the end of fiscal stimulus in Canada and the high level of household debt in western Canada.

1 Starting this year, Statistics Canada's April release of preliminary provincial GDP presents statistics compiled on an industry basis, as opposed to the previously used income and expenditure basis. While different, the two approaches result in relatively similar overall growth rates for each province.

REAL GDP GROWTH (2007=100)



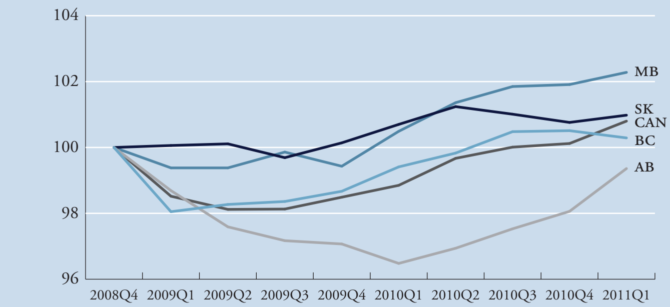
REAL GDP GROWTH, 2010 (%)

	Forecast	Actual	Difference
BC	3.5	4.0	+0.5
AB	3.3	3.8	+0.5
SK	3.0	4.4	+1.4
MB	2.6	2.0	-0.6
CA	–	3.3	–

Note: GDP by industry in chained (2002) dollars.
Forecast is based on Canada West Foundation weighted average of Canadian banks forecasts.

Post Recession Performance

EMPLOYMENT (2008Q4=100)



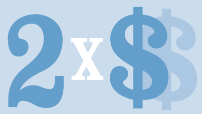
MANITOBA

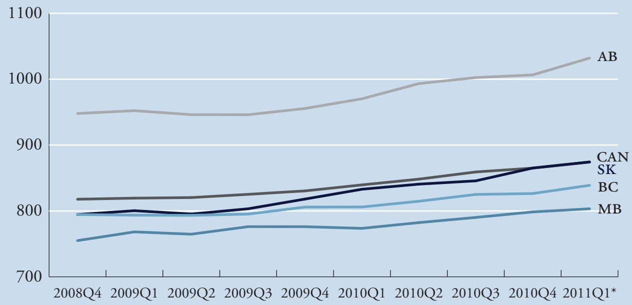
is the western province with the best job performance since the recession.

AVERAGE WEEKLY EARNINGS ($)

EARNINGS

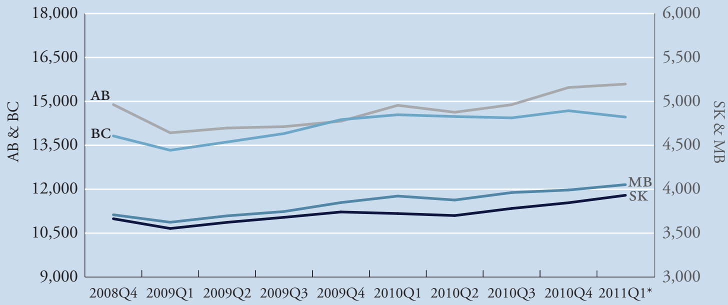
in Alberta rose at twice the country's pace last quarter.





* Based on first two months of the quarter.

RETAIL SALES ($ MILLIONS)



* Based on first two months of the quarter.

Retail sales in BC have been flat since the end of

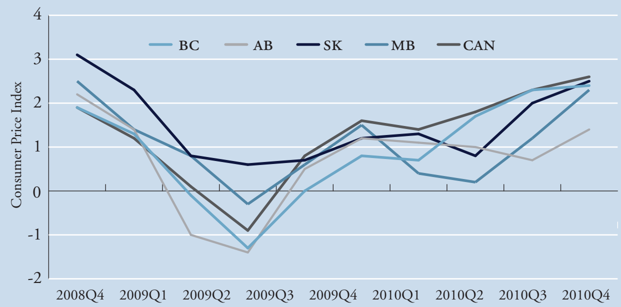
2009.

INFLATION (% CHANGE FROM PREVIOUS YEAR)

In the West, 2011Q1 inflation was the

LOWEST

in Alberta.



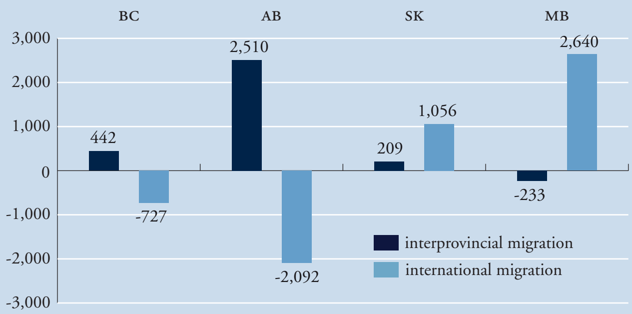
Public Finance

PROVINCIAL FINANCIAL RESULTS (2010-11 FISCAL YEAR) — As of May 13, 2011

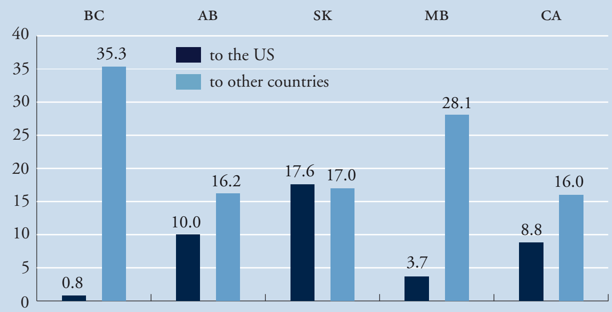
		2010 Estimate	2010 Current Forecast	Difference	
		$ millions	*$ millions*	*$ millions*	*%*
BC	Revenues	39,153	39,893	740	+1.9
	Expenses	40,568	41,008	440	+1.1
	Surplus/Deficit[1]	-1,415	-1,115	300	
AB	Revenues	33,968	33,982	14	0.0
	Expenses	38,716	38,803	87	+0.2
	Surplus/Deficit	-4,748	-4,821	-73	
SK	Revenues	9,950	10,988	1,038	+10.4
	Expenses	10,124	10,948	823	+8.1
	Surplus/Deficit[2]	-174	40	214	
MB	Revenues	12,720	13,130	410	+3.2
	Expenses	13,265	13,656	391	+2.9
	Surplus/Deficit	-545	-526	19	

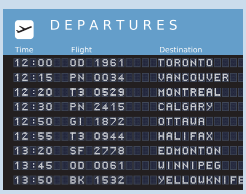
Notes: 1. Excluding forecast allowance for revenue volatility. 2. Prior to transfer to Growth and Financial Security Fund. 3. Including In-year adjustment/lapse.

NET MIGRATION IN 2010Q4



EXPORT GROWTH (%) IN 2011 (JAN-MAR)





2,092
more international migrants left Alberta than arrived in 2010Q4.

17.6%
increase in Saskatchewan's exports to the US so far in 2011.

Source for Figures: Derived by Canada West Foundation from Statistics Canada data.
Provincial finance data from 2010 and 2011 Budgets and updates.

BY DR. ROGER GIBBINS

All Quiet on the Western Front

Canada's 41ST General Election

THE OUTCOMES OF THE MAY 2 ELECTION WERE STARTLING in so many ways. Virtually all of the drama, however, occurred outside the West. Inside the region, the electorate remained largely unmoved by the campaign. This combination of regional stability and dramatic change elsewhere fundamentally re-aligned Canadian politics, and in so doing left no doubt about the political ascendancy of the West.

In the short term, the most significant outcome was undoubtedly the election of a majority Conservative government, thus ending a prolonged period of minority governments. But this majority government is very different than past Liberal or Progressive Conservative majority governments based in Ontario and Quebec or, in the case of the Mulroney majorities, based on a fragile coalition spanning Quebec and the West.

The Western Rock

The net seat change in western Canada was very small. Across the region, the Conservatives and New Democrats netted just one additional seat each, with the Liberals losing just 3. As a result, the prairie provinces were left virtually unchanged, and in BC the NDP's "orange tide" was modest to say the least, gaining only 3 seats.

The "big small change" in BC was the election of Green leader Elizabeth May, but her personal win came with a dramatic reduction in the Green vote across Canada. The Greens now have an elected leader but are farther than ever from being a party capable of mounting a serious national campaign. May's victory was emphatically personal; it does not signal any change in the ideological makeup of the BC or Canadian electorates.

In short, the new political dawn on May 3 across western Canada looked a lot like the old dawn on May 2. The big changes, and they were big, occurred elsewhere.

In a Turbulent Sea

It was clear going into the campaign that the Conservatives could not win enough new seats in western Canada to form a majority government; there were simply not enough non-Conservative seats up for grabs. The majority would have to come from either Ontario or Quebec, and it was the Ontario voters who delivered, transforming the political landscape in the process. The Conservatives picked up an additional 22 seats in Ontario and now hold 73 of the 106 seats in the province. As a consequence, the party now forming the Government of Canada is by far the most dominant party in both Ontario and the West.

The ongoing fissure between Ontario and the West, one that has played such a divisive role in Canadian political life, has now been bridged by a national government firmly rooted in both regions. Although this does not mean that all regional conflicts will disappear, it does mean that both regions will be strongly represented around the cabinet table in Ottawa.

This is a remarkable and likely lasting change. Gone are the persistent media stories that the Conservatives are the party of rural and small town Canada—Calgary, Edmonton, Ottawa, Regina, Richmond, Saskatoon, Victoria and Winnipeg—whereas the country's metropolitan and sophisticated heartland is an alien land, a Liberal bastion able to withstand any assault from the countryside.

The Ontario outcome shattered a longstanding Canadian truism, that a majority government cannot be formed without significant support from Quebec. This time, the Conservatives lost seats in Quebec and still came away with a majority. If they had lost every one of their seats in Quebec, they would still have had a majority.

ONLY 15%
of ridings in the West changed MPs compared to 44% in the rest of Canada.

The realization that a majority government can be formed without Quebec is a truly transformative change. Interestingly, this outcome coincided with the total collapse of the Bloc and the emergence of the NDP as Quebec's primary voice in Ottawa. How this will play out remains to be seen, but it will be a fascinating story to watch as Canadians come to grips with new political realities.

Looking Ahead

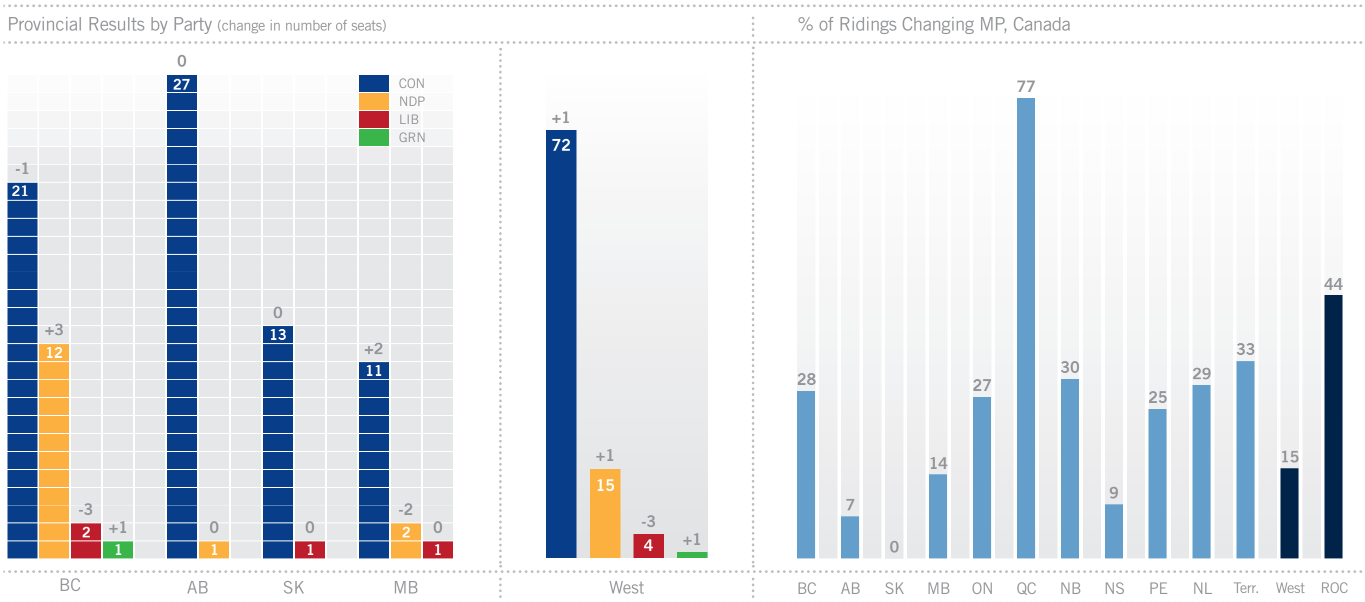
It would be rash to presume that the new Conservative majority government will be uniformly good for western Canada. The new government is, after all, a national government with representation from across the land. However, western Canada has secured a voice at the majority government table. This voice will be only strengthened in the years ahead. With so much change outside the region, western Canadian MPs are by far the most seasoned and experienced parliamentarians in the House.

Moreover, at least 20 new House of Commons seats will be added to the Conservative strongholds of Ontario, Alberta and BC before the next election, thus further reducing the necessity of Quebec's participation in the next winning coalition. Our national preoccupation with the perennial question of Canadian political life: "what does Quebec want?" will be muted as the Canadian government turns to a national economic agenda.

In summary, the election results transformed the political landscape. However, that transformation was not led by the West where voters essentially stood still while the world changed around them. W

Dr. Roger Gibbins is President and CEO of the Canada West Foundation.

ELECTION RESULTS



Note: Includes retirements (17) and failed re-elections (92).

BY WILLIAM KIMBER

We need an energy strategy

and we need it now.

THE ENERGY INDUSTRY, leaders of Canada's top enterprises, environmental groups, leading academics and policy think tanks all have something surprising in common. Each has recently gone on the public record calling for a new set of policies to address energy and environmental challenges facing Canada. The common message from these diverse groups has been that "we need a Canadian plan for energy, and we need it now."

Finding common ground

The Canada West Foundation has extensively reviewed the publications and public statements from these various stakeholder groups over the last two years and found that a number of common themes run throughout the debate on energy and environmental issues in Canada. In sketching out these areas of consensus below, a basic framework for the development of Canadian energy strategy starts to emerge.

There is agreement that we must embrace Canada's energy diversity as a strength, not a weakness. This starts with recognition of the vast but diverse energy circumstances of each province and territory. For example, cooperation on carbon pricing and regulatory regimes must work for hydro powerhouses like British Columbia, Manitoba and Quebec, as well as for Alberta and Saskatchewan—which are powerhouses in oil, gas and uranium. Ownership of natural resources by the people of each province and territory is a feature of the Canadian constitution. If done properly, an energy strategy will strengthen the Canadian federation, not weaken it, and the ghosts of the National Energy Program will remain a distant memory—where they belong.

There is a strong consensus that an energy strategy must ensure robust environmental stewardship in developing our vast energy endowments, including the oil sands, and our huge renewable energy potential. Thoughtful business leaders recognize that the social license to operate is linked to continuous improvement on environmental performance and that regulatory certainty on environmental limits is necessary for long term success.

It may be surprising to some, but there is a level of agreement on the need to set a price for carbon emissions in Canada. The debate has moved from whether to price carbon to how, when and how much. Of course, agreement on these questions will not be easy. Figuring out how to build in full environmental costs, and how to address emissions-intensive, trade-exposed industries in the design of energy policies and carbon pricing regimes, will keep policymakers (and policy wonks!) engaged for years. However, the fact that carbon pricing is seen as an integral part of a Canadian energy strategy is a hugely important step. Discussions about how to price carbon will be difficult, but they are not intrinsically polarizing.

There is a deep and broad consensus that substantial demand-side opportunities exist to capture economic and environmental benefits through greater efficiency and productivity in the use of energy across the economy—particularly in urban areas. Common ground includes the need for full-cost accounting for the entire energy mix and the need to promote behavioural change through price signals and improved energy literacy.

There is also broad stakeholder agreement across business, academia and environmental groups that innovation and technological development are needed to transition Canada's energy system to a lower carbon, more efficient and more productive future. The reports reviewed by the Canada West Foundation returned time and time again to the need for policy tools to foster and incentivize innovation through greater investment in infrastructure, human capital, science, research and development, and commercialization. A price on carbon and public policies to support innovation were frequently mentioned as important parts of the solution to this challenge.

Canadian Academy of Engineering:
"Energy is one of the cornerstones of civilization and is central to Canada's economic and social well-being, but we lack a compelling national energy vision."
Senate of Canada, 2011, *Attention Canada! Preparing for our Energy Future.*

ORGANIZATIONS INVOLVED IN THE DISCUSSION ON REFORM OF CANADA'S ENERGY POLICY FRAMEWORK

- Government of Canada and Provincial Governments (including agencies)
- C.D Howe Institute
- Business Councils, Industry Groups, Chambers of Commerce and Economic Development Groups
- Canadian International Council
- National Roundtable on the Environment and the Economy
- Canada West Foundation
- Canadian Chamber of Commerce
- International Institute for Sustainable Development
- Canadian Council of Chief Executives
- Quality Urban Energy Systems of Tomorrow
- Canadian Electricity Association
- David Suzuki Foundation
- Energy Council of Canada
- Institute for Research on Public Policy
- Energy Framework Initiative
- TIDES Canada
- Energy Policy Institute of Canada
- Winnipeg Consensus Group
- The Atlantic Provinces Economic Council
- World Wildlife Fund
- Sustainable Prosperity
- Corporate Knights
- The Pembina Institute
- Pollution Probe

Finally, additional areas of agreement include the need to develop an energy strategy that strengthens Canada's brand in the world and ensures Canada's attractiveness as a foreign investment and immigration destination, and the need to promote energy security in the North American context. This means taking action to remain a stable and secure supplier of energy to the United States, as well as pursuing market diversification for energy including into the Asia Pacific region, and acting like one country in international negotiations.

State of the inter-governmental process

Moving from areas of rough consensus to the development of a national energy strategy is a daunting task, one that can only be accomplished through ongoing dialogue, leading to firm action. It is encouraging, however, that an intergovernmental process is well underway. Canada's energy and mines Ministers announced following their annual meeting in September, 2010 that they "had mandated their officials to identify areas of common interest as well as goals and objectives related to energy that will lead to greater pan-Canadian collaboration."

The Ministers' follow-up meeting is set for mid-July in Alberta's Kananaskis country. At that time, identifying and exploiting opportunities where provinces across Canada can participate in mutually beneficial initiatives will be crucial.

The two strongest areas of agreement, and the place where Canada's energy ministers should start first are: energy efficiency in terms of codes and standards, and energy technology and innovation. These two areas are clear winners in terms of robust objectives that can be endorsed by a diverse range of stakeholders across Canada. For example: can Quebec benefit from expertise and regulatory approaches in Alberta and British Columbia in setting up a new shale gas industry?

David Suzuki, ***Chair, David Suzuki Foundation:***
"Canada is now one of the only developed nations without a coordinated energy plan. That doesn't bode well for us in light of the numerous energy challenges we face."
The Mark, 23 September 2010.

Patrick Daniel, ***President and CEO, Enbridge:***
"I think we need an energy policy, not a national energy program but a policy and strategy in regard to energy in Canada."
Daily Oil Bulletin, 18 January 2011.

EIGHT AREAS OF AGREEMENT

1. Embrace Canada's energy diversity as a strength
2. Ensure robust environmental stewardship
3. Set a price for carbon
4. Transform the demand side of the energy system
5. Strengthen Canada's position in the world
6. Promote energy security in the North American context
7. Drive innovation and technological development
8. Understand that strategy is dialogue.

Source: Finding Common Ground.

Looking at the journey of other countries like the United Kingdom and Australia in making progress on energy policy reform—it is clear that the next steps in Canada will need to include a broader set of ministers and officials. This includes representatives from the environment and natural resources portfolios and will ultimately need to reach out to industry policy and foreign affairs officials. Finally, "strategy is a dialogue" and must include industry, environmental groups and other stakeholders.

Canada has momentum and opportunity and is well placed to take action on this file now. In the words of former Canadian Pacific Chairman N.R. "Buck" Crump, "we have all the means at hand to build a powerful and peaceful nation, and I think we should get on with the job." W

William Kimber *is Vice-President, Research, of the Canada West Foundation and is a co-author of Finding Common Ground: The Next Step in Developing a Canadian Energy Strategy.*

BY LARISSA SOMMERFELD

The End of "Free" Water?

45%
of western Canadians are either extremely or definitely concerned about the long-term supply of freshwater in their region.

WE ALREADY PAY FOR OUR WATER—individuals and commercial users pay monthly utility bills, and large-scale users such as irrigation districts and municipalities pay for licenses. But what are we actually paying for? In the case of individual and commercial users, we are paying for treatment and delivery costs. In the case of large-scale users, payment is simply for the right to use a specified amount of water. In both cases, we are not paying for the actual water itself. In this sense, water is virtually free.

The status quo is likely to change in the coming years as local water challenges persist in western Canada, such as the closure to new water licenses of Alberta's South Saskatchewan River Basin in 2006 and the eutrophication of Lake Winnipeg. One proposed tool that can be used to manage water supply is water pricing. Those in favour of pricing argue that western Canadians are not paying enough when it comes to water. And by not paying enough, we are unaware of the true value of water. As a result, we are more likely to use water without thinking, which ultimately leads to waste and overconsumption. The argument for water pricing then, is that a price signal will make users think twice about how much water they use (or in some cases, how they pollute water) because wasteful or excess use could result in a higher bill.

Changing the way we price our water may be one of the most contentious issues in the water policy world. Although there is general consensus among water experts that pricing has a role to play in water management, there may be reluctance on the part of policymakers to seriously start thinking about how water is currently priced and whether changes need to be made. And for good reason.

The debate over pricing isn't just about increasing consumer's monthly water bills by a few dollars. It is much bigger than that. It is a debate about how society values water. It is a debate about both social and economic equity: ensuring that those less fortunate have access to the water they need, and that our businesses are able to stay competitive. It is a debate about water governance and jurisdictional challenges. It is a debate about the state and sustainability of our water infrastructure. Water pricing is a multi-dimensional issue. And once we scratch the surface, we may find ourselves opening up a Pandora's box.

Regardless of its prickly nature, water pricing is a tool that has the potential to help address some of western Canada's current and future water challenges. Changing the way water is priced can result in a variety of outcomes: demand for water can be managed, and revenue can be raised to support infrastructure maintenance and policy and scientific research. Our usage habits can change for the better. Although water pricing is no panacea, it can be effective when used alongside other water management tools, such as education and awareness campaigns, stronger regulatory regimes and improved government capacity. Along with these tools, charging for water use or effluent discharge can help limit or moderate demand as users conserve to avoid higher costs. Unlike education, legislative and regulatory approaches, charging for water provides incentives through prices.

The argument for water pricing has many dimensions, but the simplest may be that changing the way water is priced can result in a much-needed revenue pool for provincial and local governments. Maintaining water infrastructure, conducting scientific and policy research, ensuring that governments have the capacity they need to manage our water supply effectively, water treatment and delivery, and addressing problems (e.g., floods, water quality issues, wetland protection) all require significant funds. Managing our water costs money. Those in favour of pricing argue that it just makes sense for users to pay a price for water that reflects all of these costs.

One major example is that water infrastructure maintenance and replacement is badly needed across Canada: the country's heavily subsidized water infrastructure is aging, resulting in wastage

57%

of western Canadians think that governments should charge individuals the full cost of the water they use.

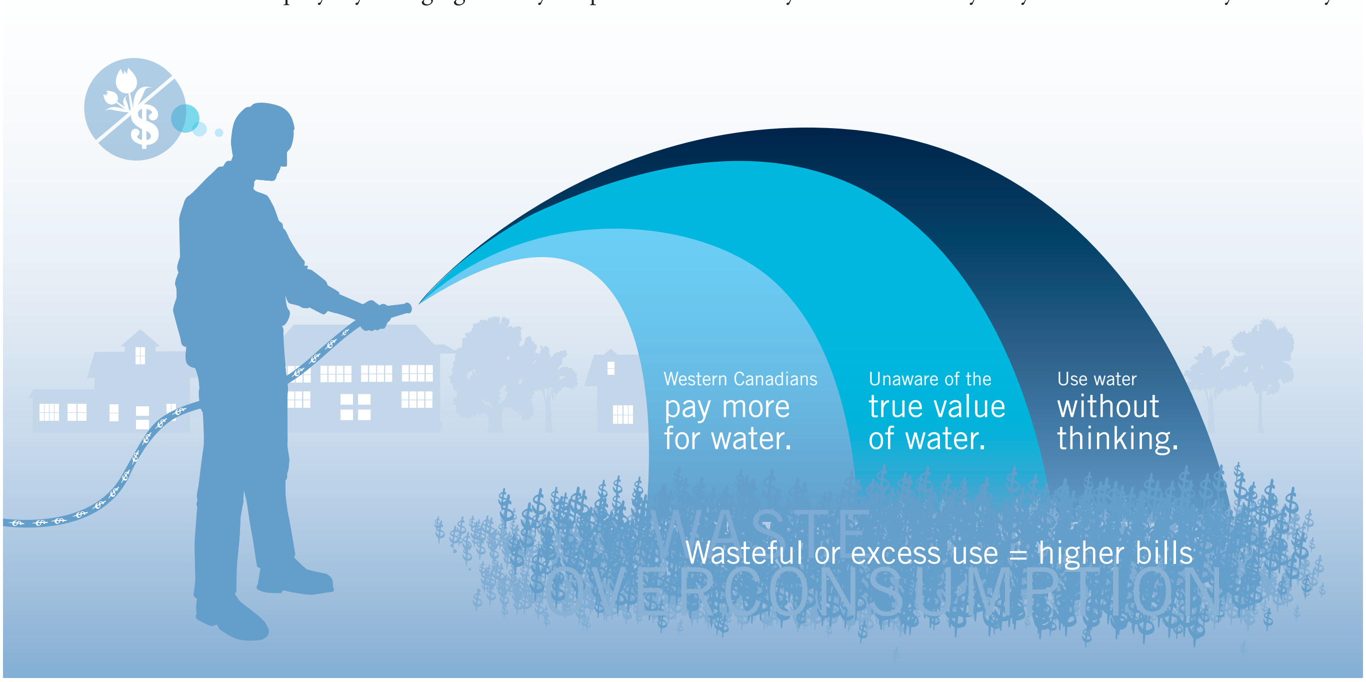
through leaks, and susceptibility to damage and breakdown. Finding the funds to make sure our infrastructure is in the best shape possible is a major challenge in this era of fiscal restraint. Revenue raised by pricing could contribute to this effort.

The beauty in changing the way water is priced is that there are myriad ways to employ charges for the use and pollution of water. Charges can apply to individual users, or they can apply to certain sectors, such as manufacturing or oil and gas. Consumers can be charged on amount of water consumed, or for the amount of pollution in water returned to the source. Prices can differ by season (e.g., they might be higher in the summer, when use increases) and can differ by location.

A Fair Price for All.

Water pricing can—and should—be equitable. Many of those who are opposed to or skeptical of pricing for water management cite concerns about social equity. By changing the way we price water (i.e., increasing monthly water bills) how can we ensure that lower income families are able to manage? Most experts agree that a set amount of water per person, or per household, should be provided for free or at low cost. Deciding what this amount should be is another challenge (it varies, according to experts). Any water used after the set, low-cost amount, would be charged at a higher rate. Those who use excess "lifestyle water" to fill swimming pools, wash cars, and water lawns, would have to pay more. This way, those who make the effort to conserve water will be rewarded through a lower monthly bill.

In order to be successful, water pricing must be implemented alongside strong government regulations that mandate that the environment is a legitimate water user in its own right. That is, every effort must be made to ensure that the environment has the water it requires in order to support ecosystem function. This step is essential to ensure environmental and economic sustainability, particularly as there is a growing recognition that a healthy environment is synonymous with a healthy economy.



77%

of western Canadians agree with the statement: “to conserve water resources, governments should charge business and industry the full cost of the water they use.”

Imagine what would happen if irrigators could no longer water their crops due to depleting water sources, or if a oil sands tailings pond were to rupture. What would happen if a water source that supplied drinking water to millions no longer could replenish itself? Water is inextricably linked with western Canada’s economy, and ensuring that it is taken care of is essential to our key industries, not to mention the health and wellbeing of our citizens.

The bottom line is that water pricing is extremely complicated, and implementing it is daunting. It is also politically charged: when has a politician been applauded for raising prices? However, the status quo cannot remain the status quo: climate change is affecting water supply around the world, and the global population is booming—resulting in a growing, insatiable demand for energy, food and water. Now is the time for water managers to start planning for the very uncertain future: looking at the different options for water management, and making decisions on which tools can offset or solve water challenges in the region for which they are responsible.

It is easy to take the water that flows from our taps and runs in our rivers for granted. Most people do not want for water, nor do they worry about whether or not we’ll have enough water for tomorrow, or the next day. Yet, our water infrastructure is aging, our aquifers are being depleted, and funding for scientific research on water is being reduced. The complex system that ensures that the water we drink is clean and that our rivers are protected is often far from the minds of the public.

Yet to continue to ignore the centrality of this critical resource to our lives and to our economy is perilous. Changing the way we price our water may be one step in the right direction to ensuring a stable, healthy water supply for the future. And opportunity abounds: pricing can change how we as a society use and value our water, help us prepare for future challenges, and can lead to outcomes such as innovation in water efficiency technology, thus spurring growth and investment, and can provide revenue to help fund further scientific and policy research and support our infrastructure. The end of “free” water may be drawing to a close, but it is a change that likely will represent innumerable opportunities to better manage western Canada’s water. W

Larissa Sommerfeld is Canada West Foundation’s Arthur J.E. Child Water Researcher. She is an author of a forthcoming research report on water pricing.

A Conversation

with Sheila O'Brien and Aritha van Herk

OVER THE LAST YEAR, the Canada West Foundation conducted in-depth, in-person interviews with 50 extraordinary individuals drawn from community and thought leaders across the four western provinces. The interview that follows is a transcription from one of those conversations.

***Aritha van Herk** is a public intellectual and motivational cultural speaker as well as an award winning Canadian novelist. She first rose to international literary prominence with the publication of Judith. Her other books include The Tent Peg; No Fixed Address: An Amorous Journey; Places Far From Ellesmere; Restlessness; In Visible Ink; A Frozen Tongue and Mavericks: An Incorrigible History of Alberta. She is a member of the Royal Society of Canada, and a Professor who teaches Canadian Literature and Creative Writing in the Department of English at the University of Calgary, but first of all, she is a writer who loves stories.*

SHEILA O'BRIEN: What do we need to do to ensure the West remains a great place to live in the 21ST Century?

ARITHA VAN HERK: It is very clear that the West is now a powerful contender in the future of the nation and the world. The West is interestingly positioned because we do think globally. We are so accustomed to looking outside of ourselves, not inward, that we think readily about the rest of the country, North America, and the rest of the world. Often our dialogues will leapfrog over Ottawa, perhaps for good historical reasons (although I am a strong nationalist), and will go to the world. That signals an opportunity.

Now, what do we want to be? That I think is a more uncertain question, but also a more interesting one. I think that there are three elements we have to become more aware of if we are going to exert the muscle we have: our economic, intellectual and creative strength. The ability to think creatively in the West is unparalleled but often we turn our attention from that potential to focus on the economic question.

To flex our future creative muscle I think we also have to better understand our past. I cannot stress that enough to my students and to every citizen I encounter. We need to be familiar with the complex weave of circumstances and people that built this part of the country. Those threads, which are part of the tapestry of our past, need to be made more visible in the future. We have to learn to celebrate that past and we have to learn to explore it. It's not a foreign country, it's our country, and one we need to travel in more than we do.

SHEILA: How do we dial in new immigrants to these ideas?

ARITHA: I actually think they may be more invested in the creative future of the country than any of us assume. They've taken the biggest risks coming here, probably being very well educated and having to shift their parameters to work in menial jobs. This means these new Canadians are committed in a way that the second, third or forth generations have lost track of. They are really invested and their children are really invested in the future of the West. They want to stay here and they want this to be the best place in the world. One of the errors we make is when we think of ourselves as older and more denizen citizens; we think we need to bring newcomers up to some level that is appropriate, or optimal. I think that we need to be going into diverse communities and asking them how they see the next 40 years. What do they imagine for the country that they are shaping through the sacrifices and risks that they take?

SHEILA: Do you think western character and creativity is informed by our geography?

ARITHA: I think our character reflects both our geography and our history. We are barely 100 years old, in terms of European settlement, and the land informed the people who lived here for the 5,000 years before too. Those first peoples were very pragmatic from living in an unforgiving place. You can make a mistake and fall down very easily in the West. We have a well-developed awareness of seizing the moment




and knowing the consequences of what happens when you fall. Almost a sense that we don't have all the time in the world so let's get on with it, we don't want to examine everyone's genealogy, we don't want to say 'how long have you been here?' it doesn't matter.

I think this is an interesting meritocracy. I know that word gets misused but we practice a strong ethic: 'if you can do the job, then do it.' But because we value risk taking, we also need to be more forgiving. I think risk takers are the kinds of characters who get into investment and energy and intellectual matters. Risk takers don't become accountants, or grocers or bankers; they are a different kind of character.

That's really true of culture as well. We know that if you don't live in Toronto, you are never going to become a big name Canadian writer. So why do we stay here? Because we don't care. Our risk is that we want to tell the stories of this place. We know that failure is almost coded into the risk and yet we do it anyway because we care so passionately about the place and because there is a freedom to the way we can exercise creativity out here. Sometimes that has a downside, but we cherish the atmosphere that says, 'just try it and see if it will work,' we aren't going to judge you for taking the risk. We might judge you if you fail but not for taking the risk. That is so important and it is why we attract key researchers in medicine, engineering and is why our culture is so vibrant.

SHEILA: Are governments doing enough to help foster this creativity?

ARITHA: That's a scarier part of the story. I go to Ottawa to work in the national archives. When I step out the door of that magnificent place at the end of the day, the first thing I notice is the line of civil servants standing at the bus stop. They are all wearing grey raincoats, no one's smiling, they are all headed to the suburbs somewhere, they all have better benefits than anyone in Canada—and they look miserable. They look like the colour of pavement and it makes me want to shake them. We are dominated by a class of bureaucrats who are nervous and they are especially nervous of thinking outside the box.

I would venture that politicians and civil servants don't value education enough. I'm disheartened by how few people in our provincial legislature have post-secondary degrees. I think there's a fear of knowledge, but it is a fear that is ill founded. Maybe it's a fear related to our pull-ourselves-up-by-our-bootstraps mentality in the West. It's frightening to me because I think that if you don't have a thirst for knowledge, you will always be working below your own capacity. You have to know more, have to want to experience more, have to want to take risks with your own assumptions. It seems like the West naturally does want this, so why is that element not coded into our public officials?

If I had control of the budget for the West, I would put four times as much money into education, but it would not be into buildings and infrastructure and administrators, it would be into students. I would drop tuition fees, make sure more students can attend every type of educational institution, and ensure really good teachers from kindergarten to post-doc. Learning is life-long; it never stops. We reinforce the need for people to get jobs but that's not where life ends. I think we think students are buying a comfortable future when they buy education, we don't understand life-long learning. I think we often value job training more than education.

One of the ways Germany rebuilt itself after the war intellectually was by making sure that their universities were fine institutions, making tuition free and by giving every student a stipend. Students learned and the economic and social blossoming there was incredible. Look at their architecture and cities—and they had to re-build from rubble. Somehow, they figured out that education was a means to rebuild. And I can't figure out why we can't learn from this. You don't valorize engineering over sociology; you insist that you want the best of all of them. I think that has to be the mantra of the West, education is what we should do with our economic power. It will then make our cities more liveable and make our cultural life richer, which is absolutely key to a great society. W

Sheila O'Brien is a Canada West Foundation's Executive-in-Residence and the co-author of An Extraordinary West: A Narrative Exploration of Western Canada's Future.

Canada West FOUNDATION 40 years

CANADA IS STRONGER
WHEN THE WEST IS THRIVING!

Save the Date!

Plan to join the Canada West Foundation for our next Community Board Dinner in Calgary, Alberta.

ON SEPTEMBER 8, 2011 the Canada West Foundation and the Asia Pacific Foundation will co-host a conference on the Asia-Canada energy relationship. The full-day event in Calgary is part of the Asia Pacific Foundation's National Conversation on Asia Project.

That evening, plan to join us in celebrating our 40TH Anniversary year at our Community Board Dinner, hosted by our Chairman, Jim Dinning, and our Alberta-based Board Members; Charlie Fischer, James K. Gray, Tom Huffaker, Oryssia Lennie and Gail Surkan.

CANADA WEST FOUNDATION | www.cwf.ca

Canada West FOUNDATION 40 years

40

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If you believe a thriving West means a strong Canada, then you share the vision of Canada West Foundation. We need your support to help us continue our work of giving western Canadians a stronger voice.

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