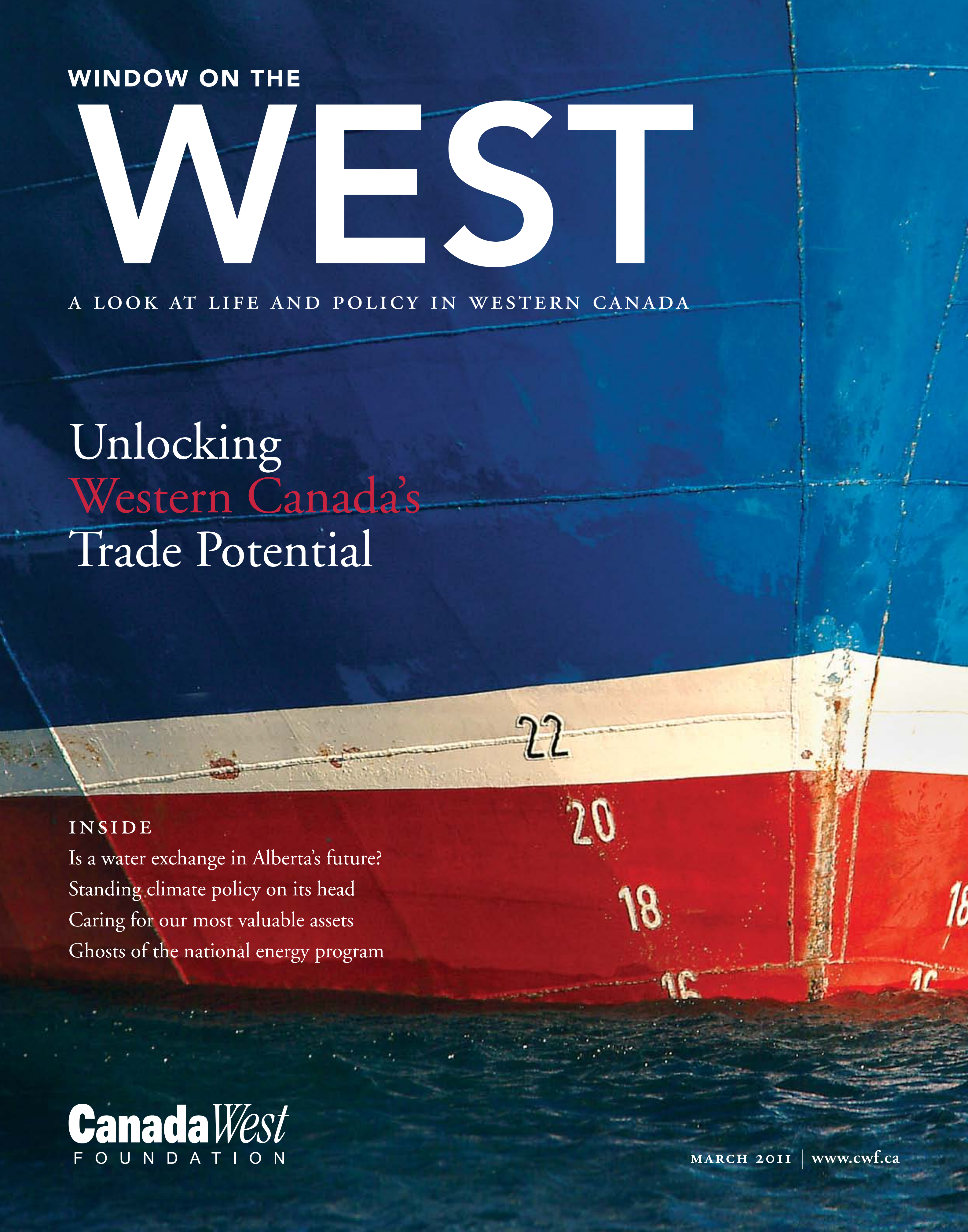

WINDOW ON THE

WEST

A LOOK AT LIFE AND POLICY IN WESTERN CANADA

Unlocking Western Canada's Trade Potential

INSIDE

Is a water exchange in Alberta's future?

Standing climate policy on its head

Caring for our most valuable assets

Ghosts of the national energy program

Canada West FOUNDATION

MARCH 2011 | www.cwf.ca

Canada West FOUNDATION 40 years

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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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.

Additional inquiries please contact:
Jason Azmier, *Editor-in-Chief*
CANADA WEST FOUNDATION
900, 1202 Centre Street SE
Calgary, AB T2G 5A5
ph: 403.264.9535 EXT. 357
email: *azmier@cwf.ca*

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For more information, contact:
Director of Fund Development
CANADA WEST FOUNDATION
ph: 403.264.9535 EXT. 356
email: *rosgen@cwf.ca*

CANADA WEST FOUNDATION office hours:
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CanadaWest FOUNDATION 40 years

A Look at the Window

It's an electronic world—we get that. Canada West Foundation pushes our message out into the ether each day through a combination of twitter, facebook, websites, RSS feeds, blogs, and electronic newsletters. Perhaps this is why it was just good business sense during 2009's global belt-tightening to make the tough choice to discontinue our quarterly magazine after nearly 12 years of publishing.

Over the last two years we have listened to your feedback. You have told us the print format still has an audience and purpose. Members and Subscribers appreciate the predictability of regular correspondence and the periodic injections of information on western Canada from a trusted source. The printed magazine format also offers a way of communicating ideas in a succinct and visual format that cannot be replicated in other mediums.

So we are pleased bringing back a slightly leaner, but ultimately more content-rich version of WINDOW ON THE WEST. The articles have been tweaked to focus more on the critical research of interest to western Canada, while still presenting interesting viewpoints and interviews from across the region. Going forward, a regular publication schedule of March, June, September and December has also been established.

As is the case with this relaunch edition, the focus of WINDOW ON THE WEST remains on providing a look at life and policy in western Canada.

Jason Azmier
Editor-in-Chief

CONTRIBUTORS

TOM CARSON

Tom Carson has over 31 years of senior management and executive experience with the Manitoba government. This includes 14 years serving as Deputy Minister to the Departments of Culture, Training, and Health. Tom is a consultant, specializing in personal and team development and workplace health and productivity. In addition to serving as Director of the Canada West Foundation's Manitoba office, Tom sits on several Boards: he is chair of Manitoba Artists in HealthCare, past chair of the Arts and Cultural Industries Association of Manitoba, and the Finance Committee of the Winnipeg Art Gallery Foundation. P.20

F. MICHAEL CLELAND

Michael Cleland is the former President and CEO of the Canadian Gas Association. Prior to joining CGA, he was Senior Vice President Government Affairs for the Canadian Electricity Association. Before joining CEA, he was Assistant Deputy Minister, Energy Sector in the Department of Natural Resources Canada, formerly Energy, Mines and Resources and before that, Director General of the Energy Policy Branch. Mr. Cleland also worked in Nova Scotia where he was a principal in the firm of Cleland, Dunsmuir Consulting Ltd., lecturer in business/government relations at the school of Public Administration at Dalhousie University and academic editor of Plan Canada, the journal of the Canadian Institute of Planners. P.16

MICHAEL HOLDEN

Michael Holden is a Senior Economist with Canada West Foundation. Prior to assuming his present position, Michael worked for nine years as an analyst at the Library of Parliament in Ottawa, providing objective, non-partisan research and analysis to Senators, Members of Parliament and parliamentary committees, most notably the House of Commons Standing Committee on International Trade. Michael also worked for three years as an economist with the Halifax-based Atlantic Provinces Economic Council. P.4

JACQUES MARCIL

Jacques is a Senior Economist with Canada West Foundation. Before joining the Foundation Jacques worked for nine years at Statistics Canada in Ottawa, specializing in national accounts and survey operations. He then spent another nine years at the Ontario Ministry of Finance in Toronto, where his responsibilities included current economic analysis, database management and support in the development of policy and the budget. P.13

ROBERT ROACH

Robert Roach is a Senior Researcher with the Canada West Foundation and has worked on a broad array of public policy topics including economic development, local government, demographic trends, the nonprofit sector, public opinion, regional cooperation, environmental policy, democratic reform, and public finance. He served as the Foundation's Director of Research from 2004 until 2009. Robert has been President of the Economics Society of Calgary, is a Course Director and Instructor at the University of Alberta, and is the Vice-Chair of the Calgary Arts Academy. P.26

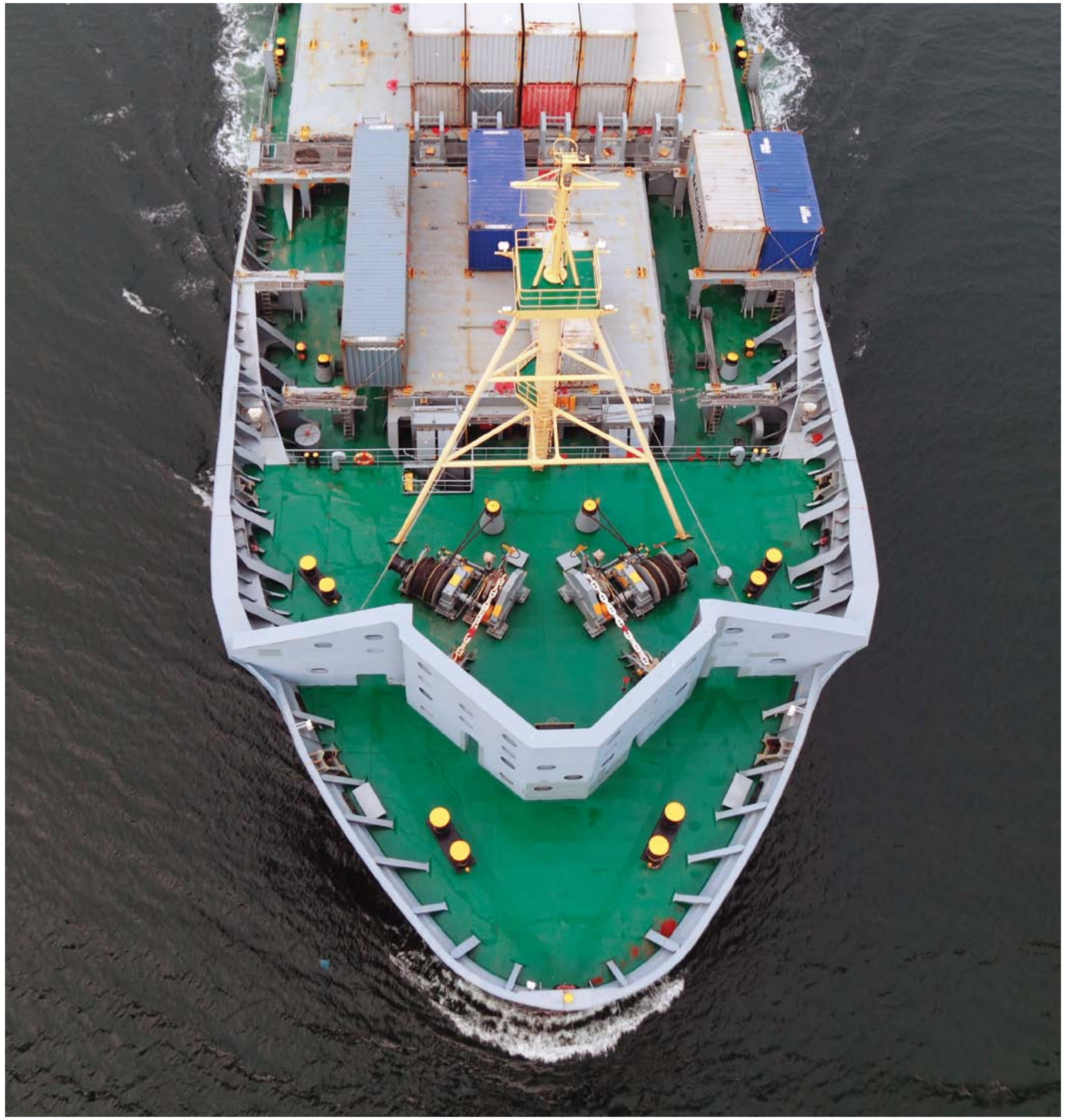
CASEY VANDER PLOEG

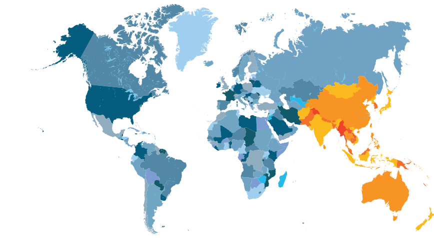
Casey Vander Ploeg is a Senior Policy Analyst with Canada West Foundation and has authored or co-authored over 50 research reports. His work on urban finance and infrastructure has established him as one of Canada's foremost experts in the area and he is a sought-after speaker at national conferences. He has worked on a range of public policy topics including federal and provincial government finances, municipal tax policy, economic development, parliamentary reform, and national unity. P.9

BY MICHAEL HOLDEN

Through the Gateway

Unlocking Western Canada's Potential for Economic Diversification by Expanding Trade with Asia-Pacific





Asia-Pacific markets offer western Canadians a tremendous opportunity to a) increase trade; b) to diversify its customer base and its range of exported products; and c) to ensure economic growth and prosperity in the West for years to come.

FOR WESTERN CANADIAN EXPORTERS, it would be hard to find a market brimming with more potential than Asia-Pacific. The region is home to more than half the world's population; its total economic output nearly equals that of the United States and the European Union combined; and its projected growth in gross domestic product (GDP) is expected to outpace global GDP growth by a wide margin. On top of that, the strong growth in many Asia-Pacific markets is being fuelled by demand for the types of goods that western Canadians produce in abundance: energy, metals and minerals, fertilizers, and agricultural and agri-food products.

Forging closer economic ties with Asia-Pacific—and with China and India in particular—could ensure the long-term prosperity of western Canada for years to come. While these economic ties are ultimately the culmination of a series of independent trade and investment decisions by private businesses, governments play a critical role by setting the policy environment in which those decisions take place. Building on existing economic linkages with Asia-Pacific thus requires a concerted effort on the part of both the federal and provincial governments to engage with that region and to implement policies that facilitate trade in goods and services as well as two-way foreign direct investment.

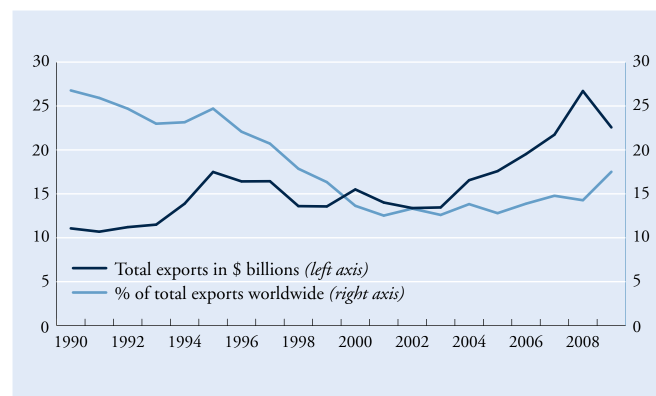
This article focuses on some of the policy measures that could help western Canada to expand on the present value of the region's merchandise exports to Asia-Pacific.

The Importance of Asia-Pacific Markets for Western Canada

Led by emerging powerhouses like China and India, Asia-Pacific markets have been driving global economic growth for years. However, in spite of their voracious appetite for goods and services to fuel that growth, Asia-Pacific countries import relatively little from western Canadians or, indeed, from Canada as a whole. For example, Canada accounted for just 1.1% of China's total imports in 2008 and its share of the Chinese market has fallen since 1998. Since western Canada's share of Canadian exports to China has also fallen over the same period (from 72.5% to 66.3%), it thus follows that western Canada is losing market share in China as well.

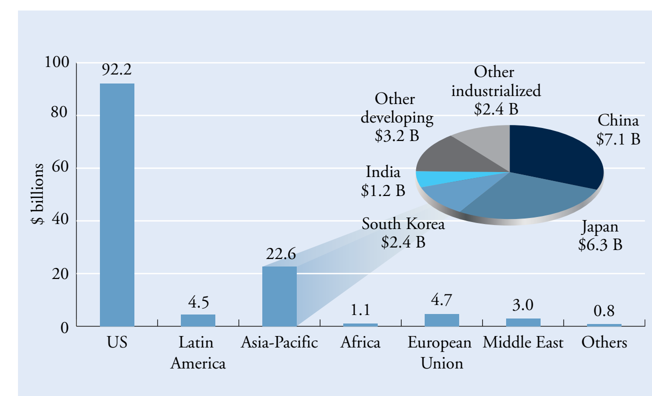
Even in terms of the global distribution of exports from the West, Asia-Pacific markets are less important than they were 20 years ago. In 1990, 26.8% of western Canada's total exports worldwide went to Asia-Pacific destinations. However, by 2001

WESTERN CANADIAN MERCHANDISE EXPORTS TO ASIA-PACIFIC MARKETS (1990-2009)



Source: Statistics Canada.

WESTERN CANADIAN INTERNATIONAL EXPORTS (2009)



Source: Statistics Canada.

this share had fallen to 12.5%. The decrease was largely the result of two factors: a surge in Canada-US trade stemming from the implementation of the 1989 Canada-US free trade agreement; and the sluggish performance of the Japanese economy which eroded western Canada's exports to what was at the time its largest trading partner in Asia-Pacific.

More recently, however, there have been some encouraging signs regarding western Canada's trade relationship with Asia-Pacific. Growth in shipments of goods to that region has significantly outpaced growth in exports worldwide through the 2000s; from 2001 to 2009, exports to Asia-Pacific economies grew by an average of 6.1% per year, compared to 1.8% growth in exports worldwide.

Much of this improvement is the result of booming sales to developing markets in Asia-Pacific. Indeed, there has been a dramatic shift in western Canada's trade focus within that region over the last two decades. While exports to wealthy Asia-Pacific markets (like Japan, South Korea, Hong Kong and Australia) grew by just 25% from 1990 to 2009, the value of shipments to China and other developing economies was 428% higher.

Policy Options for Increasing Trade with Asia-Pacific

To build on this recent momentum, active government engagement at the policy level is essential. Most of the relevant policy levers are found at the federal level, but both federal and provincial governments have a role to play in fostering closer economic ties with Asia-Pacific.

While there are a host of policy steps that could help western Canada to expand its goods trade with Asia-Pacific, it is particularly important for progress to be made in four specific policy areas. These are: removing barriers to trade; active engagement in Asia-Pacific markets by Canadian governments; addressing domestic infrastructure issues in western Canada; and clarifying the foreign direct investment review process. Each of these issues is discussed below.

> "To more effectively promote trade and investment ties with Asia-Pacific, the federal government needs to make progress on the negotiation of free trade and investment protection agreements."

Removing Barriers to Trade

Perhaps the most important way in which western Canada, and Canada as a whole, can build trade ties with Asia-Pacific is to remove market access barriers and other obstacles to the free flow of goods, services and investment (which, in turn, can lead to increased goods trade). From a practical standpoint, this means working with willing partners in the region to pursue trade liberalization and investment protection agreements.

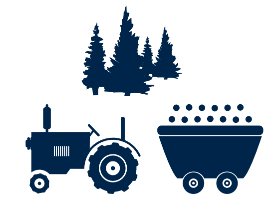
The federal government, which has exclusive jurisdiction over the signing of international treaties, has already taken a number of steps in this regard. It has recently pursued negotiations to protect and promote two-way direct investment with China, India, Mongolia, Vietnam and Indonesia; and it has undertaken free trade negotiations with Singapore and South Korea and, most recently, India.

However, not all of these negotiations have been successful. Free trade talks with Singapore and South Korea are effectively moribund; Canada's investment protection agreement negotiations with China appear stalled; and its investment protection agreement with India has not entered into force.

In order to more effectively promote trade and investment ties with Asia-Pacific, the federal government needs to make progress on these negotiations and pursue other opportunities for economic cooperation in the region. One of the most compelling such opportunities is the ongoing Trans-Pacific

Developing Asia-Pacific markets accounted for 4.9% of western Canadian exports in 2004, rising to 8.9% by 2009. The share of exports to the US fell from 77.8% to 71.5% over the same period.

88% of exports to Asia-Pacific are products of the agriculture, mining or forestry industries.



Partnership (TPP) negotiations which, if successful, could create an integrated regional trade bloc consisting of nine countries in Asia-Pacific and the Americas.

Canada had at one point expressed interest in joining the TPP, but stepped back when it became apparent that the price of admission was putting its system of supply management for dairy, poultry and eggs production on the negotiating table. This is not the first time that Canada's position on supply management has been a stumbling block to free trade negotiations. In future, governments may need to assess the value of such domestic policies in the context of how they may limit the development of trade opportunities in Asia-Pacific and elsewhere around the world.

Improving Western Canada's Visibility in Asia-Pacific

While the federal government sets foreign policy for the country as a whole, the western provinces have a role to play in elevating the region's profile in Asia-Pacific: by conducting trade missions to that region; and by establishing a direct physical presence in key cities.

On the trade promotion front, all four provincial premiers have participated in trade missions to Asia-Pacific in the past year. The provincial governments of BC, Alberta and Saskatchewan, under the rubric of the New West Partnership (NWP), have been particularly active in this regard, cooperating on such missions at the executive as well as the ministry-specific levels.

The western provinces have also been active in establishing a physical presence in key Asia-Pacific markets. The objective of these provincial offices abroad is to attract investment, promote trade and enhance government-to-government relations with those markets. Under the NWP, BC, Alberta and Saskatchewan together opened a Western Canada Trade and Investment Office in Shanghai in 2010. BC, Alberta and Manitoba also have provincial offices in a number of cities in the region.

> "The western provinces have a role to play in elevating the region's profile in Asia-Pacific: by conducting trade missions to that region; and by establishing a direct physical presence in key cities."

Improving western Canada's visibility and profile in Asia-Pacific could be an important element of a strategy to increase trade and investment ties with that region. In many countries, commercial relations and government-to-government ties are closely connected, and frequent visits by government leaders send an important signal that western Canada is serious about building its commercial ties with Asia.

Investing in Domestic Infrastructure

Removing market access barriers and improving western Canada's visibility in Asia-Pacific will do little to increase two-way trade if the existing infrastructure cannot accommodate an increase in traffic. To boost Canada's ability to access overseas markets, the federal government is investing in a series of strategic transportation infrastructure and logistics projects under the Asia-Pacific Gateway and Corridor Initiative (APGCI). These investments all share the objective of improving road, rail, shipping and intermodal transportation linkages and capacity in western Canada in order to better access Asia-Pacific markets.

While these investments are critical for the development of closer trade and investment ties with Asia-Pacific, one area where transportation infrastructure is lacking at present is in western Canada's capacity to ship crude oil and natural gas overseas. Demand for energy in China and other developing markets in Asia-Pacific is expected to increase tremendously in the years ahead, but western Canada's present capacity to transport crude oil and natural gas across the Pacific is virtually non-existent.

“Attracting investment from Asia-Pacific requires that Canada maintain a reputation for being an open and welcoming market with a predictable, transparent and well-defined investment review process.”

Energy companies have submitted proposals to build the infrastructure and facilities necessary to access those markets, but these projects face considerable resistance from certain environmental groups, municipalities and First Nations communities. The challenge for the provincial and federal governments is to balance the potential economic benefits of accessing new markets for western Canadian energy resources against the environmental and safety concerns expressed by affected communities and certain stakeholders. Addressing this issue requires a coordinated and cohesive approach to policy-making involving both levels of government.

Clarifying Foreign Direct Investment Rules

Attracting foreign direct investment from Asia-Pacific is another important way to develop trade ties with that region. For the simple reason that a significant share of global trade takes place at the intra-firm level (i.e., a company “exporting” materials or finished products from a facility in one country to a facility in another), an increase in foreign direct investment between two countries is often accompanied by a corresponding increase in bilateral trade.

However, to attract investment from Asia-Pacific and elsewhere requires Canada to maintain a reputation for being an open and welcoming market for foreign investors. In particular, it is important that Canada’s investment review process be seen as predictable with well-defined rules and transparent evaluation criteria.

At present, the Government of Canada screens all proposed foreign investments above a certain value threshold to ensure that the investment does not endanger national security and provides a net benefit to the country. Investments that do not meet these conditions may be rejected.

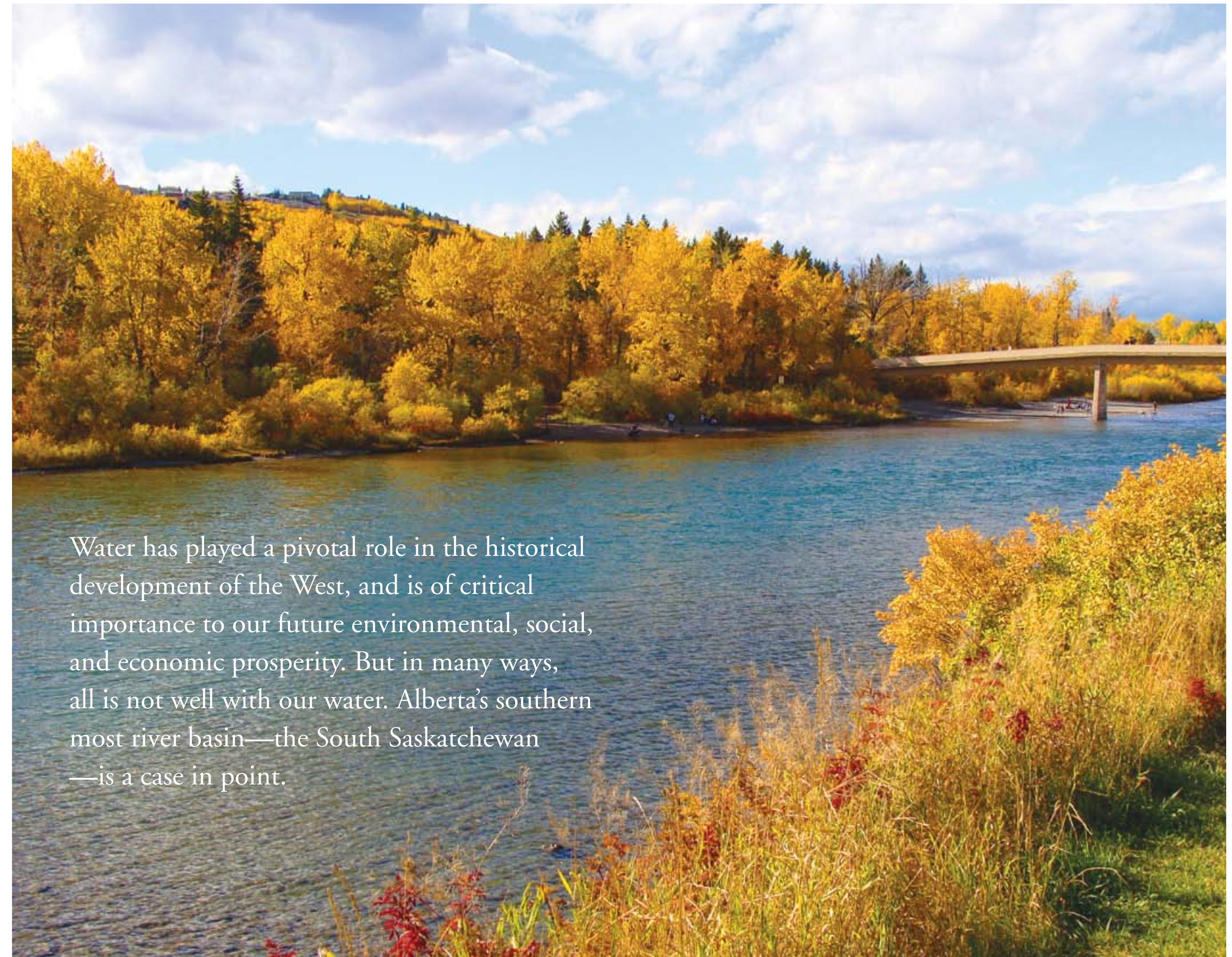
However, there are no clear criteria spelled out in the Investment Canada Act as to how “net benefit” is determined. In the absence of well-defined benchmarks for evaluating proposed investments, events such as the recent rejected takeover of Potash Corporation of Saskatchewan run the risk of creating uncertainty in the international investment community as to how open the Canadian government is to foreign direct investment and as to how consistently and transparently the investment review process is applied.

Considering the growing interest that Korean, Chinese and Japanese investors are showing in western Canada’s energy sector, it is important that Canada’s investment review process be as predictable and objective as possible. An uncertain process, or one that appears to be arbitrary or inconsistent, has the potential to act as a significant deterrent to attracting direct investment from Asia-Pacific and to building closer economic ties with that region. W

__Michael Holden__ is a Senior Economist with the Canada West Foundation. He has recently released a report entitled Through the Gateway: Unlocking Western Canada’s Potential for Economic Diversification by Expanding Trade with Asia-Pacific. The report is available for download free of charge at www.cwf.ca/publications.

BY CASEY G. VANDER PLOEG

The Water Use Challenge
Could Trading Help?



Water has played a pivotal role in the historical development of the West, and is of critical importance to our future environmental, social, and economic prosperity. But in many ways, all is not well with our water. Alberta’s southern most river basin—the South Saskatchewan—is a case in point.

2.5%
of the earth's water is freshwater.

OF THE 2.5%
of earth's water that is fresh, 70% is trapped as ice or permanent snow.

0.001%
of all the water on earth is fresh surface water found in lakes, ponds, rivers, streams, and swamps.

60%
of Canada's water is unavailable for use by 85% of the population, which lives in the extreme south of the country along the Canada-US border.

IN 2006, ALBERTA STOPPED issuing new surface water licenses for the Bow, the Oldman, and the South Saskatchewan rivers. Future water-taking from the Red Deer River was also capped. When the rivers are closed to new business, something big has happened.

The closures stem from a growing concern over the long-term sustainability of water use across the South Saskatchewan River Basin (SSRB) and whether Alberta will be able to pass 50% of its river flow to Saskatchewan as required by the 1969 Master Agreement on Apportionment.

Historically, this has never been a problem, but during the 2001-02 drought Alberta came quite close in failing to meet this requirement. What is more, southern Alberta remains poised to see significant population and economic growth, and all of that brings thirst in its wake. The province has concluded there is simply not enough water in the SSRB to protect the environment, keep commitments to Saskatchewan, and accommodate future growth even under the most modest of scenarios.

Changing the System of Water Allocation

Alberta parcels out its water under a system of prior allocation, what is often termed "first-in-time-first-in-right" or FITFIR. This system gives preference to those who secured a water license first. Because the SSRB is largely closed to any new surface water allocations, only those with an existing allocation can access surface water, and those holding the most senior licenses get priority. For those that need water but have no allocation, the only option is to locate in a municipality that has room in its allocation to provide water, or secure access to groundwater. If neither of these options is workable, you are out of luck. In a dry year, junior water license holders are out of luck too.

> "The province has concluded there is simply not enough water in the SSRB to protect the environment, keep commitments to Saskatchewan, and accommodate future growth."

Some are suggesting that it is time to build a new allocation system more in line with current realities. There are two main possibilities. First, government could scrap the entire system of prior allocation and press the "re-set" button. While it sounds simple, it is also easier said than done. The holders of current water rights have made significant investments in water infrastructure and equipment on the basis of the allocation they hold.

Second, government could "claw-back" some of the existing allocations. The actual water consumed is usually a lot less than the amount of water licensed for use. The City of Calgary, for example, has a water allocation some two and a half times its average annual usage. Thus, it is entirely possible for the province to gather together the excess that exists in the current allocations, and dole it out to those who need water. But this too has problems. The "excess" in current allocations is there to provide water users with a buffer in case they need more water during a dry year, or if the water needed grows over time. More problematic yet is how a "claw-back" would bring into play water allocations that are not traditionally used.

Another approach would leave the allocation system intact, but incorporate new features that provide more flexibility. One of the biggest challenges with FITFIR, particularly when no more licenses are available, is that current water use patterns and priorities are "locked-in." The system does not accommodate new water uses and users.

Regulated Water Trading?

One feature that could be added to the existing allocation system is regulated trading. Trading allows those who hold a water allocation to sell water they have conserved to those who need the water. This trading allows water to move among various users within and across sectors via some type of regulated "market" or "exchange."

Trading in Alberta is already underway, but it is not yet an established, permanent, or functioning market with ongoing and widespread participation. Only a few permanent trades have cut across sectors. One of the more well-known trades involves Cross Iron Mills—the new mall in Balzac, Alberta. To secure water, a portion of the Western Irrigation District's water allocation was purchased, resulting in water moving from agricultural use to commercial use. The question is now being asked whether such trading could evolve into something more permanent and enduring—such as a specialized and regulated "exchange."

Active trading in water allocations is currently used in Australia, South Africa, and many US states including California, Colorado, Utah, Nevada, Oregon, and Arizona. Is there potential here for Alberta?

Alberta's limited experience with the trading of water allocations is instructive. In structuring the limited trading system that already exists, the province made it a requirement that a water management plan first be put in place that established a sustainability boundary by identifying instream flow needs (IFNs) and water conservation objectives (WCOs). That has been accomplished for the SSRB, after which water allocations could be traded. Interestingly, it was the establishment of the IFNs that drew the most controversy. The Cross Irons Mills water deal drew attention but it did not generate much controversy. The deal was unique, different, odd, and a little strange, but it did not result in any protest in the mall parking lot.

> "The question is whether the infrequent water trading that currently takes place could evolve into something more permanent and enduring—such as a specialized and regulated exchange."

Potential Reactions

At the same time, the reaction to a bolder trading system is less clear. Certainly, the big concern turns around Alberta's vital agricultural industry—especially irrigation—which is the heart and soul of many southern Alberta rural communities. At a minimum, irrigators have to be a fundamental part of any solution, including the idea of trading.

First, irrigated agriculture has always been the largest consumptive user of water. Considering potential pressures on the future global food supply, this is not likely to change. If Alberta's agriculture becomes more important and more highly valued, then there is the very real potential that irrigators will be able to compete—and win—in any trading system that allocates water. But, there is no guarantee.

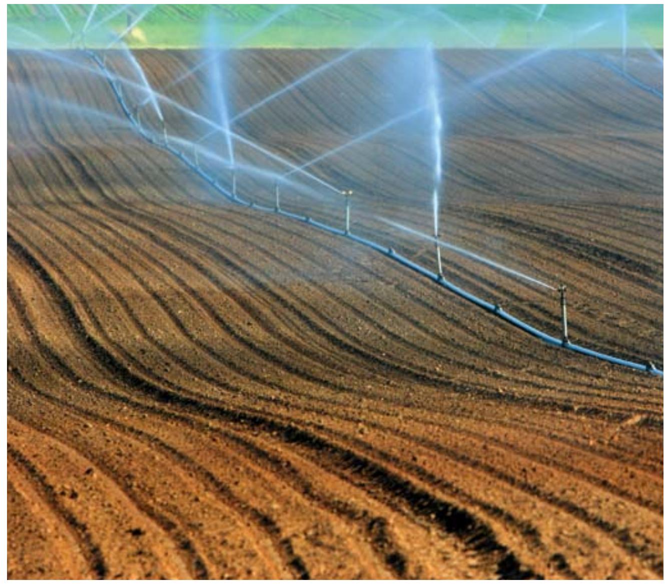
Second, it is important to know that the irrigation community itself is divided on how best to deal with water issues, how much water they have, how they use it, how much they might have in the future, and how more water efficiencies might be generated. Over the past decades, increases in water use efficiency have been seen right across the irrigation community, and work in the efficiency department continues. But securing efficiencies is not cheap, and every incremental increase comes at a higher cost. The price of a centre pivot for a 160-acre quarter section can run well over $100,000 and moving from

CANADA HAS 6.5% of the world's renewable freshwater supply and less than 0.5% of the world's global population.

QUEBEC HAS 19.9% of Canada's surface freshwater supply while Alberta has only 2.2%.

"wheel-move" to "centre pivot" is only the beginning of any serious quest in irrigation efficiency. Laser land leveling, drip irrigation, low energy water application, precision application sprinklers, drop sprinklers, computerized and scheduled application, micro-irrigation systems, and water accounting are all possibilities. Whether any of that is applicable is better left to the agricultural community. But the point is, it all costs money. Where is the money going to come from?

> "If irrigators, through significant investments of capital, can generate water savings that they can then sell, they might be able to recoup the cash needed to pay for the investments."



So third, here is where trading might help. If irrigators, through significant investments of capital, can generate water savings that they can then sell, they might be able to recoup the cash needed to pay for the investments. Seen another way, trading might provide the province with an opportunity to take a financial "claw-back" on any traded allocations and use that to help pay for investments in water saving improvements on the farm. To be sure, everything hinges on whether the value of the water traded is sufficient to carry the costs of the investments. Again, there is no guarantee. But, there is potential. In the absence of trading, any investments carry the prospect of taxpayers footing at least part of the bill. That alone should align our thinking a little bit.

The idea of trading is certainly interesting. But the water used by irrigators also produces a product with less value than products produced by industry and commerce.

What if agriculture and irrigators lose out? There is something in the heart of every Albertan that reacts viscerally to the very idea. So while trading has the potential to turn the South Saskatchewan's water around, any system would need to be properly designed and structured, highly regulated and controlled, and also embedded within a comprehensive water resource management framework that includes a suite of other tools as well. There is much work to be done. Albertans need to get to it. Perhaps the best advice is to step ahead cautiously, but certainly step ahead. W

Casey Vander Ploeg is Canada West Foundation's Arthur J.E. Child Water Project Fellow. He has recently completed a major study on options for reforming Alberta's water resource management and is currently working on a framework for the pricing of water in Canada. Visit www.cwf.ca/projects for more information.

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 volume of our international exports/imports of goods and services.

Net Trade

SINCE THE FALL OF 2009 Canada has enjoyed a period of economic recovery, but we have barely made up for the ground lost during the 2008-2009 recession. There are still some soft spots within Canada's economic performance.

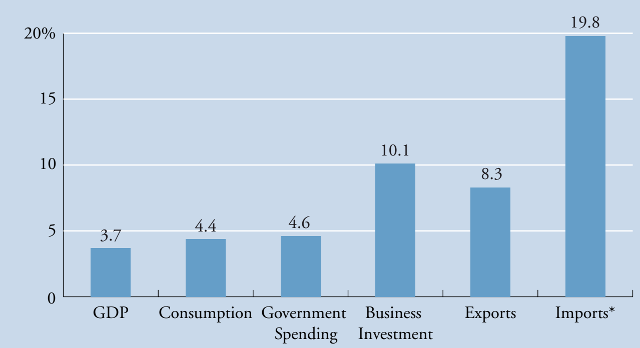
From a domestic point of view, our three main sources of demand are consumers, businesses and governments. In each of these areas there has been growth, but with an asterisk. Canadian consumers are spending again but with newfound prudence given their debt level. Businesses have posted solid capital spending over the recovery period, but not enough to catch up with pre-recession levels. As to governments, they gave a stimulus push for a while to help re-launch the economy but the fear of everlasting deficits will make this tryst with spending a very short-term affair.

It appears that for the next little while our best prospects for sustained growth lie beyond domestic markets.

We are a trading nation. Canada has a lot of what the world wants, from lentils for India to oil for the US, and the West is an increasingly important contributor to those exports. Since the end of the recession, the volume of our international exports of goods and services has grown by a solid 8%.

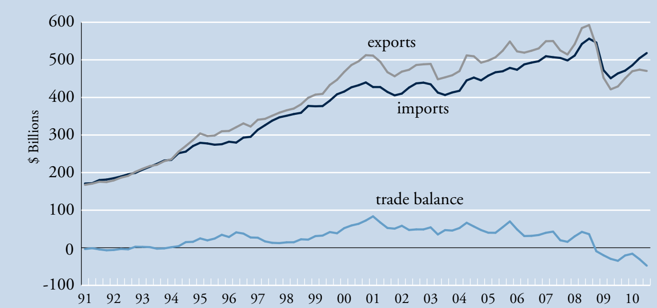
However, trade works the other way around too—the growth of our imports (+20%) has been more than double the pace of our exports. Canada's balance of trade (that is, exports minus imports) went into the red at the onset of the recession and has remained negative since then. The full impact of this significant shift remains to be assessed. With the Canadian dollar currently at parity with the US greenback, our exports are expensive and our imports relatively cheap. This means that in the short term we should not expect a return to a positive a trade balance and Canada will need to rely on its domestic market for growth.

SOURCES OF POST-RECESSION GROWTH (2009Q2–2010Q3)



* Negative entry in GDP calculation
Note: Cumulative growth from 2009Q2 to 2010Q3, Canada, chained $2002, seasonally-adjusted. Source: Statistics Canada

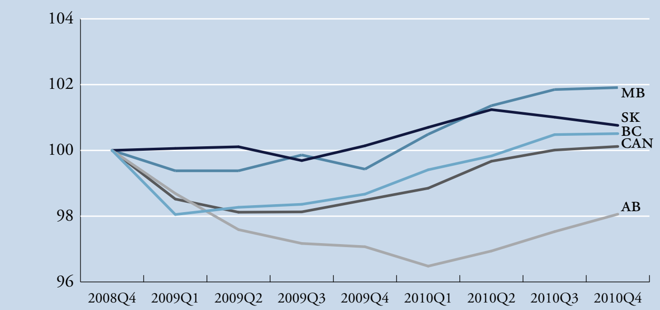
EXPORTS, IMPORTS AND TRADE BALANCE (1991–2010)



Note: Trade of goods and services for Canada, in current prices.
Source: Statistics Canada.

Post Recession Performance

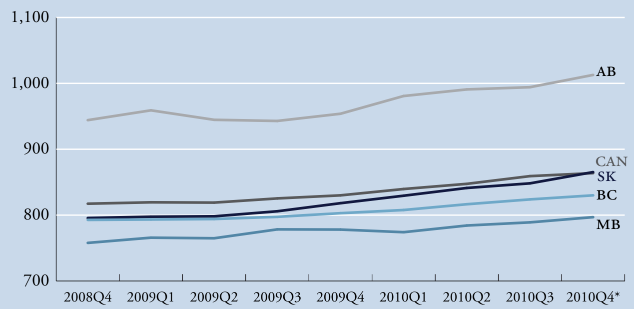
EMPLOYMENT (2008Q4=100)



ALBERTA
is the only province in the West to have not yet recovered the recession's job losses.

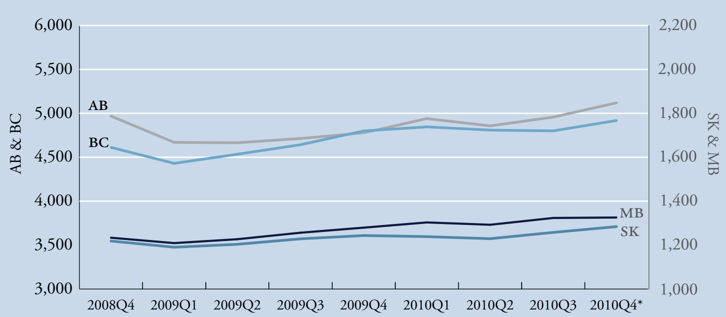
AVERAGE WEEKLY EARNINGS ($)

Saskatchewan's weekly earnings are now **EQUAL TO** the national average.



* Based on first two months of the quarter.

RETAIL SALES ($ MILLIONS)

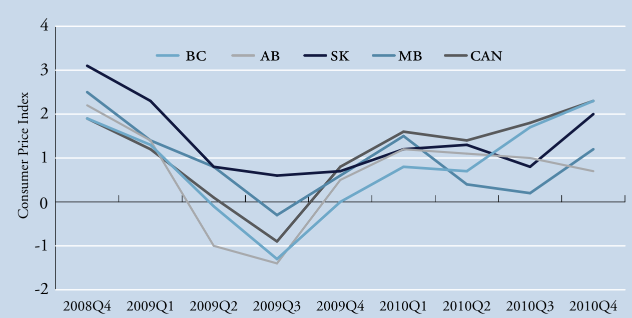


* Based on first two months of the quarter.

Retail sales showed growth in **3 OF 4** provinces in the last quarter of 2010.

INFLATION (% CHANGE FROM PREVIOUS YEAR)

Inflation in the West was below the national average through **2010.**



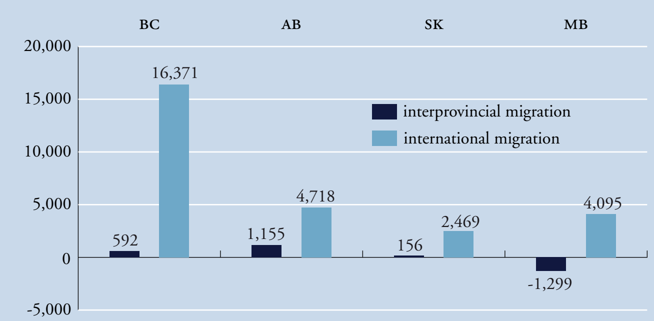
Public Finance

PROVINCIAL FINANCIAL RESULTS (2010-11 FISCAL YEAR)

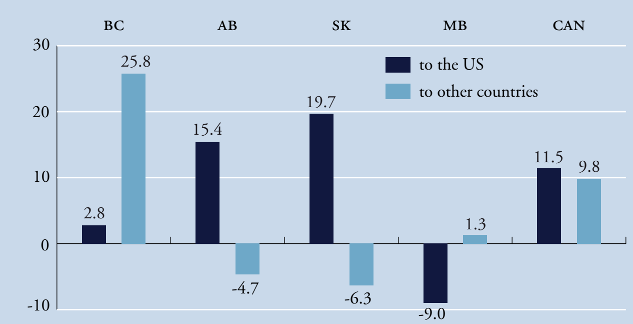
		2010 Estimate	2010 Current Forecast	Difference	
		$ millions	*$ millions*	*$ millions*	*%*
BC	Revenues	39,153	39,893	740	1.9
	Expenses	40,568	41,008	440	1.1
	Surplus/Deficit[1]	-1,415	-1,115	300	
AB	Revenues	33,968	33,982	14	0.0
	Expenses	38,716	38,803	87	0.2
	Surplus/Deficit	-4,748	-4,821	-73	
SK	Revenues	9,950	10,676	726	7.3
	Expenses	10,124	10,539	415	4.1
	Surplus/Deficit[2]	-174	137	311	
MB	Revenues	12,720	13,007	287	2.3
	Expenses	13,265	13,478	213	1.6
	Surplus/Deficit	-545	-471	74	

Notes: 1. Excluding forecast allowance for revenue volatility. 2. Pre-transfer to Growth and Financial Security Fund.

NET MIGRATION IN 2010Q3



EXPORT GROWTH (%) IN 2010 (JAN-NOV)



In 2010, international migration to BC drove western population **GROWTH.**

25.8% increase in BC exports to non-US destination in 2010.

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

BY MICHAEL CLELAND

If we get energy "right" the carbon will follow

FOR MOST OF THE PAST TWO DECADES, Canadian governments have made climate policy the driver for energy policy. However, in the past year or so, more voices have joined a growing consensus that this approach needs to be stood on its head; if we get energy policy right then successful climate and carbon management policy will follow. Climate policy, carbon management and energy policy can do nothing but benefit from such a transposition.

This is not to say that getting energy "right" will somehow make all of our carbon reduction aspirations miraculously achievable. But that is beside the point. Much of climate policy has existed in an energy reality vacuum and our failure to manage greenhouse gas growth (GHG) is arguably an inevitable consequence. In contrast, getting energy right has the potential to create significant reductions in carbon and set up conditions for longer term success in a seriously carbon-constrained future.

In short, getting energy right will not get at all of the carbon, but it can get at a great deal more than the approach of the past twenty years has achieved and put us on the path to bigger reductions over the coming decades.

We need to work with the nature of energy systems from production to use.

Carbon is not a pollution control issue; it is a system transformation issue. Unlike pollutants as we normally think of them, the tendency to emit carbon is deeply embedded in energy systems and the elements of those systems are very long lived.

Typically we think of long lived in the sense of power production facilities which have lives—in the case of coal fired plants of, say, 40 years. But energy using capital is even longer lived—100 years or more in the case of housing or the underlying community fabric of land use, roads and service systems. Energy systems change slowly; radical change is costly and risks not only disruption of the integrity of the systems but also the lock-in of premature or sub-optimal technology and capital.

> "Carbon is not a pollution control issue; it is a system transformation issue. The tendency to emit carbon is deeply embedded in energy systems with elements that are very long lived."

Energy systems have many attributes that are cherished by citizens and consumers. They deliver relatively low cost energy with extremely high levels of safety and reliability. Citizens and consumers have shown themselves unwilling to sacrifice these attributes and climate change strategies—if they want to succeed—have no choice but to respect them.

Getting energy right means focusing on productivity

Several pressures in the coming decade will most likely make delivered energy more costly. One of these is the likelihood that we will depend increasingly on higher cost petroleum resources or even higher cost bio-fuel resources to fuel the transportation system. Another probably more important pressure is the growing cost of tying energy resources to end use markets due to higher costs of transformation and transport and to account for increasing standards of environmental and social acceptability. The last, and probably the most important pressure is the costs of decarbonising the energy system. One can debate what this bill might add up to, but if the carbon cost alone is accounted for, it would be at least a doubling compared to today's costs (based on analysis of what current GHG reduction commitments would entail).

Characteristically we think of energy efficiency as a means to reduce environmental impacts. But it is also a way of reducing costs provided it is driven by economically efficient measures. In short, a focus on productivity has potential to not only to address environmental issues but can also help to mitigate the coming cost crunch. In other words, it pays for itself in strict economic terms and environmental benefits are an extra dividend.

A 2008 study noted that simple efficiency solutions, such as insulation improvements, could reduce emissions by up to 5 gigatonnes of CO_2 equivalent worldwide (McKinsey & Company).

It's about services not commodities

We habitually think of energy as commodities: oil, gas, electrons. But what consumers value, if not precisely what they pay for, is the service: mobility, warmth, light. That service is delivered through a complex mix of input factors including resources, capital, labour and a great deal of technology and know-how.

The big energy productivity challenge is how to optimize that mix—a total factor productivity view. But let's consider with a somewhat narrower energy efficiency perspective.

The McKinsey Global Institute (MGI) puts the potential of increased energy productivity in perspective. In one article MGI makes the point that global energy demand growth could be cut by half to 2020 compared to business as usual through deployment of readily available existing technologies. The poster child for energy productivity (defined as $GDP/BTU of energy) is Japan, whose energy productivity level is double that of the US (and Canada). There are many factors behind this difference and many reasons why what Japan has achieved may not be readily transferable to North America, but if only part of the potential were to be captured cost-effectively the economic and environmental payoff would be very large.

Specifically in a Canadian perspective, of the total primary energy entering the Canadian economy, well over half becomes waste (over 16% from the power system, 38% from other aspects of energy production and transportation and end use). In other words, almost 55% of our energy resources do no useful work. If delivered energy commodity costs are likely to rise, as most observers of the energy economy expect, it would seem prudent to start planning on how to reduce that 55% waste proportion as a means to offset the cost crunch and reduce environmental impacts at the same time.

To do this we need to understand that reducing waste is more than a matter of changing light bulbs or turning down thermostats. As the QUEST (Quality Urban Energy Systems of Tomorrow) collaborative points out (looking from the downstream or community end of the world) we need a system perspective. Canada needs an energy productivity strategy composed of several elements, among them:

- End use efficiency—this is the primary focus of the MGI work.
- Optimizing energy choice—ensuring (through price signals) that we use high quality energy such as electricity primarily in places that require it.
- Reducing system losses—from production, transformation and transmission to delivery and in particular, managing waste heat.

And it needs to be put in a larger frame

A single minded fixation on energy efficiency or any other factor of production such as carbon can lead to misallocation of other resources—especially capital, if the total return on the investment falls short of some assumed social discount rate. (On the other hand, such investments can pay double dividends; high energy efficiency buildings often contribute to higher labour productivity.) One of the barriers to energy efficiency is that it entails the substitution of capital for energy commodities and what looks like "free" energy efficiency may, in fact, be very costly. This adds immensely to the complexity of the problem and it is a reason why the only reliable arbiter of all of this is proper prices, and—only sparingly—mandates, rules and regulations.

According to a QUEST study, solutions based on changed land use and integrated community energy systems, though modest in quantity, can achieve significant cost savings of $400-$800/t CO_2 equivalent (Quality Urban Energy Systems of Tomorrow).

> "One of the barriers to energy efficiency is that it entails the substitution of capital for energy commodities and what looks like "free" energy efficiency may, in fact, be very costly."

Broadening the frame even further, we need to take a larger view of the question of resource inputs. The environment is a resource in many senses, some parts of which are priced in open markets (such as energy commodities), other parts of which are implicitly priced through regulation of various sorts. What is missing is the value of the atmosphere as a repository where we place carbon and where neither adequate regulations nor prices are yet available to send signals to decision makers. In short, the energy productivity problem needs to encompass resource productivity in the broadest sense.

But to do this right we need more entrepreneurs not more policemen.

The spectacular success of the western economies in the post-WWII era is mainly a productivity story. We got there largely because of open markets and price signals with private investment mediated by—but not driven by—rules and regulations. The energy productivity challenge needs to be met the same way. W

*The following is derived from a series of articles entitled Let's Talk Energy and authored by Canada West Foundation's Nexen Executive-in-Residence **Michael Cleland**. Each article proposes a set of ideas to help shape a Canadian energy strategy. Visit www.letstalkenergy.ca to join the discussion.*

BY TOM CARSON

Caring for our kids

Transparency and Accountability vs. Quality of Care

The quality of child care available to Canadians is too often inadequate to support child development. Although the vast majority of regulated care in Canada is safe, much child care does not optimally develop children's cognitive, language, behavioural, social and motor skills (Institute for Research on Public Policy).

IT STRIKES ME as a significant policy failure that parents probably know much more about whether their cars are being well-serviced then they do about the quality child care services their children receive. Most provincial government day care regulations set out standards that measure 'transparency and accountability' but say too little about the quality of care, even though we now have solid science about the actions that yield the best outcomes for children.

Transparency and accountability are interesting words, given that they seem to take on a different meaning based on to whom we apply them. If we were to apply them to our auto repair shop, the question is about getting results commensurate with what we paid. But, when we use them in connection with the services that are designed and regulated by government, our expectations take a sudden fuzzy turn. Those terms become a code for fiscal responsibility, ministerial expense accounts or representational reform. We accept fuzzy description when, in response to questions about program delivery, civil servants and politicians reply with how much they spend rather than what outcomes they expect. It's as though we should be satisfied as long as they're spending more money without telling us how well they are meeting the need.

With respect to services like daycare, transparency and accountability means Canadians should expect their governments to provide the kind of information they need in order to make the best choices they can for their children. As a parent or a grandparent your concern is whether the services you get will contribute to your child being ready to meet their potential—to be fully roadworthy.

When governments state that early child development and daycare are a priority, why aren't they speaking about how many spaces there should be to meet the population's needs? Why don't they help us understand what the role of daycare and other early child development programs should be in developing your child, how long you should have to wait to be able to get a space or what proportion of children could be expected to need more support in the early years than others?

Instead, governments tell us how much more they're spending. Occasionally they'll even tell us how many more spaces that investment will purchase. But, we have no idea whether that investment is adequate to meet the demand—either in quantity or quality. Is this new level of spending actually going to meet the need to give all children a more equal start?

Day care standards principally have to do with inputs rather than outputs. That is, it's about safety. More specifically, its about the number of supervisors and square footage per child. It's also about the presence or absence of policies—policies about how staff interacts with your children, how they interact with you, that they know CPR, that the centre's program goals and objectives are visible, that they post daily the program and staff schedules, etc.

The science on early child development is solid enough that one can now measure (at least at age 5 or 6) children's development in five areas—cognitive, language, behavioural, social and motor. Most Western provinces are now measuring how ready children are when they come into grade one, using the Early Development Instrument (EDI). They can, with great certainty, measure the gaps faced by as many as one-third of our children as they enter grade one. And for the school system, that's important to know. They need to know the scope of their challenge. But the science is equally clear that the best time to have prevented the development of gaps is between birth and age five. Daycare and other early child development delivery, including kindergarten, should be all about assessing and improving the child's progress along those five fronts.

MEASUREMENT	KIDS	CARS
Staff-to-child ratios	These vary from province to province but as a generality, if your child is 12 weeks to two years old there will be one adult for four children; and between two years and six years of age, there will be one adult for eight children.	We are not concerned about how many people are working on our car. It only matters whether it comes out well tuned and road worthy.
Space requirements	Most day cares are mandated to provide (within the building) a minimum of 3.3 m^2 per child, excluding hallways, washrooms, food preparation areas, etc.	If our repair shop had so little space that it damaged our car, we would be able to tell and we would be able to have it redressed.
Staff credentials	Training requirements for an early childhood educator can range from as little as a 40 hour course to a two-year diploma in ECE, to a four-year joint diploma and degree. In Manitoba licensed facilities, two thirds of all staff must have the diploma or its equivalent.	The journeyman technician working on the car will require as a minimum, four years training.
Staff compensation	Over the past decade, it has been difficult for the system to retain its trained workforce because of wage disparities. Despite significant improvements over the past few years, remuneration for fully qualified ECD workers is still low—wages in Manitoba for early childhood educators start at $32,000 per year.	A journeyman mechanic can earn $45,000-$100,000 per year, with the average around $70,000. To stay current, regular training is required for your mechanic.
Annual cost $9,260 PER YEAR $8,440 PER YEAR	Estimates are that for families with a before-tax income of $39,100-$65,800, the cost to raise a child from zero to age 5 can be up to $9,260 per year.	For repairs outside of warranty period you will pay a shop fee somewhere in the range of $100 per hour plus parts. The Canadian Automobile Association estimates the annual ownership and operating costs of an economy vehicle driven 12,000 km to be $8,440.50 per year.
Required maintenance WARRANTY	Research from the Manitoba Center for Health Policy suggests that large numbers of children who are behind in grade 1 are destined to fall further behind. The cost of programs to address gaps that develop during the early years is significant. Whether for remedial programs, or in welfare and justice programming, when we get it wrong during the "warranty" period for children, it too carries lasting high costs, most of them drawn from taxpayer-funded programs.	If you have failed to properly care for your vehicle in its early years you can repair that neglect, although at a significant cost.
Value added	In most early childhood programs it is impossible for parents to know the extent to which their early childhood experience is actually going to successfully add value through every child's useful life.	The automobile dealer exists to sell a very high cost product, to maintain and warranty it through its most critical early years to help you keep it safe and roadworthy, and to optimize its value throughout its useful life.

Do we trust our government too much?
The 2011 Edelman trust survey shows Canadians rank third (out of 23) in their trust of government well behind the top two countries of China and Brazil. The US, Germany and Russia rank last.

> "Transparency and accountability means Canadians should expect their governments to provide the information they need in order to make the best choices they can for their children."

Measuring the wrong things

There is an old adage that "what you measure is what you get." And perhaps it is equally true that "what you measure is all you get." A 2008 report on Canadian daycare, drew the following assessment from the only qualitative study that has ever been done on Canadian daycare: "although the vast majority of regulated care is supportive and safe, it does not optimally develop children's cognitive, language, behavioural, social and motor skills." This same study concluded that unregulated daycare did measurably worse, as did our local neighbourhood home-based alternatives.

The amount of space available, while important, can not tell us whether our children are being harmed. The greater risk is associated with exposing our children to low quality programming. But then to know that, there would have to be somebody measuring and then comparing the outputs of the program—children's progress.

You don't care about the car dealer's inputs—the money he had to invest, how much square footage he needed to set aside for each vehicle, or how many times an inspector comes around. You only care about his outputs—has he done the right preventive maintenance, did he make sure your car can perform to standard? Car manufacturers, insurance companies, inspectors and owners all focus on outcomes.

Parents have not been demanding similar outcome measurements from the significant government and parental investment in daycare. If we want our children or grandchildren to have a relatively equal start in life, we should be demanding that the programs they receive in their early years should be measurable for delivering cognitive, language, behavioural, social and motor skill outcomes.

Is there a structural reason for the lack of focus on outcomes in daycare?

There is a growing divide within the Early Childhood and Education community whether all Early Childhood Education (ECE) programs should be conducted within schools rather than within the community.

In Canada there have been a few recent examples (e.g., Saskatchewan) where Early Childhood Development programs have been moved from the social services ministry (where the dominant culture is about safety) to the Ministry of Education (where there exists a stronger focus on educational outcomes).

In my opinion it doesn't matter which Ministry the programs report to. What matters more is whether or not there is a commitment on the part of government regulators to be transparent, and to search for and report on outcomes that justify the expenditure. "You get what you measure" and we should be expecting government to start to analyze and report on the outcomes of their billions of dollars invested.

Don't be surprised if the first evaluations have the same findings as Quebec's: "Although the vast majority of regulated care is supportive and safe, it does not optimally develop children's cognitive, language, behavioural, social and motor skills." W

Tom Carson is the Director of the Manitoba office of the Canada West Foundation. Tom was a Director on the Council for Early Child Development and is a father to 2 children and 1 grandchild.

A Canadian Energy Strategy is *Not* Another National Energy Program

IN TEXAS, past injustices are summed up by the rallying cry "Remember the Alamo!" In Alberta, it's "Remember the National Energy Program!" The NEP was imposed by the Trudeau government in 1980 and cut the knees out from under the Alberta energy patch. So when someone suggests that Canada needs an energy strategy, Albertans get a bit nervous. Luckily, a Canadian energy strategy has nothing at all to do with the past evils of the NEP.

The goal of a Canadian energy strategy is not to lessen the cost of energy for one region at the expense of another. Rather, the idea is to have a practical plan in place that can ensure that *all* parts of the country benefit fully from their energy resources over the long-term. Who will we be exporting to and how will we get it to them? How will Canada meet its domestic energy needs in the coming decades? How do we continue to improve environmental stewardship on the part of both producers and consumers? How do we drive innovation and adoption of new technology? Answering these and similar questions is what a Canadian energy strategy would do via a coordinated approach and a consistent set of policies and rules developed not from the top down in Ottawa, but as the result of a truly national dialogue.

Although ensuring the development of a Canadian energy strategy is not currently a burning issue being discussed by Canadians around water coolers and dinner tables, it is still a good idea to check in with the public to get a sense of how it sees the matter. Recently, the Canada West Foundation commissioned Environics Research Group Limited to ask western Canadians if they think that the energy challenges facing the country are best addressed by way of a single national energy strategy, a western Canadian regional strategy or each province developing its own energy strategy.

BEST WAY TO ADDRESS ENERGY ISSUES (%)

	BC	AB	SK	MB	WEST
National energy strategy	41	35	21	35	36
Regional strategy	29	28	46	26	30
Provincial strategies	28	32	31	35	30
Don't know	3	5	2	3	3

Source: Environics Research Group Limited, special survey for the Canada West Foundation. Numbers may not add to 100 due to rounding. The survey was conducted by phone between November 24 and December 8, 2010. The results are based on a representative sample of 1,202 western Canadians 18 years and older. The results are accurate for the full sample +/-2.8 percentage points 19 times out of 20. The data are weighted by province, age and gender.

Survey question: Many are now talking about the importance of developing a strategy for addressing the energy challenges facing the country. Do you think this is best achieved through: a single national energy strategy to ensure there is a coordinated approach and consistent set of policies and rules for industry, governments and consumers to follow; the four western provinces developing a regional strategy to address the priorities of western Canada; or each province and territory developing its own energy strategy, based on its particular economy, priorities and needs?

The results show that the western Canadian public is not of one mind on this issue with 36% on side with a national approach, 30% thinking that regional cooperation is the best way forward and 30% thinking that unique provincial strategies make the most sense. When we break down the responses by province, we find that a national strategy is more popular in BC (41%) and less popular in Saskatchewan (21%). Saskatchewanians are particularly interested in a regional strategy (46%).

> "The failures of the NEP teach us that strategies that pit one region against another for partisan political gain will fail. A fair and beneficial Canadian energy strategy must be a truly national affair."

Interestingly, the percentage of Albertans who favour a national strategy is close to the regional average despite being the province that suffered the most the last time "national" and "energy" were combined in a major federal initiative.

Notwithstanding the memory of the NEP, a national strategy that is done right (i.e., that meets the needs of all regions and is built from the provinces up rather than from Ottawa down) has a nice ring to it for a lot of westerners. For others, regional cooperation squares the circle of working together without getting lost in a complex pan-Canadian process. Still others see the advantages of focusing on unique provincial circumstances and, thereby, ensuring that those circumstances get the attention they deserve.

Shifting Public Opinion

There has not been a high profile public debate about a Canadian energy strategy versus regional or provincial approaches. There are no attack ads on TV denouncing one approach and the media has not been abuzz with arguments for and against the three options. Given this, the survey question likely taps the "gut feelings" of western Canadians. This suggests that there is room to move public opinion (hopefully not with attack ads). It also shows that segments of the public see merit in each approach.

Hence, if you favour one approach over another, there is likely room to sway public opinion by presenting a strong case. The Canada West Foundation, for example, has suggested a national approach on the grounds that effective energy policy requires inter-jurisdictional coordination. The fact that western Canadians also see value in regional and provincial approaches dovetails with the Foundation's recommendation that a national strategy must seek to ensure strong provincial and regional input.

Fortunately, the idea of a coordinated, forward-thinking and concrete energy strategy for Canada has nothing at all to do with the disaster that was Trudeau's National Energy Program. Nonetheless, the failures of the NEP teach us that strategies that pit one region against another for partisan political gain will fail. They also teach us that if we are to have an effective, fair and beneficial Canadian energy strategy, it must be a truly national affair with all parts of the country contributing to it and benefiting from it. W

***Robert Roach** is a Senior Researcher with the Canada West Foundation. This article draws on the results of a larger public opinion survey on energy and the environment. For more information contact roach@cwf.ca.*

A Conversation

with David Emerson and Roger Gibbins

IN 2010, 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.

A Canadian politician, businessman and civil servant, ***David Emerson*** *is a former Member of Parliament. He was first elected as a Liberal and served as Minister of Industry under Prime Minister Paul Martin. He then crossed the floor and joined Stephen Harper's Conservatives and served as the Minister of International Trade, Minister for the Pacific Gateway, and Minister of Foreign Affairs. He has a PhD in Economics from Queen's University and had a very successful business career before entering political life.*

ROGER GIBBINS: What do we need to do to ensure that Canada, and western Canada specifically, remains a great place to live in the 21st Century?

DAVID EMERSON: My sense is that the evolution of the global economy has changed the issues and the perspectives that western Canada has to focus on going forward. If you look back to when the Canada West Foundation was formed, in those years the issues were about federalism, central authority in the government of Canada versus provincial power, and the heavy economic and population weighting to Ontario and Quebec. Those really created the essence of alienation. But I think we are now into a world of ubiquitously connected, distributed cultures, economies and regions.

I think the nature of wealth creation has changed fundamentally. Today, wealth creation is really about how we as people use technology, science and knowledge in combination with other scarce resources, particularly natural resources. The barriers that we used to complain about; rail rates, tariff structures designed to favour the protection of manufacturing while leaving natural resources unprotected and free to trade; are not very important any more. The consequence of that is there are many other factors that are more important to wealth creation, productivity and prosperity. These include transportation and logistics systems, regulatory barriers, technical standards, barriers to direct investment, impediments to mobility of people, intellectual property protection, procurement policies and so on. In other words, any measures that get in the way of competitive global value networks rooted in Canada.

ROGER: Some people argue that western Canada needs to get beyond the resource market, while others argue that the future will be built around our resource strengths. What is your opinion on this?

DAVID: There was a time when we just held our noses about being hewers of wood and drawers of water, but I think those days are gone. Far from being a high-tech economy without a dependence on natural resources going forward, I think we are going to become more dependent, but it's going to be on the basis of technologically-rich exploitation and development. I think we are going to realize that the real jurisdictional advantage we have in the West, in terms of knowledge and value added, really will flow incrementally from the fundamental wealth creating activities that we've been engaged in for many decades.

I think the whole idea of value added industries is gradually going to morph into a much sharper focus on technologies, innovations, high-tech companies and so on, the roots of which are fundamentally embedded in the natural resource economy. That's not to say there won't be all sorts of non-natural resource activities but I think people understand better now that building from no jurisdictional advantage to being a global leader in some particular technology cluster is fraught with peril and unlikely to succeed unless there are the jurisdictional advantages that give you an enduring competitive edge.

ROGER: Where do you think the markets should be for those goods?

DAVID: I talk about the economics of a billion in many of my speeches and presentations. What I mean by that is, in today's global economy, if you don't have good access, particularly for technologically advanced products, to a market of a billion people, success will be difficult. Moreover, if you do not have strong linkages with markets of a billion or more, somebody who does is going to come in and buy your technology and/or your company. Maximum value typically requires the product that embodies the technology be multiplied and produced at scale. If you don't have the ability to compete with the Indians and the Chinese—even the American market is not big enough anymore—it probably won't work. You need the really big markets where you can actually commercialize that technology. If we don't have excellent linkages into those markets we will become a producer of good ideas that we end up selling to someone that does. You end up on a treadmill on which you have to run faster and faster to produce more ideas and technologies to sell to someone else to commercialize. There is also a supply side dimension to the economics of a billion. Having western-rooted technology companies is fundamentally tied to the need for deep linkages to international technology clusters. For every good idea you or I may have here in BC or Alberta, there are probably a thousand other complimentary or similar ideas out there in the world economy. You must tap into the global knowledge reservoir to allow for efficient cross-fertilization, rooting and growth of our own innovative capacity; and this complements linkages on the demand side, because you have to sell at sufficient scale. So efficient global linkages to economies like the US, China and India becomes critically important.

ROGER: How much of a challenge is it to get corporate leadership to take this long-term view when they are held accountable on a quarterly basis?

DAVID: If you have a corporation that has been built up in western Canada and it is 80-90% driven off a Canadian marketplace, then your most powerful options for shareholder value creation in the near term are almost always restricted to being bought or taken over. The real value bump is in going global. If you haven't built a company with the global linkages that we talked about before, then the chances of somebody being able to pay you more than you can create yourself in terms of shareholder value are very high.

So, we need to be working to develop the global linkages for smaller and medium-sized companies, and we need to be making investments in the other markets and technology clusters that we are going to play in. The modern value network absolutely requires physical plants, investment and long-term commitments in those markets. It also requires people to move around the global value networks with relative ease. Once you achieve that, I think you are going to have better line of sight to maximizing shareholder value without selling to a foreign company. And you will be more successful in convincing shareholders to support internationalization from a western Canadian base.

ROGER: Certainly our smaller and medium-size firms need all the linkages they can get, but it must be very intimidating for them to say we are going to go into the Chinese market, there are so many hurdles.

DAVID: I come back again to some of the investments that we make in education. If our kids are not learning languages like Mandarin today, that is going to be a big disadvantage. The Chinese have been very patiently learning English and they have been graciously tolerant of us coming over there, stumbling around and using translators. Eventually, if you don't speak Mandarin there are going to be enough people who do that they will become the preferred partners, suppliers, customers and friends. I think we are going to have to fix that and it's going to have to start in our K-12 system. For our young people, we are going to see in the sciences and business that if you don't have a good knowledge of foreign cultures—and in our part of the world particularly the Asian cultures—that you simply won't be able to be a very good business person or a good scientist because you won't be able to make the linkages necessary for global success in the future.

ROGER: There is a need to address these kinds of issues from the top to the bottom. So, if you were in charge for a day, what would you do to ensure the continued success of western Canada?

DAVID: I'd have governments, federal and provincial, clearly driving a much more aggressive global agenda that recognizes the critical need for international linkage in all its shapes and forms. I would start with the Americans but I would be going after China second. An economic arrangement with Europe is helpful, but the reality is that we already have billions of dollars of two-way investment and trade with Europe. We can fiddle around with some regulatory harmonization that will help at the margins but the real trade we are missing is with Asia. We haven't got a single trade deal done with Asia. I'm not just talking about tariffs anymore, I'm talking about next generation trade deals that include transportation, regulations, investment protection, air services, research collaboration, human capital mobility and so on.

I would also stop spending nonrenewable resource revenues fattening up permanent government programs and operations. I would place in segregated funds and, with financial discipline, invest it both here and internationally to ensure long term economic diversification and stability. My kids and grandchildren deserve as much. That's what I would be doing. W

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CANADA WEST FOUNDATION
900 – 1202 Centre St. SE
Calgary, AB T2G 5A5
ph: 403-264-9535
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