BC COMMENTARY

a review of provincial social and economic trends

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

Volume 16 · Number 3
Fall 2013

INSIDE:

STILL FROM OUR *DON'T FRACK THE LAW!* VIDEO AVAILABLE ON YOUTUBE.COM.
GRAPHIC BY SHORTT & EPIC.

Time to rethink BC's LNG plans

By Ben Parfitt

By now, anyone paying attention to the BC government's plans to boost economic activity in the province knows that those plans can essentially be drilled down to three letters: LNG.

Liquefied natural gas is our future, Premier Clark says. And during the recent provincial election campaign she never strayed from that script. New natural gas pipelines, LNG plants and export terminals would not only make BC debt-free, she said, but also add $100 billion to a future Prosperity Fund.

Cracks, however, are beginning to appear in the government's plans, raising the question: If few or no LNG plants materialize, do they have a Plan B?

The plans to make BC an LNG powerhouse rest on the assumption that gas prices in Asia will remain much higher than in North America.

But no one should bet on that price differential being maintained. "Markets change, and you can end up doing things and spending money on things that five years later look very dumb," warns Mikkal Herberg, research director of the energy security program at the Seattle-based National Bureau of Asian Research. Herberg calls LNG "the biggest and highest-risk piece of the global energy business."

To underscore the risks and why we may want to consider a Plan B, look at Australia, a country well ahead of BC in the race to supply Asia with natural gas.

There are currently seven LNG plants under construction down under. Each faces cost overruns of up to 40 per cent. Companies must now pay back billions more in borrowing costs before realizing a penny of profit. No wonder, then, that despite all the talk we've yet to see a single company commit the funds to build an LNG facility in BC.

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Why wheelchair fees are not fair and what they say about the state of seniors care in BC

By Janine Farrell

The BC government's recent announcement of a $25 per month wheelchair user fee for long-term care facilities in the Fraser and Vancouver Coastal health regions was met with widespread public outcry.

But in a June 20 letter to *The Province*, Minister of Health Terry Lake said that the fees are entirely fair, arguing that because people who live in private care homes have always had to pay for their own personal-aid equipment, charging wheelchair fees in public care homes is in alignment with current policy on maintenance fees.

One key ingredient to aging with dignity is maintaining mobility for as long as possible. User fees for wheelchairs directly undermine this human right.

However, the new fees undermine the human rights of people with disabilities and seniors and will hit those least able to afford it the hardest. How is that fair?

Research shows that people tend to do without "universal" medical services if they cannot afford the out of pocket fees associated with them—for example, parking fees at a public hospital can deter low-income people from going to the hospital at all. In comparison, out of pocket costs have little impact on those in mid- to high- income ranges, who tend to be healthier anyway.

Minister Lake has said that no one will go without a wheelchair due to inability to pay. But many people don't apply for hardship waivers because of embarrassment, lack of knowledge or time, or other factors.

The Canada Health Act guarantees that all "necessary hospital and physician services" are publicly-funded and universally available based on need, not ability to pay. "Necessary services" generally refers to treatment provided at the hospital, doctors' offices, or public clinics, as well as emergency response. When services are delivered as part of home and community care, they are often no longer considered "necessary"—that is, publically funded—under the Canada Health Act.

Residential care facilities fall under the umbrella of home and community care, even if they are partially or fully funded by the public health system, so health authorities are free to impose additional costs without legal implications.

In BC we allocate approximately 80 per cent of our health spending to acute care (hospitals). But numerous studies have shown that the shift of care from inside expensive hospitals and clinics to home and community settings is a positive and more cost efficient way to manage our health spending.

The CCPA-BC and many seniors serving organizations have called for a shift toward home and community care. However, if we're going to make this shift, we should first invest in a well-coordinated system of services available to all seniors as their health needs change. This is in contrast, as BC's Ombudsperson has already pointed out, to what we have now: a fragmented system that depends on individual communities to cover major gaps in services or funding.

In their 2008 guidelines for the provision of manual wheelchairs, the World Health Organization says, "the right to a wheelchair must be an essential component of all international endeavors to secure the human rights of people with disabilities."

Ironically, just days before the announcement of the wheelchair fees, the Health Minister released a statement regarding World Elder Abuse day, saying that "Every senior deserves to age with dignity and to feel appreciated and respected in their communities… As part of our Families Agenda, we have developed policies that ensure families are protected and feel safe."

One key ingredient to aging with dignity is maintaining mobility for as long as possible. User fees for wheelchairs directly undermine this human right.

Janine Farrell is the seniors care researcher at the CCPA-BC.

Why does BC have the highest poverty rate in Canada?

by Iglika Ivanova

Statistics Canada recently released new data on the incomes of Canadians and it shows two worrisome trends continuing through the economic recovery:

1. BC has the highest poverty rate in Canada and the highest child poverty rate (tied with Manitoba); and
2. Ordinary families in BC haven't had a raise since 2008—family incomes in the middle continue to stagnate.

Both of these tell us that we're doing a lousy job at sharing prosperity in this province, leaving too many people behind and undermining our future economic health in the process.

The response from Minister of Children and Family Development Stephanie Cadieux has been disappointing. Instead of taking responsibility for the problem, the Minister practically declared success on the child poverty file, focusing instead on the fact that "in the past 10 years, BC's child poverty rate has dropped by 41 per cent," and ignoring the reality that other provinces improved much faster, leaving us with the worst poverty rates in the country by a long shot. BC's child poverty rate is 33 per cent higher than the national average and our overall poverty rate is 22 per cent higher.

Instead of looking for statistics that allow us to pat ourselves on the back for doing better than 10 years ago (when we saw the highest child poverty rate in the entire 35-year period for which data is available), we need to be asking how we can catch up with the rest of Canada.

It's unfortunate that our government doesn't seem interested in objectively looking at best practices from other jurisdictions. Minister Cadieux prefers to rely on ideology, as in this July 14 letter to the editor of the *Vancouver Sun:*

> *We know the only real way to lift people out of poverty is to ensure they have a job and the skills they need to succeed… Going forward, we will continue to target economic growth as the best method to reduce poverty, simply because it works.*

This has been the BC government's mantra from the days when Gordon Campbell became premier in 2001. The last 12 years show that it hasn't worked.

Don't get me wrong, jobs are certainly important, but the relationship between jobs and reducing poverty is not nearly as direct as the government seems to believe. For one, most poor people have a job (at least part of the year) and 43 per cent of poor children live in a family where at least one parent works full-year, full-time.

The indisputable fact is that all other Canadian provinces are doing better on poverty, even though many of them have slower economies and higher rates of unemployment. Similarly, many developed countries have lower poverty rates than Canada even though they were hit harder by the global financial crisis.

When we look at the jurisdictions that have been most successful at reducing poverty, what they have in common is they have invested in programs that support families, such as affordable, high quality child care, affordable housing, adequate social supports for families in need and high quality, accessible education.

As the Conference Board acknowledges in a recent report on child poverty,

> *The relationship between social spending and poverty rates has become more obvious over time, so it is no surprise that the leading countries boast strong traditions of wealth redistribution… Their success lies in universal welfare policy that has been effectively combined with job creation strategies that support gender equality and accessibility.*

The reason why BC has the worst poverty rates in Canada is not poor economic performance but lack of social spending, a large low wage sector, and big gender pay gaps, especially at the low end.

The government needs to step up with a comprehensive poverty reduction plan to boost social supports to a level that covers basic costs of living. Other immediate priorities include providing affordable, universal child care and investing in affordable housing for families.

Training and education also jumps out as an area of government responsibility that hasn't received enough attention over the last decade. That's why many of the newly created resource sector jobs aren't going to unemployed British Columbians but to temporary foreign workers

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BC government to blame for looming BC Hydro rate increases

By Marvin Shaffer

BC Hydro rates are going up. In its rate application hearing before the BC Utilities Commission last year, BC Hydro forecast increases of some 10 per cent per year for 5 years or more. In ten years time, rates could be double current levels.

BC Hydro's mandate was no longer to meet its customer needs in a reliable, cost-effective and responsible way. It was to be a vehicle for the development of a new IPP industry in BC.

That hearing took place prior to the recent election and needless to say talk of such increases, let alone their implementation, was not allowed. The government capped BC Hydro's rate increases and the hearing abruptly terminated. Now, post-election, BC Hydro is back to square one: it still has to increase its rates to match its growing expenditures, as well as recover costs that were deferred inappropriately in the past.

While the government looked to BC Hydro management and even the NDP administration in the 1990s to blame for the current predicament, the nature and scope of the Liberal government's intervention in the affairs of BC Hydro over the past decade were unprecedented.

First, the government directed BC Hydro to be self-sufficient. BC Hydro could no longer rely on any imports of electricity, even the seasonally surplus hydro and wind routinely available in the Pacific Northwest, to meet its requirements. Nor could BC Hydro recognize the Burrard natural gas-fired thermal plant or the electricity that the province receives under the Columbia River Treaty as sources of energy that it could use in case of drought or other contingencies.

It was widely recognized that self-sufficiency has simply forced BC Hydro to buy or develop more sources of new supply than it needs or could otherwise justify.

At the same time, the government severely restricted the sources of supply that BC Hydro could itself develop, directing that new sources be purchased under long term contract with independent power producers (IPPs). The government later legislated that BC Hydro plan to buy IPP power for export, and provide the transmission, back-up and other services needed to create marketable products.

BC Hydro's mandate was no longer to meet its customer needs in a reliable, cost-effective and responsible way. It was to be a vehicle for the development of a new IPP industry in BC.

BC Hydro was also directed to make billions of dollars of new investments, all exempt from the BC Utilities Commission or other independent review, including the now infamous smart meter and Northwest transmission line projects. BC Hydro was told to rush ahead with those projects despite the lack of well-developed business cases or public interest justification, and despite the large number of priority investments that BC Hydro had to make at the same time to maintain and refurbish its existing facilities.

These major changes in direction, and arguably the basic mandate of the corporation, contributed greatly to the upward pressure on BC Hydro costs and rates. The recent IPP purchases alone will impose losses of over $250 million on BC Hydro in 2014 and over $1 billion in losses over the next four years, based on BC Hydro's own estimate of the average price of the energy it was forced to purchase and its forecast value in the export market.

We cannot undo what has already been done. But changes can and should be made going forward to reduce further pressure on hydro rates.

The requirement for self-sufficiency needs to be completely eliminated. Government should restore BC Hydro's traditional mandate: to ensure reliable supply in a cost-effective and responsible manner.

BC Hydro should again be allowed to recognize Burrard as a back-up resource in event of drought as long as that plant remains in operation.

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Water withdrawal stats run dry

By Ben Parfitt

Here's a question our provincial government ought to be able to answer but can't: How much water is the world's biggest bottled water seller withdrawing from wells in British Columbia? The province doesn't know because it isn't asking.

It does not require Nestlé Waters Canada to obtain a permit to withdraw water. It does not require Nestlé to report its withdrawals. And it does not charge Nestlé a penny for the water it uses, even though the company profits handsomely from the hundreds of millions of bottles it sells under popular brand names like Perrier and Vittel.

To its credit, Nestlé has in the past (it no longer does) voluntarily filed reports on its water withdrawals with the District of Hope, which uses the same aquifer to supply 6,500 local residents with their drinking water.

But voluntary disclosure misses the point. The provincial government is responsible for managing public waters for our collective good. Absent basic information, how can it adequately look after this vital natural resource?

Again to its credit, when I contacted Nestlé to ask how much water it withdraws at Hope, it volunteered the information. In 2012, corporate affairs spokesperson John Challinor said Nestlé withdrew 71 million gallons, or enough water to fill more than 537 million half-litre bottles. Immense as this sounds, Challinor called it the proverbial drop in the bucket.

"Based on our mapping we drew less than 7/10ths of one per cent of all available water in the subwatershed for drawing," Challinor said.

But again, this misses the point. *Our* mapping? Surely it is government that should know what water is available for Nestlé and other commercial interests to use, not the other way around. And it should be government that publicizes that information so that everyone is assured that shared water resources are not at risk.

It's worth noting that these gaps in information apply to groundwater, not surface water. BC has no comprehensive groundwater regulation, so withdrawals from wells go virtually untracked. The province does, however, issue water licences governing withdrawals from surface sources such as rivers, lakes and streams. And it places terms in such licences that limit water takings.

Even so, BC's sound management of surface waters is itself in question. First, BC has no single agency tracking and reporting water use. Second, it does not impose across-the-board water-metering requirements. Third, while the government charges surface water users fees for what they use, the fees are often embarrassingly low.

As one example, in natural gas industry hydraulic fracturing (or fracking) operations, immense amounts of water are rendered so toxic that the water can never be returned to the rivers, lakes and streams from which it came. Dawson Creek currently charges energy companies the equivalent of $11,000 for every Olympic swimming pool's worth of water purchased from the city. The provincial government, by comparison, charges less than $3.

The good news is that the provincial government realizes that current water legislation is outdated and must be changed. New groundwater regulations are likely, and Environment Minister Mary Polak says a modernized Water Act will be introduced in 2014 that includes provisions for "improved measurement and reporting of water use."

In Ontario recently, the provincial government imposed rules on Nestlé when it renewed the company's water-taking permit at a well near the community of Guelph. The new rules made it mandatory that Nestlé limit withdrawals in times of drought.

Nestlé appealed that decision to Ontario's Environmental Appeals Tribunal and then negotiated a new set of proposed terms to its permit with provincial authorities. Wellington

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BC's LNG plans

The business press in Australia is full of stories about the LNG industry's woes, which could worsen as a glut of new LNG production floods the market and as Japan, one of the biggest purchasers of LNG, looks for cheaper gas sources.

One potential source is methane hydrate—a form of natural gas found in the seabed. The US Geological Survey estimates that the global methane hydrate resource could be two times greater than all known coal, oil and other natural gas resources combined.

This year, Japan became the first country on earth to successfully extract a large quantity of methane hydrate. If it learns how to commercialize methane hydrate production, watch out. No LNG producer on earth would be immune from the fallout.

In the meantime, Japan has offered $11 billion in loan guarantees to Japanese companies to source LNG from the United States, a country currently awash in gas and offering Asian buyers huge price discounts.

It sounds like the stage is being set for the LNG industry to pay far less in taxes and gas royalties. What would this do to the government's pre-election economic projections?

This is big news, because in the lead-up to the provincial election all of the government's rosy economic projections about LNG were based on Japan and others paying price premiums. Now the premier is singing a different tune. In an interview with *The Wall Street Journal* just a month after the election, she said that she was prepared to cut industry costs to the bone to make BC the most "cost competitive jurisdiction…in the world" for LNG.

It sure sounds like the stage is being set for the LNG industry to pay far less in taxes and gas royalties. What would this do to the government's pre-election economic projections? Will it be enough to entice the industry to invest in BC? And if not, does the government have another plan?

We know the current plan. We drill for gas as fast as we can. We pipe whatever we've got to the coast as fast as we can. We then liquefy all of that gas at LNG plants and ship it all away. In the process, we render billions of cubic metres of water toxic forever in fracking operations and BC jettisons all hope of meeting its legislated greenhouse gas reduction targets.

Plan B either doesn't exist, or if it does the government isn't saying.

But it could look something like this:

We slow down because LNG is a risky business. We figure out how to use our natural gas here at home to maximize job opportunities and to make BC a true green leader.

We build small, domestic gas processing plants here as needed to allow us to power the BC Ferries fleet on natural gas instead of diesel. Ditto for converting diesel buses and truck transport fleets. We ensure that such plants are world-leading low carbon emitters and that their output helps to lower carbon emissions further still.

We use gas as a firm power source to address the intermittency shortfalls of renewable wind, solar and tidal power. We thus avoid the need to build the more environmentally contentious of a number of proposed run-of-river hydro projects and, potentially, a third massive dam on the Peace River that would flood thousands of hectares of productive farmland in order—irony of ironies—to power-up the LNG industry.

We completely eliminate gas flaring and make our gas transmission infrastructure second-to-none in having the lowest methane leaks of any jurisdiction on earth.

These are just some of the planks of what could be an alternate natural gas strategy for the province. With Plan A looking more questionable each day, it's time we gave it some thought.

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Water withdrawal stats

Water Watchers, a local conservation organization, and the Council of Canadians subsequently sought standing before the tribunal, which has yet to render a decision.

The good news is that in Ontario there is a debate. We can only hope that the same holds true one day soon in British Columbia.

Ben Parfitt is a resource policy analyst with the CCPA-BC, a research associate with the University of Victoria's POLIS Project on Ecological Governance, and author of Counting Every Drop: The Case for Water Use Reporting in BC *and* Fracking Up Our Water, Hydro Power and Climate: BC's Reckless Pursuit of Shale Gas, *both available at policyalternatives.ca.*

Investor alert: TSX over-valued due to a “carbon bubble”

By Marc Lee

Canada’s economic development model is on a collision course with the urgent need for global climate action. Worldwide, extreme weather events from drought to floods to powerful storms and record-breaking temperatures are making a clear statement that climate change can no longer be denied.

Hurricane Sandy, which rudely interrupted a US election in which candidates ignored climate change, pushed climate action back onto the US policy agenda. Costs are piling up, with one recent estimate of $1.2 trillion per year in global damages already from climate change and related environmental costs from a carbon-intensive economy.

In short, at some point soon we are going to see a strong global climate treaty. And when that happens, a day of reckoning is coming for Canada’s fossil fuel companies, whose value is tied to carbon assets they will be forced to leave in the ground.

From a scientific perspective, what matters most is the world’s carbon budget—the total amount of CO_2 that can “safely” be emitted in coming decades. For an 80 per cent chance of keeping global warming below 2°C, the target for international negotiations, the world’s carbon budget is now approximately 500 billion tonnes (gigatonnes, or Gt) of carbon dioxide.

Canada’s share of that carbon budget would depend on negotiation, but almost certainly falls between 2 and 20 Gt. Canada’s reserves of bitumen, oil, gas and coal, when converted into potential emissions, are substantially larger: proven reserves are equivalent to 91 Gt, and adding probable reserves yields 174 Gt.

So even with a generous carbon budget of 20 Gt, some 78 per cent of Canada’s proven reserves, and 89 per cent of proven-plus-probable reserves, need to remain underground.

This is bad news for carbon-intensive assets, and for Canada’s financial markets. The Toronto Stock Exchange (TSX) is highly weighted towards the fossil fuel sector, with total market capitalization of fossil fuel companies around $400-500 billion. Fossil fuel companies account for about 24 per cent of the total value of the S&P/TSX60 index.

The recent experience of high-tech and housing bubbles should serve as a warning to policy makers. In 2008, the collapse of a housing bubble threatened the global financial system as a whole, and affected a broad segment of society because housing is the most important asset for middle-class households.

Next to home ownership, the right to future income through employer pension plans is the second-most important asset for a wide swath of middle-class households. Registered pension plans cover more than 6 million members in Canada, and the total market value of trusteed pension funds in 2012 was over $1.1 trillion, of which almost one-third was held in stocks.

It is difficult to ascertain the exposure of Canadian pension funds to a carbon bubble. More than half of Canada’s pension system is in the form of employer pension funds (55 per cent), followed by RRSP assets holdings (35 per cent). In the US experience, pension funds own almost one-third of oil company stocks.

Addressing risk is inherent to financial market investment, which routinely must account for risks due to inflation, currency movements, regulatory changes, political turmoil and general economic conditions. However, there has been a general failure to account for climate risk, and a tendency to view any screening for environmental purposes to be detrimental to financial performance.

In fact, the problem is just the opposite: by not accounting for climate risk—and the inevitability of climate action—large amounts of invested capital are vulnerable to the carbon bubble. Carbon stress tests across the financial industry, and in particular for pension funds, are needed to get a better handle on climate risk in Canada.

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By not accounting for climate risk, and the inevitability of climate action, large amounts of invested capital are vulnerable to the carbon bubble.

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The highest poverty rate in Canada

and/or migrants from other provinces. And since resource expansion is essentially the basis of our government's Jobs Plan, such growth is unlikely to make much of a dent in poverty rates.

But while the government must play a leadership role here, poverty is not just the government's problem. All citizens have a responsibility to tackle poverty, including those who own and run businesses. Business managers are understandably focused on their bottom line, but as members of the community they need to consider the kind of jobs they create, and the kind of life their employees can afford on the wages they pay. Despite recent minimum wage increases, someone working full-year, full-time on minimum wage earns less than the poverty line for a single person in Vancouver.

The bottom line is that we need a combination of good quality jobs and social supports for families who have fallen on hard times. This is particularly important now when we're seeing a worrisome and rather steep increase in poverty in what's arguably the best measure of poverty, Statistics Canada's Market Basket Measure. Poverty is not an intractable problem; other provinces and countries have taken action and are seeing results. BC should too.

Iglika Ivanova is an economist and public interest researcher at the CCPA-BC.

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BC Hydro rate increases

Major new investments, including Site C, need to be subject to BC Utilities Commission or other independent review of the benefits and costs they entail. Government must resist exempting them from benefit-cost assessment and independent review.

Most importantly right now, government must ensure there are no major subsidies to LNG plants for BC Hydro energy or services, or to the supply and pricing of electricity for major new mining and oil and gas loads.

The low rates BC Hydro customers have enjoyed are due to the benefit we all share in the low-cost hydro generation BC Hydro developed in the 1960's and 70's—its so-called heritage resources. A limit must be placed on each customer's sharing of the benefits of those heritage hydro resources; otherwise there will soon be few such benefits to share.

Marvin Shaffer is a research associate with the CCPA-BC and a consulting economist specializing in energy, transportation and natural resource economics. He is also an adjunct professor in the Public Policy Masters Program at SFU, where he teaches a course on benefit-cost analysis.

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Carbon bubble

While pension funds have to generate maximum current return value for existing (and soon-to-be) pensioners, at the same time they are legally obligated to ensure the long-term sustainability of the fund. That is, funds must equally represent the interests of young workers for their eventual retirements.

Fossil fuel divestment has become a hot topic in the US and Canada, with students leading the way by targeting university endowments. Churches, local governments and pension funds are also waking up to the mismatch between climate change and fossil fuel investments.

Canada badly needs climate leadership to deflate the carbon bubble, including saying no to new fossil fuel infrastructure like pipelines. A coordinated program must accept a carbon budget, shift incentives through carbon pricing, and supply financial markets with alternative investment vehicles like green bonds tied to building the green infrastructure we need.

Together, these moves would comprise a "managed retreat" from fossil fuel investments that ensures Canada's financial markets are part of the solution.

Marc Lee is Senior Economist at CCPA-BC and Co-Director of the Climate Justice Project. This piece is based on the study Canada's Carbon Liabilities *(co-authored with Brock Ellis), available at policyalternatives.ca*

BC COMMENTARY

a publication of the BC office of the Canadian Centre for Policy Alternatives

1400 – 207 West Hastings Street
Vancouver, BC V6B 1H7
tel: 604-801-5121
fax: 604-801-5122

www.policyalternatives.ca

Editorial team: Shannon Daub, Sarah Leavitt, Terra Poirier

Layout & Production: Terra Poirier
<terra@policyalternatives.ca>