Canadian student review

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- Corporate social responsibility

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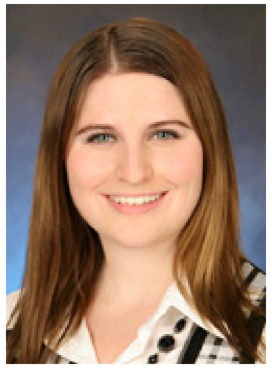
Canadian student review

Welcome!



Dear Readers,

The 2012 spring issue of *Canadian Student Review* tackles a plethora of issues from natural gas as an alternative energy source to the importance of corporate social responsibility. With American politics currently in the spotlight, Mark McGinley's article looks at why the US Congress has the lowest approval ratings ever and how it can affect Canadians.

The Canadian government, along with the US, is touting the auto bailouts as a huge success with General Motors now recording profits, but should taxpayers have been forced to pay $474,000 per GM employee? Have we been fully refunded? The livestock industry in Canada has faced considerable setbacks from mad cow disease to stricter borders due to the 9/11 attacks. It now faces a new threat with mandatory meat labeling infringing on trade agreements.

This issue of CSR also asks if French is really Canada's second language and looks into the debt crisis in Greece.

I hope you enjoy reading all of the articles in this exciting issue.

Best,

Lindsay Mitchell
Editor, *Canadian Student Review*

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CONGRESS A house divided

Diliff

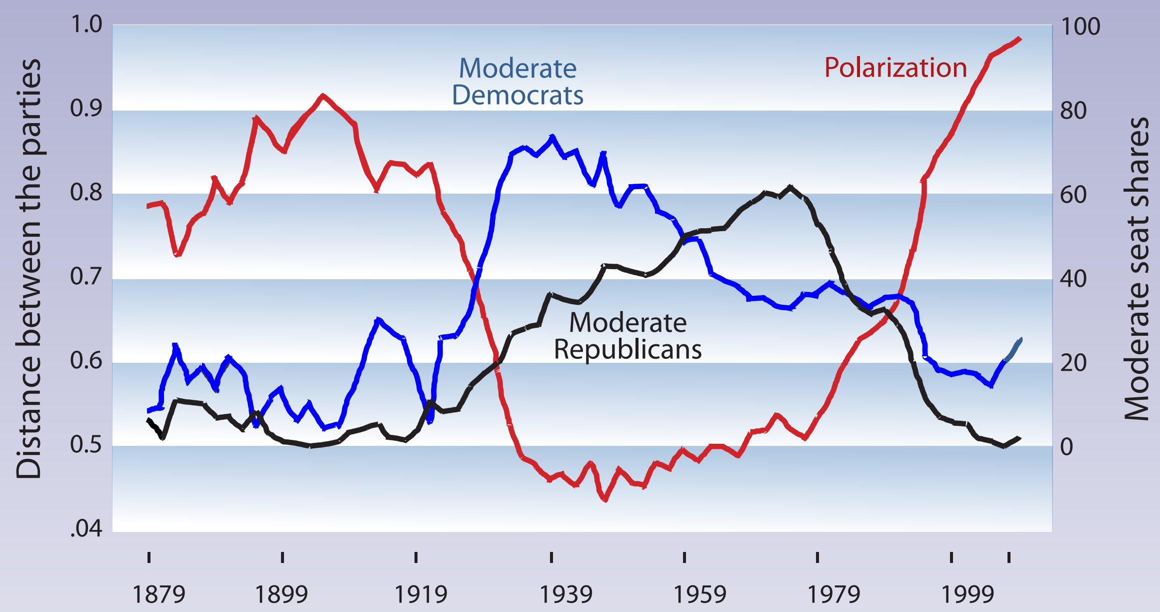
Mark McGinley

With record low approval ratings at the end of the least productive non-election year in almost two decades (Bennett, 2011), it appears that the United States Congress has lost its ability to function and, with it, the confidence of its electorate. The breakdown in Congress can be linked to the unprecedented polarization of its members and the accompanying rise in partisanship, which have left Congress more fractured, bitter, and dysfunctional than at any other point in history.

The polarization of Congress

In a study conducted by McCarthy, Poole, and Rosenthal, the roll call voting records of legislators in the House and Senate from 1897 to 2010 were examined to empirically determine the level of polarization in Congress over time. By analyzing the roll call voting record data using a statistical method called DW-NOMINATE, they charted the position of Congress' Democrats and Republicans along a liberal-conservative ideological scale, assigning weight to two different dimensions: the position of legislators on the role of government in the economy; and the position of legislators on regional differences within the United States, representing stances on issues like slavery and civil rights (McCarty, Poole, & Rosenthal, 2011). The results from the study revealed a very troubling trend; in the history of the United States, Congress has never been more polarized,

Figure 1: House party polarization 1879-2010
Distance between the parties first dimension



Source: McCarthy, Poole, & Rosenthal, 2011. Polarized America **http://polarizedamerica.com/**

or divided along party lines, than it is today (see figure 1) (McCarty, Poole, & Rosenthal, 2011). Confirming this trend, the *National Journal's* vote ratings show that in the 111th Congress, for the first time ever, the most conservative Democratic senator falls to the left of the most liberal Republican senator on the ideological spectrum, resulting in *zero* ideological overlap between the two parties in the Senate (*National Journal,* 2011).

This polarization has made Congress more partisan and ideologically driven, and, as a result, more divided than ever (Green, 2011). According to Norman Ornstein, resident scholar at the American Enterprise Institute, this increased partisan division has resulted in "a decline in institutional loyalty and other norms, the near disappearance of meaningful debate and deliberation, and a sharp decline in the 'regular order,' the adherence to and respect for the rules and procedures that normally operated in the legislative body" (Ornstein, 2011). Further, when the National Public Radio questioned Mr. Ornstein in a 2010 interview regarding the nature of the 111th Congress, he responded by saying, "I've been around Washington for 40 years, immersed in the politics of Congress and the White House. And it's nasty and brutish, as much or more as I've ever seen" (Seabrook, 2010). Why has Congress become so bitter and ruthlessly partisan?

The rise of partisanship

There are three main factors that have been driving the marked increase in the polarization of Congress since the 1970s (see figure 1). The first is the practice of gerrymandering, which is the redrawing of congressional boundaries to favour an incumbent's party by diluting the opposition's voting strength (King, 2010). The successive redistricting efforts that have taken place over the last 40 years have resulted in a kind of *faux*-competition between Republicans and Democrats in some house districts, with the real competition occurring in the primaries. This situation forces candidates to appeal to their party's most ideologically driven voters in order to win the nomination, and therefore the seat (King, 2010). Such redistricting has gradually moved the Democrats and Republicans further to the left and right respectively so that, by the late 2000s, the centre was virtually unrepresented in Congress (Ornstein, 2011).

The rise of the "permanent campaign" is another major factor driving the increase of partisanship in Congress. The seasons of campaigning and governing used to be distinct from one another. Today, the seasons have become so enmeshed that some successful Congressional candidates begin looking for support for their

Senate minority leader Mitch McConnell

next campaign immediately after winning a seat on election night (King, 2010). The permanent campaign results in a political environment that is increasingly tainted by zero-sum, winner-take-all attitudes, as the traditional periods of post-election reconciliation are sacrificed to the constant need to fundraise and build voter support (Ornstein, 2011).

Leaders from both major parties are determined to govern *against* their political rivals and not *with* them

Additional problems result from the requirement to engage in non-stop campaigning. Campaign costs have skyrocketed—the average seat in the House and Senate cost roughly \$1.4 and \$9.7 million dollars respectively in the 2010 elections (The Center for Responsive Politics, 2011). When these figures are contrasted with the amounts paid by the winners of the 2000 House and Senate elections, the 2010 amounts represent an increase of 71 and 35 percent respectively (The Center for Responsive Politics, 2011). The financial strain of the permanent campaign is especially hard on members of the House, who only serve for a two-year term. The permanent campaign's hunger for ever increasing sums of money means that legislators are spending more time courting funds and less time interacting with other lawmakers, which is essential to build the trust and collegiality necessary for bipartisan compromise (King, 2010). Moreover, increased financing requirements create a larger role for lobbyists and special interest groups, whose campaign contributions influence lawmakers and further polarize debates (King, 2010).

The rise of the 24/7 news cycle and the information technology (IT) revolution have further cemented the institutionalization of partisanship in Congress. With news outlets becoming increasingly ideological and partisan, politicians have started to learn that thoughtful debate and compromise get less air-time than sound-bites (King, 2010). Stoking the fires of partisanship, the Internet has become a breeding ground for uninformed opinions, which are quickly disseminated across the net via blogs and social media. Blogs and cable news programs are complicit in the propagation of dogmatic beliefs, as they tend to reinforce instead of challenge these views (King, 2010).

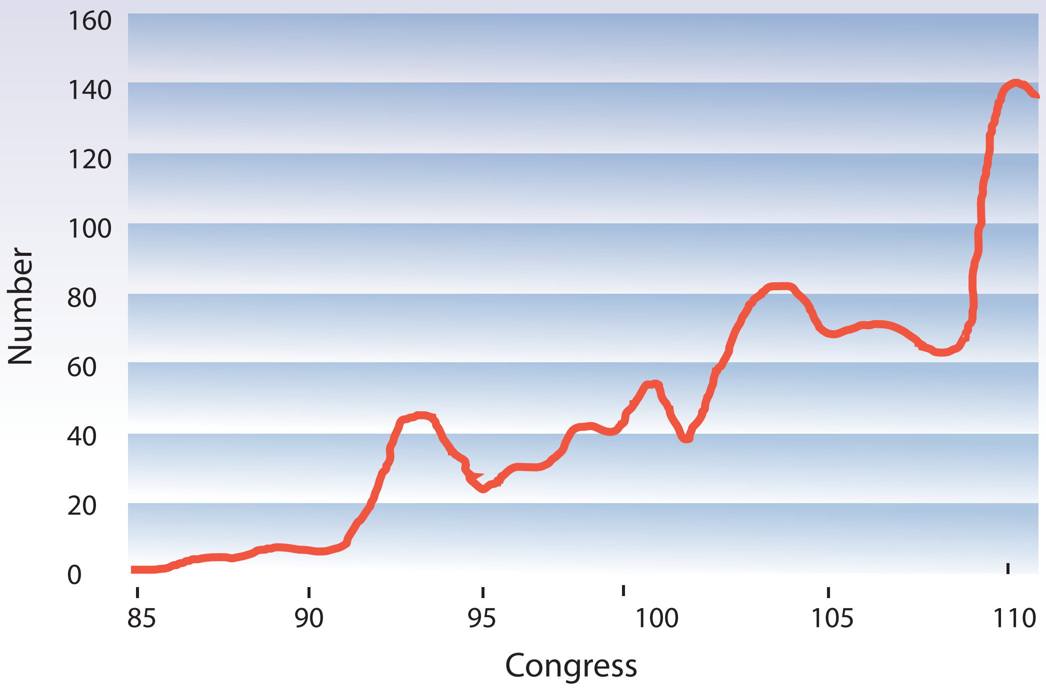
Senate majority leader Harry Reid

These factors, among others, have made substantial contributions to the rise of partisanship, drying the rivers of civilized discourse that have predominantly flown through Congress.

The effect of the rise of partisanship on the functioning of Congress

One of the major ramifications of the rise of partisanship in Congress has been the unprecedented use of filibusters by both the Republicans and Democrats (King, 2010). The filibuster, a procedural move that allows any senator to block or delay the passage of a bill by requiring extended debate, was rarely used in the first 200 years of the Senate's history and only became popular in the early 1970s (King, 2010). Overriding a filibuster requires either a unanimous vote of all 100 senators or the passage of a motion for "cloture," which requires the votes of 60 senators (Schickler & Wawro, 2004). By invoking cloture in the Senate a filibuster is "broken" by limiting the amount of debate on the bill to an additional 30 hours. The use of filibusters has increased dramatically since the 1970s, and especially since the mid-2000s. From 2005-2006, senators filed 68 motions for cloture compared with 139 motions filed in 2007-2008, an astonishing year-over-year increase of 104 percent (see figure 2) (United States Senate, 2011).

Figure 2: Cloture motions filed in the US Senate 1957-2010



Source: United States Senate, "Senate Action on cloture Motions," http://www.senate.gov/pagelayout/reference/cloture_motions/clotureCounts.htm.

The use of holds has also been rising in recent years; these have mainly been employed by Republicans to block approval of President Barack Obama's nominees for vacant executive branch positions (Ornstein, 2011). One year into the Obama administration, 177 appointees were awaiting confirmation, representing a 152 percent increase from the number of candidates pending confirmation at the same point in President George W. Bush's administration (Lowrey, 2010). Failure to confirm these nominations leaves the US federal government understaffed in critical leadership positions across numerous administrative agencies, including agencies in the national defense sector. The problem of filling these critical positions is exacerbated by the fact that long confirmation periods can dissuade applicants from even accepting the nominations in the first place, thereby reducing the available talent pool (King, 2010). Further, the inability to confirm appointees has attracted international attention, with foreign diplomats voicing concerns that the failure to staff key positions may hamper the US's ability to be a reliable and committed partner in trade talks (Lowrey, 2010).

Unfortunately, the situation in Congress is not showing any signs of improvement. Due in part to 40 years of redistricting efforts, elected lawmakers have very little incentive to move to the ideological centre, and may even be ousted from their party for doing so during the primaries for the next election. Any hopes that the 112th Congress could rise above the petty partisan bickering of the 111th were dashed in a *National Journal* interview with Senate Minority Leader Mitch McConnell. In the interview, which took place shortly after the Republicans' historic victory in the 2010 mid-term elections, Senator McConnell was asked what the "job" of the Republicans was. He replied, "[t]he single most important thing we want to achieve is for President Obama to be a one-term president" (McConnell, 2010). A statement like this coming from a senate leader demonstrates the Republicans' desire to govern *against* as opposed to *with* the Democrats.

Problems with passing legislation have been further compounded by the November 2010 Tea Party-influenced motion passed by House Republicans to prevent special-purpose spending provisions, known as

United States Senate

earmarks, from being inserted into legislation during the term of the 112th Congress (Steinhauer, 2010). Earmarks, although at times controversial, have often been used to compel legislators to back bills, either by offering earmark dollars for their constituents or by threatening to take them away (Allen, Sherman, & Bresnahan, 2011). The ban on earmarks has contributed to the difficulty experienced by Congress leaders in securing votes for legislation that lawmakers could perceive as being damaging to their ideological record (Allen, Sherman, & Bresnahan, 2011).

Conclusion

All of these problems have resulted in a fractured, discordant, and bitterly divided Congress. The breakdown in Congress has not escaped the notice of Americans, who, in a July 2011 Rasmussen Report, gave Congress the most abysmal approval ratings ever recorded. Only 6 percent of respondents rated Congress's performance as good or excellent, and only 11 percent thought Congress had passed any legislation that would significantly improve life in America (Rasmussen Reports, 2011).

The United States is a world superpower, and the US Congress's inability to legislate affects far more than just the interests of the United States. Congress's inability to ratify new free trade agreements, or react to economic crises could have large-scale international impact, making Congress's dysfunction an issue deserving of international attention. Understanding the source of that dysfunction can only make us better able to combat it.

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Mark McGinley holds a bachelor of commerce from the University of Calgary, and is currently in his third year of a combined JD/MBA program at Dalhousie University. Follow him on twitter @MGMcGinley.


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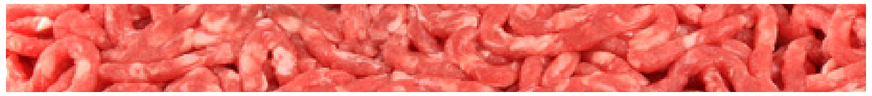
A rocky decade in the integration of the Canadian-US meat industry



Amos Vivancos Leon

Within the last decade, the Canada-United States livestock and meat industry has faced significant challenges from the global financial crisis, the rising exchange rate, increased border regulations, and high feed prices. But, all these challenges are dwarfed by the cost imposed by the Mandatory Country of Origin Labeling (MCOOL) law and the border closure after the Bovine Spongiform Encephalopathy (BSE), or Mad Cow disease, crises which have shaken the integration of the Canadian-US livestock and meat industry. To threaten this integration is to put $3.8 billion worth of Canadian annual exports to US and $2.8 billion worth of US annual exports to Canada at risk (USDA/FAS, 2012).

Since the implementation of the Canada-US Free Trade Agreement (CUSTA) in 1989 and the subsequent North American Free Trade Agreement (NAFTA) in 1994, Canada and the US have become increasingly integrated. This integration has materialized into substantial benefits for both countries particularly in the livestock and red meat industry (USDA/FAS, 2012). Before CUSTA, livestock and red meat trade between Canada and the US was characterized by low levels of formal trade barriers (Hayes and Kerr, 1997). Subsequently, as CUSTA and NAFTA eliminated these barriers, livestock and meat trade boomed. The growth rate in value of Canadian livestock and meat exports to the US was 20% from 1984 to 1988 (pre-CUSTA) which increased to 66% from 1989 to 1993 (post-CUSTA). Similarly, the growth rate of US livestock and meat exports to Canada was 22% from 1984 to 1988 which increased to 105% from 1989 to 1993 (USDA/FAS, 2012). Comparably, the rate of growth of US exports to the Rest of the World (ROW), excluding Mexico, decreased from 45% between 1984 and 1988 to 0% from 1989 to 1993. US imports from ROW decreased from 33% from 1984 to 1988 to -6% from 1989 to 1993. Whereas trade between Canada and US increased drastically post-CUSTA, trade between the ROW and US decreased considerably (USDA/FAS, 2012). This outlines the benefits of integration which materialize by facilitating a greater degree of specialization as well as the advantages of economies of scale and scope.

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The terrorist attacks of 9/11 tightened the border and slowed imports of Canadian meat to the US

Trade continued to flourish until 2001 with the tightening of the Canada-US border due to the 9/11 terrorist attack. This caused northern US cow calf producers to gain a competitive advantage over imported products (Hart, 2007). After realizing higher returns, they began lobbying for protectionist legislation in an effort to permanently limit

Canadian imports. They managed to lobby for a provision in the 2002 farm bill which under the guise of consumer-right-to-know would effectively restrict Canada and US livestock and meat trade. The provision, Mandatory Country of Origin Labeling (MCOOL), mandates retailers to provide the country of origin of a product to consumers. Within the process of complying with the law, US meat processors and retailers face huge incentives to produce and supply only American products. MCOOL regulation increased costs (skewed towards processors and retailers) for the US cattle-beef industry supply chain for handling imported products by an estimate $45.50 to $59.00 per head while the costs for handling American only products increased by an estimate $1.50 per head (Informa Economics, Inc., 2010). Similarly, the US hog-pork supply chain costs increase for handling imported products rose by an estimate $6.90 to $8.50 per head while the cost for handling American only products increased by an estimate $0.25 per head (Informa Economics, Inc., 2010). This effectively creates enormous motivation for US processors/packers and wholesalers/retailers to refrain from handling international (Canadian) products. Recognizing this, major US trading partners, the United States Department of Agriculture (USDA), the United States President, as well as many industry associations opposed the MCOOL provision; consequently, the provision was delayed in 2004 and again in 2006.

US meat processors and retailers face huge incentives to produce and supply only American products

Throughout the political struggle to implement MCOOL, on January 3, 2003, a cow contaminated with BSE was discovered in northern Alberta. Subsequently, the United

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States closed the border to cattle and limited beef imports from Canada (Moens and O'Keefe, 2006). As Canadian exports to the US stopped northern US Congressmen and cattle producer groups prospered by taking over Canadian cattle supply. These northern producers lead by R-CALF USA quickly assembled and began lobbying to keep the border closed permanently and furthered their efforts to implement MCOOL (Hart, 2007). They had some sway in extending the border closure and then limiting the import of cattle as well as increasing re-inspections at the border (Hart, 2007). The total cost to the Canadian economy amounted to an estimated $6 billion (Moens and O'Keefe, 2006).

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Even after the BSE crisis was resolved, re-inspections at the border became obsolete. As the USDA recognizes and ensures that Canadian health and safety standards are equivalent to the Americans, it makes little sense to incur expensive border re-inspection costs for products that have already passed the quality and safety test of both nations. The quality of Canadian livestock and meat is recognized as out of all products re-inspected in 2009 only 0.012% was rejected due to food safety concerns (USDA, 2011).

Northern US Congressmen and cattle producers' unofficial victory came in 2006 when political power in the US Congress shifted from Democrats to Republicans. This change in power increased support for MCOOL within the political arena and on September 30, 2008 MCOOL became mandatory. Expectedly, the law effectively created a barrier to entry as major US companies refused to accept imported products. This led the Canadian and Mexican governments to establish a dispute settlement panel in October 2009 with the World Trade Organization. On November 18, 2011, the WTO ruled in favour of Canada and Mexico (WTO, 2012). The ruling states that although the US has a right to provide country of origin labeling, the current requirements to comply with MCOOL in the livestock and meat sector constitute a trade barrier by treating imported products differently than domestic products; moreover, that the intent to provide consumers with origin information is not achieved efficiently with the current MCOOL system, thus it constitutes an unnecessary trade barrier (WTO, 2012).

In 2003, an Alberta cow infected with BSE cost the Canadian economy 6 billion dollars

The BSE case and MCOOL interruptions to trade have depicted the importance of integration. As there are no guidelines in CUSTA and NAFTA for how industry regulations need to approach integration, regulatory harmonization has been implemented on an *ad hoc* basis. This has created a gap between legislative harmonization and regulatory harmonization that is allowing and promoting private parties to abuse the system to gain an unfair advantage over market competition (Hart, 2007). This has caused a regulatory vulnerability that can be solved most efficiently by completing a single trade and regulatory regime in the livestock and meat industry. Private interest groups should not be allowed to abuse a system and gain increased profits at the detriment of society.

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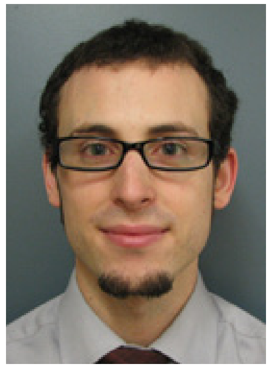

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ASK THE

The government auto bailout: $474,000 per GM employee

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Mark Milke

With sales and profits up at General Motors (GM), proponents of the 2009 automotive bailout for GM (and Chrysler) now assert the taxpayer-financed rescue was a success. In a visit to Michigan in late January, United States President Barack Obama argued the deal saved jobs. Canadian politicians, including Finance Minister Jim Flaherty, who last summer incorrectly asserted taxpayers received all their money back, have made similar boasts.

Given the revisionist history in play, let's place that 2009 deal in proper context.

It's no surprise that GM and Chrysler are doing better: Relieve any company of its debt through bankruptcy and stuff it with taxpayer dollars and it would be remarkable if cash flow and profits did not dramatically improve. But corporate restructuring through bankruptcy regularly occurs. The relevant question, in this specific instance, is why were taxpayers also dragged into it?

The answer—jobs, as the politicians assert—is not convincing. In 2009, 5,420 companies across Canada went bankrupt. Only two were rescued with tax dollars: GM and Chrysler (the latter for the second time in three decades).

It was a costly exercise. The federal and Ontario governments loaned $13.7 billion to the two companies in fiscal 2009/10. That was 38 percent of the $36 billion in corporate income tax revenue collected by both governments that year.

GM's bailout created a $4.74 billion loss for taxpayers

It was an interesting gamble, risking four out of every ten corporate tax dollars to resuscitate two companies. Problematically, in a shrinking market for automobiles, jobs "saved" at one company are merely sacrificed at another. The bailout did not increase demand for automobiles or any of the parts or materials needed to build them.

Some bailout cash has been returned to the public treasury.

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But taxpayers have still lost substantial amounts according to the federal Finance department.

After subtracting the partial repayment made by both companies, the government's sale of some shares they obtained via the bailout, and the present value of GM stock still held by the two governments, taxpayers are still out $810 million on the Chrysler bailout and $4.74 billion on the GM loan. That's an estimated $5.5 billion loss, which will fluctuate only slightly depending on the final GM share price when governments relinquish their remaining shares.

On jobs, three years later, the current employee count in Canada is 10,000 at GM (down from 12,000 in early 2009) and 9,000 at Chrysler (down from 9,800 in 2009). Using present employee counts, that means taxpayers offered up a $90,000 subsidy per Chrysler employee and a $474,000 subsidy per GM employee. (The company-only estimates are fair calculations—in the absence of GM or Chrysler, jobs at auto parts manufacturers and dealerships would have been at least partly restored by either the two post-bankruptcy companies or by other automotive companies.)

Chrysler's loan cost taxpayers another $810 million

Additional job losses at the two companies in 2009 would have been painful. However, put such numbers in the wider context: Across Canada in 2009, 259,000 full-time positions evaporated (with 129,000 of those in Ontario).

It would have been fiscally reckless and practically pointless to try and rescue every company and all employees in every province that year. Instead, laid-off employees have access to employment insurance, tuition breaks, student loans, and retraining subsidies. Auto workers in the same predicament could have accessed these programs for a tiny fraction of the $5.5 billion bailout cost.

Recessions do end and people are re-hired: across Canada, total full-time employment is now 387,000 higher compared to December 2009. That includes 150,000 more full-time positions in Ontario and a whopping 171,000 more jobs in Alberta.

Saskatchewan and Manitoba have 29,000 more full-time positions now than at the end of 2009; that's 10,000 more than the present GM and Chrysler workforce combined. In other words, the two-company automotive bailout was expensive, and counter-productive for GM and Chrysler's competitors and taxpayers in general. It also ignored the wider economy.

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One automotive journalist in favour of the bailout recently argued that such matters should be driven by "hardnosed business insight" and not ideology. I agree. No prudent Canadian bank would have loaned GM and Chrysler billions of their depositors' money back in 2009. That only occurred in the softer, political realm—with a $5.5 billion loss. Meanwhile, US taxpayers are out $23.8 billion according to a recent US Treasury Department report to Congress.

For supporters of the bailout, their error was not only mathematical but conceptual: too many were romantic about particular corporations. But companies fall and new ones arise to take their place. The critical and useful role for government is to create the policy framework that helps ensure a vibrant economy, not to micro-manage layoffs at a particular corporation.

Unless one cares to be protectionist, provincial, or ideological, the GM-Chrysler bailout made no sense in 2009 or now. ■

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Mark Milke is the director of Alberta Policy Studies at the Fraser Institute. He also manages the Fraser Institute's Centre for the Study of Property Rights.

The case for natural gas

The furnace for future economic growth

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Sam Kerr

The price of a barrel of oil has risen sharply over the last decade—from 40 dollars a barrel in 2000, to a record high of a 140 dollars in 2008 (US Energy Information Administration, 2012). Today, even with anemic economic growth, the market price for crude oil is well above 90 dollars per barrel. The reasons behind this shift are not particularly surprising: burgeoning demand accompanied with limited supply has increased the commodity's price. Still feel the price at the pump is too high? Consider the fact that current petroleum consumers are now coming into competition with some 3 billion people who are rapidly trying to play "catch up" when it comes to energy consumption. According to the International Energy Agency (IEA), China and India will account for more than half of aggregate demand increases from 2006 to 2030 (2008). "One thing is certain," the IEA's

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Abundant sources of natural gas and new extraction techniques can address increasing global energy requirements.

director, Nobua Tanaka, stated in a 2008 report, "the era of cheap oil is over. Indeed, most major economic organizations have now ruled out the possibility that oil prices will experience any sustained reduction. Abundant, clean, and inexpensive, natural gas has the potential to meet current energy demands while bridging the inevitable switch to renewable energy sources.

Our economic reality

The issue for global energy stability isn't so much that the world will run out of oil anytime soon, but rather that the quantity of oil extracted will, at some point, plateau and begin to decline. Currently, over 85 million barrels of crude oil are consumed per day and, since oil is a finite resource, this rate of consumption is unsustainable (CIA, 2012). Eventually, 85 million barrels per day will go down to 80 million, and then 70, and then 50, and so on. Diminishing extraction rates are thus far unprecedented in the history of modern economic growth; in fact, since the turn of the 20th century, global oil production has increased year-after-year stopping only during recessionary periods. Geologists and activists alike term this production trend "peak oil," although experts are uncertain if we are approaching, on, or past, this point (Graefe, 2009).

Meeting energy demands

Nearly every aspect of modern life depends on fossil fuel consumption. Chances are that you are currently wearing clothes that were produced thousands of miles away, shipped to a store that you drove to, and then washed using machines and chemically synthesized detergents. Modern civilization depends on fossil fuels—from clothing and food to heating and transportation. This is where natural gas comes in. Globally, reserves of natural gas are abundant. Even the United States, the world's largest consumer of fossil fuels, has a hundred years worth of proven natural gas reserves (ExxonMobil, 2011). Two decades ago most of these reserves were unrealized, but with the advent of extraction technologies like hydraulic fracturing and horizontal drilling (more on this later), proven reserves of gas have nearly doubled. In fact, over 60% of all exploitable gas reserves in the US now come from unconventional sources (IEA, 2012).

Relative prices

Due to its abundance, the relative price of natural gas is extremely low. Natural gas producers in North America, such as Calgary based Encana, have been struggling with low gas prices for several years. In contrast, the price of oil has stayed stubbornly above $90 per barrel—a level that the IEA has concluded "threatens to undermine the fragile global economic recovery" (BBC, 2011). In this context, major oil consumers should transition to relatively cheaper, more domestically abundant, supplies of natural gas.

Infrastructure and development

Natural gas' competitive price, combined with its domestic abundance, makes it the ideal practical alternative to oil. Why, then, aren't markets around the world utilizing the resource?

One reason is a lag in infrastructure development, which poses a significant challenge facilitating the switch between oil and natural gas. Currently, transportation is the most promising area of growth for the fuel to expand into, but the cost of developing the supply chain is substantial. Moreover, like any new technology, natural gas faces several impediments to getting a foothold in new markets.

One such barrier is associated with the economic principle of a *network externality*, which posits that the number of users in a system affects the relative productivity of that system. Here, the adoption problem that natural gas powered cars face is evident. Since there are only a handful of these vehicles on the road it simply isn't profitable for most gas stations to install new refueling technology—and since the refueling stations are uncommon, few car buyers consider selecting natural gas vehicles. This creates a self-reinforcing market where both vehicle buyers and gas stations are reluctant to make a move before the other party invests a significant amount of capital.

Mechanisms of change

The argument for transitioning from oil to natural gas is compelling; however, to what extent (if any) should governments be involved in facilitating the switch?

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Natural gas stations for vehicles are still few and far between.

Proponents of natural gas like Boone Pickens argue that a moderate degree of government intervention is necessary. Pickens sees US dependence on foreign oil as a threat to national security and therefore thinks government intervention is warranted. However, those who believe government intervention would be costly and ineffectual argue that it's only a matter of time before both consumers and producers realize the potential of natural gas as domestic fuel and begin to transition away from oil.

Criticism of natural gas

Natural gas is by no means a miracle fuel, and it is subject to just as much criticism as any other non-renewable energy source. Nevertheless, from both an economic and environmental standpoint the case for natural gas is still convincing.

One common criticism of natural gas is that it produces carbon, and thus, it is just as bad as other fossil fuels. Obviously, natural gas produces carbon, although substantially less than other fossil fuels: 30% less per Btu of energy than oil, and 50% less carbon than coal (Natural Gas Organization, 2012). These numbers are significant, especially when one considers the sheer amount of comparable fossil fuels we use daily. This makes natural gas an excellent alternative to oil and coal, at least

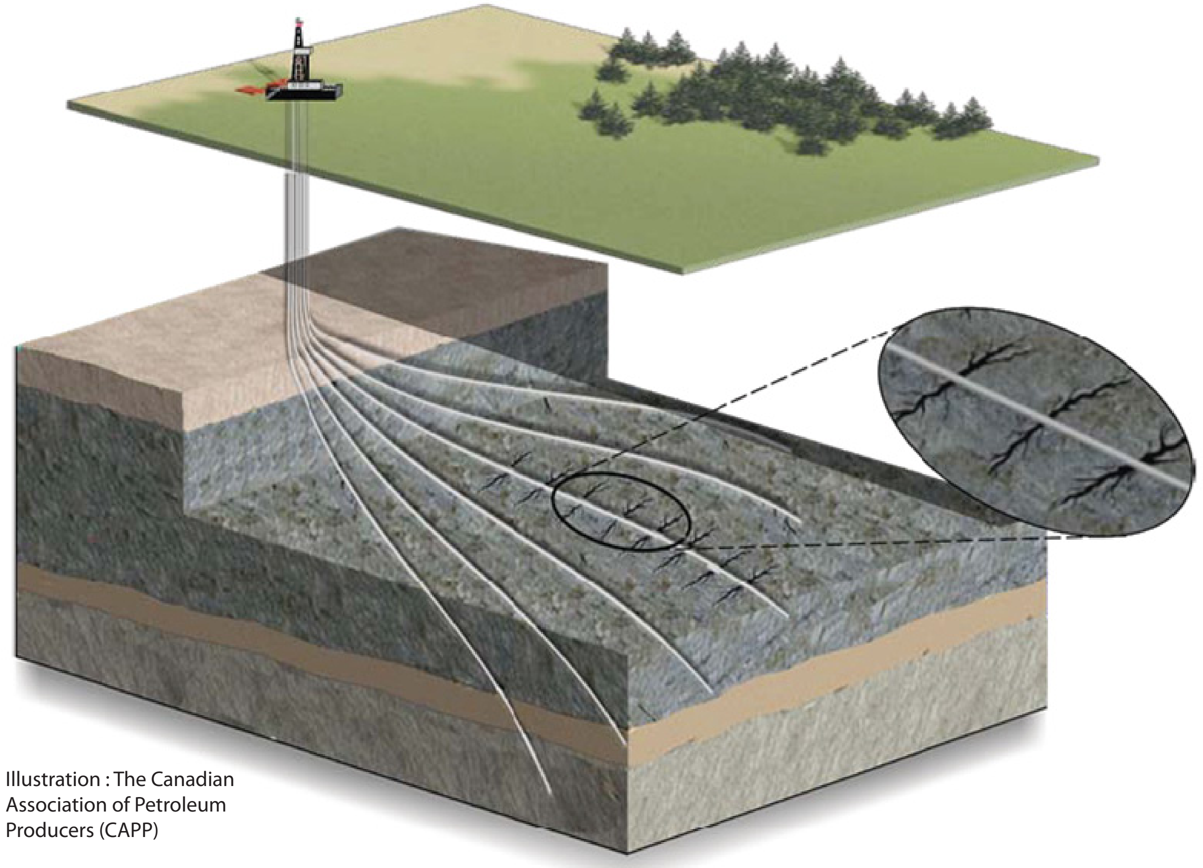
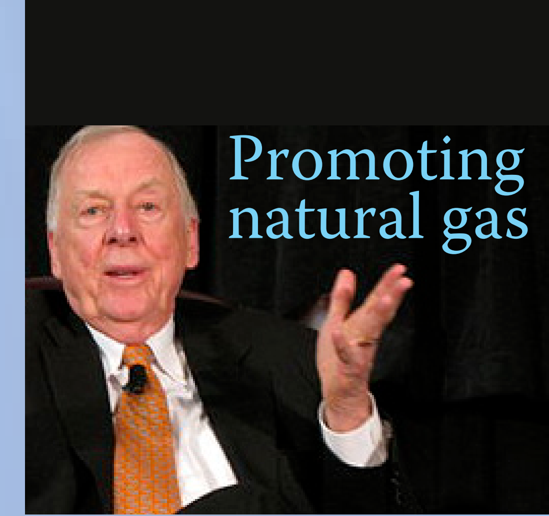


Illustration : The Canadian Association of Petroleum Producers (CAPP)

Hydraulic fracturing (known as fracking) involves breaking natural gas infused shale with pressurized fluid, allowing the gas to rise so that it can be brought to the surface.

until we discover a "miracle fuel" that emits no carbon and can satiate growing global demands for energy.

Another concern about natural gas is the way that it is extracted from deep beneath the Earth's surface. As a result of the "shale gas revolution," much of North America's gas now comes from unconventional sources that have only been exploited within the last decade. Hydraulic fracturing (known as fracking) involves breaking natural gas infused shale with pressurized fluid, allowing the gas to rise so that it can be brought to the surface. Concerns around fracking mostly centre on the possibility of ground water contamination, or the fact that the initial fracturing of a well requires a substantial amount of water. Although these arguments are well intentioned, they are often unsound. Most geologists agree that the physical fracturing process poses little risk to aquifers that are thousands of feet above the wells and separated by impermeable layers of rock and clay. A 2009 report from the Ground Water Protection Agency concluded that, if properly regulated, the chance of ground water contamination from the fracking process is extremely remote. Moreover, developing unconventional domestic resources of gas in a regulated environment is more ethical than buying oil from countries like Sudan or Saudi Arabia, who have serial records of human



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Billionaire, oil-tycoon, and philanthropist Boone Pickens is one of the most vocal advocates of natural gas in the United States. Pickens has long been an advocate of natural gas, urging the United States to "get on its own resources." He points to the colossal portion of the trade deficit that comes from importing foreign oil, and explains the unsustainable nature of borrowing billions from overseas to spend it on buying oil from countries like Saudi Arabia. Despite having made his fortune in oil, Pickens' believes that the United States (and industrialized countries in general) will have to change the way it consumes and produces energy. In 2008 he announced the "Pickens Plan" which would wean the United States off imported oil using a combination of natural gas and other alternative energies (Pickens Plan, 2011). The bill he has put before congress is still awaiting a vote.

rights abuse. Like any economic problem, the issue of energy development must be viewed through the lens of pragmatism, not ideology. Only then does the best way forward become clear.

Conclusion

Over the next decade global demand for energy will inevitably increase. Growing populations, rapidly industrializing economies, and the depletion of conventional oil reserves will all contribute to rising energy prices. Abundant, inexpensive, and clean, natural gas is an ideal fuel to meet the global energy demands. How will markets transition to natural gas? The answer is still unclear. One thing, however, is certain: the kinds of energy we rely upon will continue to shape our economy and planet.

Note

1 Encana's shares have tumbled some 30% due to the commodity's low price. (Encana, 2012)

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Reforestation, alternative energy supplies, and vocational training for mining communitites are just a few of the ways the mining industry demonstrates corporate social responsibility (CSR).

Corporate Social Responsibility in the mining sector

A win-win situation

Luis García Westphalen

In the mining sector Corporate Social Responsibility (CSR) refers to a company's voluntary actions to either reduce the negative impacts of mining (economic, social, and environmental) or to improve the living conditions of the local communities where they operate. By definition, voluntary actions are those that go beyond legal obligations and binding contracts. Thus, agreements between communities and companies cannot be considered part of a company's CSR program because these agreements are similar to binding contracts. Labour rights cannot be considered part of a company's CSR policy either because these rights are usually established by law or by collective agreements. Environmental measures can only be regarded as part of CSR policy if these measures supersede environmental legal regulations.

In most developing countries CSR policies have become a very common practice for mining companies. CSR programs usually consist of investments in infrastructure (e.g., schools, roads, hospitals, health equipment, electricity, clean water, and drainage repairs), investments in building social capital (e.g., information on HIV prevention, family planning, and improving hygiene habits), and investments in building human capital (e.g., providing education, training, and skills). Mining companies also invest considerable amounts of money in

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CSR programs often include investments in hospitals, schools, and roads, as well as building social and human capital

utilizing the most environmentally friendly technology available and in following environmental standards that go well above legal requirements. For example, many companies obtain ISO 14001 to certify that their environmental policy, plans, and actions meet the minimum requirements and comprehensive framework set by the International Organization for Standardization.

CSR programs are not without criticism. Some people characterize these programs as just part of a company's public relation strategy and claim that companies do not intend to really benefit local populations (Hamann and Kapelus, 2004). To others, CSR programs divest profits from a company's shareholders and diminish efficiency of the market economy (Garriga and Melé, 2004). It is therefore important to explore why mining companies engage in CSR practices.

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CSR from the companies perspective: CSR is good for business

Historically, the mining sector has brought important economic gains to both mining companies and local communities. The main economic benefit for locals was an increase in employment opportunities (World Bank and International Finance Corporation, 2002). However, in the past two decades the mining sector has become more technologically intensive and it requires fewer unskilled workers (World Bank and IFC, 2002). Since local communities do not see as many direct benefits from the mining industry as they used to, they are now challenging and opposing mining projects more frequently. Furthermore, increased environmental concerns have also contributed to resistance to mining activities.

CSR programs improve recruiting opportunities for mining companies, giving access to the best and brightest in the labour market

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When opposition to the mining industry materializes as social conflicts, then mining projects risk blockades, vandalism, and other acts of violence. These acts can cause delays in mining projects (which can cost up to two-thirds of a project's initial value) and even closure of mining operations (Humphreys, 2000). Consequently, mining companies have realized that they "face significant risk if they operate without the consent of affected communities" (Kemp et al, 2006: 394) and that they need to focus on "achieving and maintaining a social license, or freedom, to operate" (Kemp et al, 2006: 394). In this context, CSR is part of the mining companies' mechanism to acceptance by local communities.

When communities receive direct benefits to local education, infrastructure, and health care through CSR programs, they are much more likely to accept and support mining activities

Companies that are regarded as socially responsible are more likely to gain respectability and increase their business with governments that are accountable to their citizens (Humphreys, 2000). These companies are also more efficient when recruiting as their reputation gives them access to the brightest and best in the labour market.

From a business perspective the effectiveness of CSR programs is difficult to evaluate because its success "is measured in terms of what doesn't happen rather than what does; the absence of local tensions, of time spent in dispute or litigation, and of not having to absorb the costs of regulatory impositions which were unplanned and unbudgeted" (Humphreys, 2000). However, if CSR's purpose is to avoid "unexpected" social conflicts, it is not possible to calculate the specific costs that these conflicts would have created in a given mining project.

CSR from the community's perspective: A mechanism to compensate for costs associated with mining

While mining companies may regard CSR as good for business, from the communities' perspective CSR is a mechanism of compensation for the social and environmental costs associated with mining. These community costs often relate to environmental impacts, higher food and housing costs, and the social impacts from an influx of immigrants (pressure on health and public services, prostitution, gambling, and alcohol consumption) (World Bank and IFC, 2002).

There is no aggregate data at the global and national levels regarding the benefits of CSR on communities. However, the positive impacts are visible at the community level. For example, in 2001 Barrick invested US$2 million in Tanzania to fund a long-term education program in the remote Kahama District, then one of the worst performing areas. By 2007, primary school enrolment had increased by 75% (7,000 children) and by 2011 enrolment in high school more than doubled (from about 800 students in 2001 to 1,885 in 2011). More than 89% of students who completed secondary school passed their final exams (up from just 16% prior to the implementation of the program) (Beyond Borders, 2011). In Ghana, community health facilitators trained with the support of Gold Fields Ltd. and provided health services to 8,276 people from 2006 to 2008, referring an additional 12,342 people to hospital during the same period (Yankson, 2010). Also in Ghana, 692 hectares of oil palm has been planted with the support of Golden Star Resources, which has become a major source of income for local people (Dashwood and Puplampu, 2010). In Bolivia, rural communities close to Glencore International's Puquio Norte mine obtained electricity as a result of the company's construction of a pipeline with extra capacity (World Bank and IFC, 2002). In Venezuela, a community health centre was run with the support of Placer Dome Inc. (Hamann, 2003). In Chile, Barrick has completed the first phase of a $70 million project featuring up to 18 wind generators with the capacity to produce 36 megawatts of electricity, enough power for 20,000 homes (Phase 1 of the wind farm includes 10 turbines that are now generating 20 megawatts of energy) (Beyond Borders, 2011).

CSR programs are truly voluntary measures

Benefits of CSR can vary significantly from one project to another depending on the design, local suitability, and community support. Projects are most likely to be successful when the specific needs and comparative advantages of local communities have been considered. For example, a palm oil project is more likely to be successful when local farmers already grow palms and there is a local market for palm oil (Dashwood and Puplampu, 2010); a mine-work training program is more likely to enjoy long-term success when a series of mines is being developed; and an infrastructure project (such as pipelines for electricity, roads, schools, or health centres) can be the most important contribution of CSR programs in remote areas (World Bank and IFC, 2002). Successful projects may also result from a series of failures in a process of trial and error (Dashwood and Puplampu, 2010). For these reasons, successful projects are usually designed through participatory methods that allow community members to feel ownership of these projects and for projects to address their most important needs (Hamann, 2003; Dashwood and Puplampu, 2010; World Bank and IFC, 2002).

CSR from a legal perspective

While CSR programs benefit both mining companies and local communities, it is important to clarify that mining companies are not obliged to compensate communities.

Companies cannot be made responsible for all of the impacts associated with mining because these are not damages caused directly by mining. For instance, a rise in the price of housing (or food) is consequence of a revitalized local economy and it occurs when an important business of any kind starts to operate in a city or village. Environmental impacts that are avoided by CSR programs do not characterize damages subjected to compensation because those impacts were permitted by law (or otherwise would not have been part of CSR programs but merely compliance with the law).

The fact that mining companies are not obliged to compensate local communities for the impacts associated with mining confirms that CSR programs are truly voluntary measures. This does not mean that companies do not take these efforts seriously. In fact, CSR programs are increasingly recognized for delivering sustainable benefits and improving the well-being of the communities in which mining companies operate.

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HOT TOPICS!

Presentations on the future of Europe—the fate of the Euro and Greece's debt crisis

- Dr. Herbert Grubel, Senior Fellow of the Fraser Institute, discussed the fate of the Euro at an event in Vancouver on January 26, 2012. Watch the video HERE.

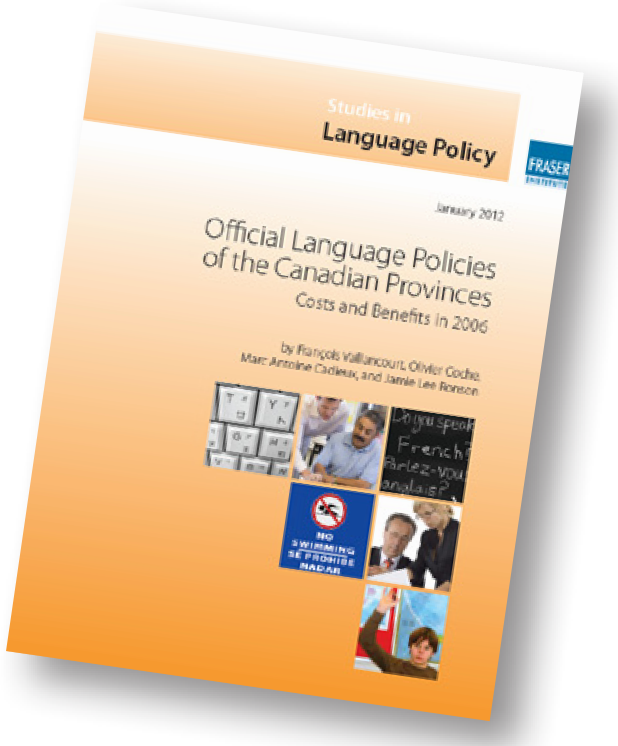
- Kyriakos Mitsotakis, son of the former Greek Prime Minister, discussed Greece's debt crisis and austerity measures at an event in Vancouver on February 17, 2012. Watch the video HERE.

- Watch other Fraser Institute presentations HERE.

Kyriakos Mitsotakis

Official language policies of the Canadian provinces

This study examines the costs and benefits of the official language policies of the 10 Canadian provinces and calculates how much each province spends on providing services in French to a francophone minority. In Quebec's case, the report looked at the cost of providing services in English to the anglophone minority. It is a complement to a study published by the Fraser Institute, *Official Language Policies at the Federal Level in Canada: Costs and Benefits in 2006*, which estimated the total cost of federal bilingualism at $1.8 billion (Vaillancourt and Coche, 2009).



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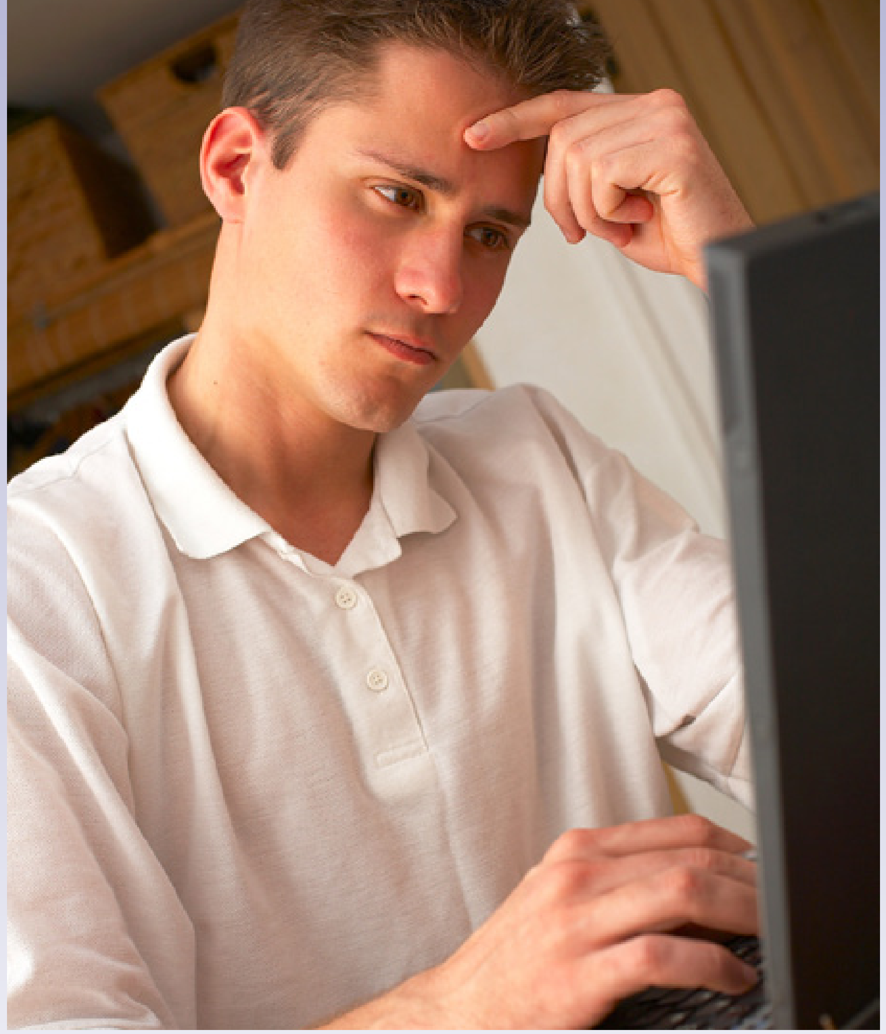
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