Weekender
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BC FERRIES AGREES LNG SUPPLY DEAL WITH FORTISBC

Fortis Inc. subsidiary FortisBC Monday announced it will supply Canadian West Coast ferry operator BC Ferries with 300,000 giga Joules of Liquefied Natural Gas (LNG) per year for the next 10 years.

The supplies are said to be equivalent, in terms of energy, to 7.8 million litres of diesel annually.

The LNG will be supplied from FortisBC's Tilbury facility, south of Vancouver, BC, and from its expanding Mt. Hayes location on Vancouver Island.

BC Ferries' LNG-powered vessels will take delivery of LNG via truck-to-ship transfer when not in operation, as they currently do with diesel.

"We are pleased to collaborate with FortisBC, a safety leader in gas supply, for our new LNG vessels," said Mark Wilson, BC Ferries' Vice President of Engineering.

"The use of LNG has both financial and environmental benefits and this contract will ensure we have a long-term, secure supply to power the new intermediate class vessels."

Fortis BC also said it had provided $6 million in incentive funding towards the building of three new dual-fuel BC Ferries vessels to replace theQueen of Nanaimo and Queen of Burnaby.

Last month, BC Ferries announced the start of construction of the new vessels in Gdansk, Poland, saying delivery of the first new ship is expected in 2016.

OIL-LED DEFLATION CAN BE GOOD, BAD OR UGLY

Not all deflation is the same. In this case, cheaper oil wears the white hat — for now

When you fill up your car with cheap gas, there's a group of economists who just hate it. That's because in many parts of the world the biggest worry for economic stability is the plague of falling prices.

It's called deflation. Many economists consider it to be a dangerous disease that has spread from Japan to the heart of Europe where this week even mighty Germany has succumbed. Now central bankers are worried it could sweep the world.

Although oil prices have crossed back above $50 US, last year's crash from over $100 is just now feeding into inflation calculations. Yesterday, central bankers in Australia and India joined thelong list trying to boost their economies and stave off deflation.

Inflation makes money worth less. Deflation has the opposite effect.

During times of, say, 10 per cent inflation, if you carry a $100 bill around in your wallet for a year, at the end of the year it will buy 10 per cent less. But during 10 per cent deflation, keeping the same $100 will buy you 10 per cent more. That sounds good.

But the reason deflation frightens economists is that falling prices go hand in hand with economic stagnation. As with many economic phenomena, it is not absolutely clear whether deflation is the cause of recession, or whether it's the other way round.

As an economy weakens, businesses and consumers spend less and buy less. If the economy continues to crank out goods and services at just the same rate, the only way sellers can entice customers to buy the same amount is for sellers to cut prices.

Those who blame deflation for recession say that when prices begin falling, people and businesses tend to spend less. Why replace that stove now when it will be cheaper in the spring? Why borrow to invest when what you will have to repay will be worth more than when you borrowed it?

This week I ran across a great report on deflation from the U.S. National Bureau of Economic Research. The study, on the historic impact of deflation, was written in 2004, and has the advantage of not being biased by the current sense of crisis.

The NBER paper says that deflation can be good, bad or ugly. And when it comes to deflation caused by the falling price of oil, that is the best kind of all.

"Good deflations are those that arise from positive supply shocks," says the paper's authors.

In other words, as many people (including me) have said before, having lots of cheap oil, instead of an expensive shortage, is good for an economy. It is an effect similar to having a sudden supply of food after a wartime famine. There will be a shock to the market as prices fall, but the result is clearly positive.

Historically, bad inflation is caused by recessions of the kind mentioned above where demand for goods and services falls in the face of constant supply.

The scary part is when things get ugly. And it is the ugly that central bankers are now desperately trying to avoid by once again flooding the world with money.

"Ugly deflations represent periods of steeply declining prices associated with severe recession," says the NBER report. "During these periods, declining prices arising from aggregate demand are sufficient to feedback to aggregate supply via onerous debt burdens, personal and corporate bankruptcies, financial crises and other adverse conditions."

To translate, the truly ugly happens when a perfect storm of deflation creates chaos and destruction, effectively breaking the structure of the economy.

People who hold cash get richer, but very few people own real cash.

Most of their money is in some kind of debt or equity. But even as interest rates plunge, money held as debt also becomes worth more so borrowers crack under its weight.

Loans are not paid back. Investors stop investing. Spenders stop spending. Companies go broke. Tax revenues fall as the return on investment approaches zero.

Fortunately such ugly deflationary spirals are rare historical occurrences. But then again, that is why they are best avoided.

The difficulty is that the solution to ugly deflation is not easy or obvious, especially when interest rates are already at historic lows.

Creating huge amounts of money, as Japan has been doing for years, does not necessarily break the cycle. Redistributing wealth by altering tax rates was tried in the 1930s. By some analysis, it was only the Second World War that snapped us out of the last ugly deflation.

In a way, the falling price of oil came at the worst possible moment. At a time of high inflation, it would have been just what the doctor ordered.

But if consumers and businesses misinterpret what should have been the good deflation of falling oil prices for the bad deflation of recession, things could get ugly.