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## Business Indicators ♦ August 2003

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### Regional Outlook - North Coast

#### Overview

Boom and bust cycles have influenced activity in the North Coast Region in the past, and growth appears to be on the horizon. Off shore oil, coal, and other resources, many destined to China, as well as increasing demand for electrical power for North American markets, will likely influence activity in the region in the short-term and into the future.

*If only a single piece of information regarding the economic future of a region were available, the first choice of most planners would likely be accurate population forecasts. Nothing is as fundamental to economic activity than the size and make up of the population. To this end, BC Stats maintains a program of population projections for regions within the province.*

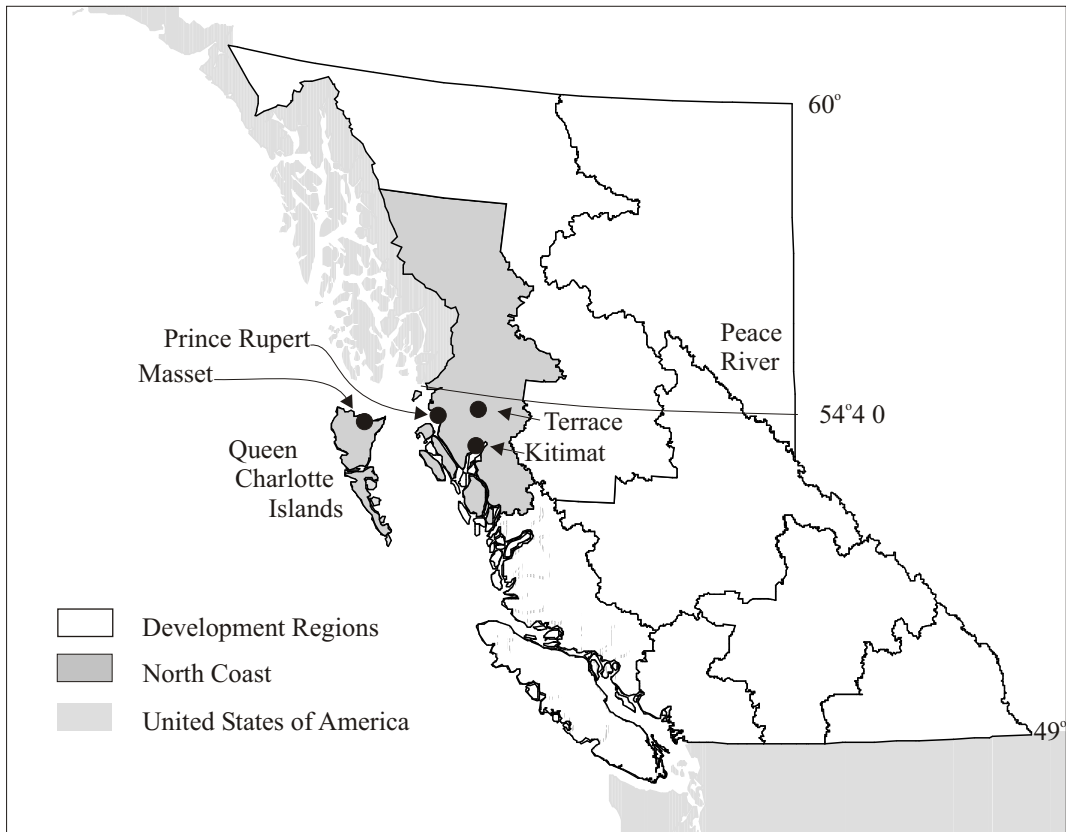
*The method of projecting population requires separate forecasts of each of the components of population change, namely fertility, mortality and migration. We monitor and weigh planned or foreseen economic events that may give rise to in-migration or out-migration of population. An analysis of these events and their likelihood form the basis for a set of migration assumptions for the demographic model. When the collections of such information are organized by region and theme it is possible to build a 'bottom-up' picture of events that may shape a region's future. The report that follows is the second in a series of regional outlooks.*

#### Demographics

Although a portion of mainland North Coast is exposed to the Pacific Ocean, the area north of parallel 54° 40' lays inland behind the Alaskan panhandle, thereby concentrating human population and activity in the southern portion of the region. Between 1996 and 2001, the population dropped by 8.5% from 68,413 to 62,570 as a result of out-migration. Most of the movers were young working families. As the population aged, fertility declined. This, coupled with the fact that younger persons and families moved out of the region, resulted in a drop in the number of people under the age of 45, while those over 65 increased. Consequently, enrolment in schools in the region has been dropping, resulting in many school closures and teacher layoffs. Housing prices have also declined, in some cases more than 50% since the highs of 1996. As people moved out, the vacancy rate has risen; in Terrace the vacancy rate rose to over 40%. Due to the population drop, electoral jurisdictions are being adjusted. The federal electoral boundaries are being changed to increase the riding size, and as well Regional District representation is being adjusted.

However, as the overall population declined, the aboriginal population grew. In Terrace, those identifying themselves as aboriginal grew by 37 per cent between 1996 and 2001 to over 3,000 while the numbers dropped slightly in Prince Rupert. Higher than provincial average fertility rates combined with some in-migration, particularly from Vancouver, have contributed to the growth. This trend in Aboriginal population has helped to reduce the impacts of overall population decline in the region, benefiting businesses especially in the Terrace area.

## North Coast Development Region



### Employment

Unemployment for the region has been over 10% since 2000, and is currently around 10.9% having been as high as 16.1% in May 2002. Economic difficulties began in 1996 resulting in out-migration particularly of working families, with many moving to Alberta. For some people, an alternative to moving has been retraining. Unfortunately, the federal job re-training program, although expanded, could not accommodate the growing number of people interested in upgrading skills leading to 160 applicants being rejected in September 2002.

The Nisga'a land agreement has been cited as having improved employment as well as bolstering business in the area. Infrastructure development is currently a priority in the Nass Valley. The largest export from Nisga'a in 2002 was pine mushrooms. Nearly 30,000 kg were harvested with a value of over \$1.3 million.

### Transportation

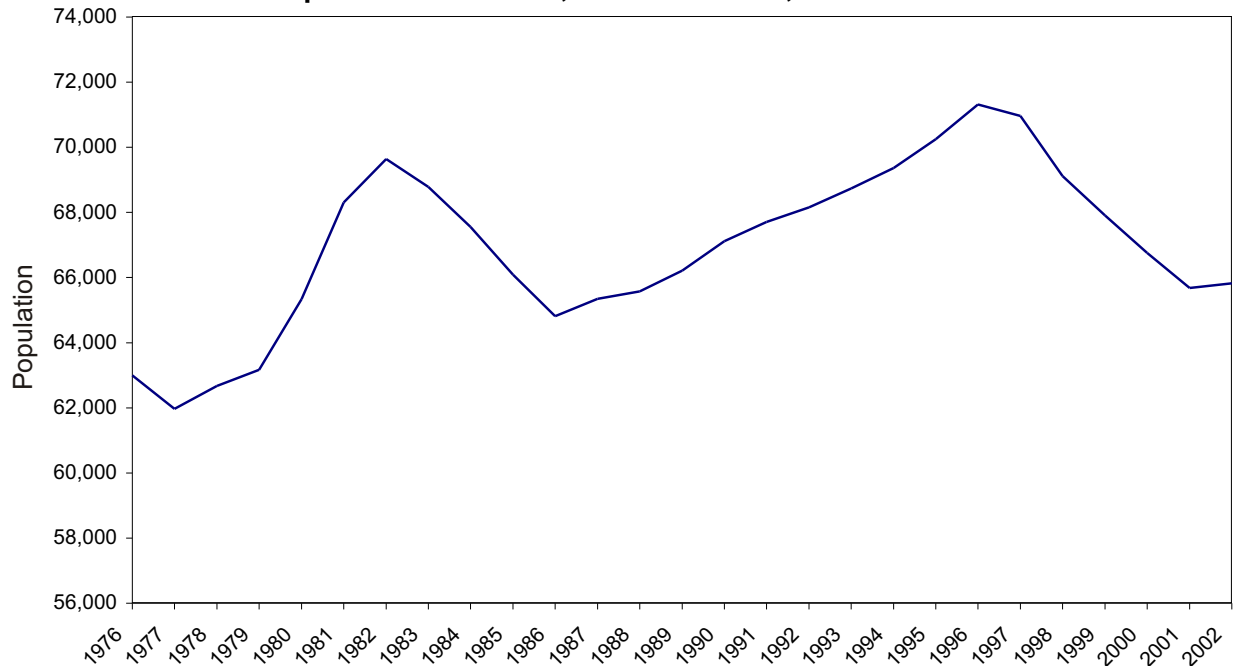
There was a decrease of 12% in port traffic out of Prince Rupert for the fourth quarter of 2002 relative to 2001. This was primarily due to the

closure of the Quintette coal mine in the Peace River area but also because ocean carrier services for some pulp customers has decreased. Coal exports should increase with the opening of the new Wolverine and Brazion mines in Northeastern BC. Western grain shipments have suffered as production dropped due to drought; however, grain production in the Peace Region was good in 2002 and a strike at the Vancouver terminals meant more volume for Prince Rupert.

Efforts are being made to develop a container port so that northern products do not have to go through Vancouver to get to international markets. An increasing number of commodities now move via containers including grain and pulp. In addition to Prince Rupert, Kitimat is also interested in attracting a container port. In an attempt to make BC ports more competitive with U.S. ports, proposals are being made to reduce relatively high industrial taxes set by municipal governments.

Other potential port activity may include a tank farm in Prince Rupert to handle 400,000 barrels

**Population Estimates, North Coast DR, 1976 to 2002**



of bitumen a day delivered via a pipeline from Northern Alberta. When completed, the 30 inch, 1,250 km project proposed by Enbridge Pipelines Inc. is estimated to cost approximately \$1.5 billion. A new resource road to the Kemess mine, 450 km north west of Prince George, is also being considered. Over \$50 million in roads continue to be built throughout the region. In early December 2002, the more than 300 residents of Kincolith were connected to the road network for the first time. The city of Prince Rupert has been actively promoting \$1.3 million in bridge work to connect local communities.

### **Fisheries**

Only a few fin fish farms are located along the coast, all near Jackson Passage, and as many shell fish farms are more widely dispersed. Due to agreements with the UN on fish stock conservation, the commercial sockeye catch is to be lowered to 40 per cent below its traditional level for the next 20 years. As well, the federal government is planning to reduce funding to hatcheries for the Pacific Region by approximately \$21 million. In the meantime, plans are being made to increase the number of fish farms in the region. Other economic activities being actively promoted include seal hunting. The local member of parliament has asked Ottawa to allow a similar hunt as that taking place on the Atlantic coast. There, 350,000 seals are killed annually.

### **Forestry**

The Annual Allowable Cut (AAC) continues to be reduced. The Kispiox timber supply area AAC has dropped to 977,000 cubic meters, down 11% as of January 1, 2003. The North Coast TSA cut has been lowered to 546,624 cubic meters as of July 3, 2002, down 5%, while the Kalum (July 15, 2003) and Queen Charlotte TSAs (April 30, 2003) remain unchanged. Talks continue between the Haida Nation and the Ministry of Forests on whether to increase the AAC for part of Moresby Island by 12%. As a result of the dropping AAC and international trade restriction, forestry activity has been slowing. However, the growing demand for pulp, particularly in China, has resulted in an increase in prices since the lows of 2002. At Eurocan, in Kitimat, the Communications Energy and Paperworkers local 298 went on strike in May. Consequently, 60 employees of West Fraser's sawmill in Terrace were temporarily laid off in June due to a lack of fibre.

Rising pulp prices may provide New Skeena, formerly Skeena Cellulose, an improved opportunity to restart operations at its Watson Island pulp mill. The owners, NWBC Timber and Pulp Ltd., have been trying to reduce costs and acquire capital before reopening the mill. Workers have been offered a 20% wage reduction as well as reduced benefits but have been reluctant to reach a deal. Recently, the

### Labour force estimates, North Coast/Nechako Economic Region, 1995 to 2002

	1995	1996	1997	1998	1999	2000	2001	2002
<b>Labour force</b>	53.4	56.1	57.0	52.4	51.2	52.9	53.2	53.0
<b>Employment</b>	49.1	51.9	51.8	47.4	46.7	47.5	47.4	46.3
<b>Full-time employment</b>	40.5	41.8	42.2	38.2	37.4	36.3	36.8	35.7
<b>Part-time employment</b>	8.5	10.1	9.6	9.1	9.3	11.3	10.6	10.6
<b>Unemployment</b>	4.4	4.2	5.2	5.0	4.5	5.4	5.8	6.7
<b>Not in labour force</b>	21.0	19.8	19.6	23.6	23.9	21.6	21.1	21.3
<b>Unemployment rate</b>	8.2	7.5	9.1	9.5	8.8	10.2	10.9	12.6
<b>Participation rate</b>	71.7	73.9	74.4	68.9	68.2	70.9	71.6	71.3
<b>Employment rate</b>	65.9	68.4	67.6	62.4	62.2	63.7	63.8	62.3

citizens of Prince Rupert voted 70% in favour of spending \$20 million to buy the pulp mill given that certain conditions are met. In order to help stimulate logging activity in the region, where timber quality is poor and logging conditions are difficult and expensive, an order in council was made available to all tenure holders in the North Coast, Kalum and Kispiox Forest Districts allowing 35% of the logs to be exported.

### Energy

Alcan Aluminium was ordered to honour its commitment to pay \$100 million to BC Hydro in January, even though Enron, due to bankruptcy, could not pay Alcan for the electricity generated in Kitimat. With the price of aluminium not expected to rise in the near future, particularly given the increased output from China and low world GDP, Alcan is looking to increase power sales. The \$50/mw offered by BC Hydro makes electrical sales more attractive than producing aluminium. Plans have been proposed to upgrade the Kitimat smelter, increasing capacity, reducing the work force, and allowing more power to be sold. Estimates have been made that the 6,000 direct, indirect, and induced jobs could drop below 3,000. Local town councils have proposed to apply taxes if Alcan shifts its wealth generating activity; the power generating facilities are not presently taxed. One of the difficulties in levying taxes is that some of the water ways that may be used to generate saleable electricity now belong to Alcan having been signed over in the 1997 Kemano cancellation settlement. Alcan may soon acquire Pechiney SA, the company

responsible for improving productivity at its multibillion-dollar smelter in Alma, Quebec. This move, along with the present conditions, would appear to increase the likelihood of changes to the aluminium facilities.

In order to meet increasing demand for electrical energy, BC Hydro has been actively seeking independent power producers. A \$15 million, 160 megawatt wood residue burning facility at Eurocan in Kitimat has been approved. In March, Nai Kun Wind Development Inc. received an exploration permit to test the ground under the water near Masset, between Haida Gwaii and Prince Rupert. When built, the \$1000 million wind farm would generate 700 megawatts of electricity without the 800,000 tons per year of emissions that would result from hydro carbon burning. Construction could begin in 2005. In April, the Premier Power Corporation received approval from BC Hydro to have the Long Lake Hydro Project near Stewart provide 83.2 mw of electricity to the grid. The Forrest Kerr Water Power Project has been accepted for consideration as a green power provider. This 'run of the river' facility would have a 100 mw capacity, and generate 633 gigawatt-hours annually. Other run of the river projects seeking approval are the dormant Anyox and Kitsault dams near Alice Arm.

### Off-shore oil

The moratorium over off-shore drilling was imposed in the 1970's due to the rising concerns over possible adverse effects on the

environment. Tests done in the area show that there are potentially large reserves off-shore. The resumption of drilling could result in increased economic activity and population in west coast communities from Prince Rupert to Port Renfrew. However, before the go ahead is given, issues of jurisdiction between the provincial and federal governments must be addressed as well as Aboriginal land claims. A \$6 million federal study is being conducted to examine environmental impacts and the regulatory regime. As well, the University of Northern BC has developed a program to organize a database of information about oil and gas development that is accessible to the public and to create a community liaison network. According to the provincial government's Scientific Review Panel "there is no inherent or fundamental inadequacy of the science of technology, properly applied in an appropriate regulatory framework, to justify retention of the BC moratorium" on off-shore oil and gas drilling. It is estimated that the moratorium will not be lifted for five years. A report co-produced by the Maritime Awards Society of Canada and BCIT (March 2001) indicates the value of off-shore reserves at 150,000 million barrels of oil and 6 trillion cubic feet of natural gas worth tens of billions of dollars. Recently, a legal team has been put together to address potential issues and suggestions to set up marine parks in the area have been put forward.

## Summary

Increasing demand for pulp will help that industry, even though forestry activity will likely continue to slow as the AAC is reduced and world wood supply remains high. Reductions in wild fish quotas will likely be replaced by increases in fin fish farms but not until environmental issues have been addressed. Increasing energy demands world wide will likely increase exports of electricity as well as oil, gas, and coal through, and out of, the region. Therefore, Prince Rupert's port activity should increase marginally in the long term after continued declines in the short term. New energy generation facilities will likely result in increased construction activity mitigating some of the out-migration due to the current weakness in the resource sector. As a result, the overall population should continue to decline for the short term, although at a reduced rate, with an increase expected to begin in 2005-2006.

For more regional information see  
<http://www.regionalindex.gov.bc.ca>