

2.4 Key Informant Interviews

In an effort to gain further insight about specific sectors of interest in the Peace River region, a series of key informant interviews were conducted over the course of the project period. Individuals were interviewed who were considered to have specialized knowledge about the trends and issues affecting sectors, along with recommendations for addressing their needs in the Rural Community Plan. Supplementary research and newspaper was done to profile the issue concerning BC Rail as agency representatives were not available for comment during the field consultation phase for due to the pending sale of that Crown corporation.

Sector of Interest	Key Informant(s) & Affiliations	Sector Focus
Industry		
A1	Rob Carss, Canadian Assoc. of Petroleum Producers	Oil & gas producers
A2	Steve Kozuki, Council of Forest Industries	Forest industry
A3	Bob Fedderly, North East Oilfield Contractors Assoc.	Oil & gas contractors
Transportation		
B1	Vic Brandl, Peace Region Transportation Adv. Com.	Transportation
B2	Media Review on BC Rail	Railway
Rural Development		
C1	Frances Armstrong, Doris Brocke; Kiwans Enterprise Centre	Rural diversification
C2	Barry Willis, Peace River Agricultural Development Fund	Agricultural industry development
C3	Patsy Nagel, Northern Horizon Newspaper	Community development
Real Estate		
D1	Arlen Brekkas, B.C. Northern Real Estate Board	North Peace real estate
D2	Lloyd Smith, Northern Lights Real Estate Board	South Peace real estate
Education		
E1	Wim Kok, Northern Lights College	Post-secondary education
Heritage		
F1	Donna Redpath, North Peace Historical Society	North Peace heritage
F2	Gerry Claire, South Peace Historical Society	South Peace heritage
Recreation		
G1	Paul Solmes, George Kunz, Peace River Regional District	Regional parks, recreation
Tourism		
H1	April Moi, N. Rockies Alaska Highway Tourism Assoc. Michael Potter, FSJ Chamber of Commerce	Regional tourism
Environmental Stewardship		
I1	Murray Clark, Ducks Unlimited	Wetlands protection
I2	Wayne Sawchuk, Chetwynd Environ. Society	Land resource mgt.
I3	Gwen Johansson, Hudson's Hope Landowners	Rural land protection
Water		
J1	Brent Henschel, Garth Mottershead, Allan Eagle, Brian Haddow Prairie Farm Rehabilitation Admin.	Water management

Rob Carss**Canadian Association of Petroleum Producers (CAPP)****Sept. 30, 2003****Focus: Oil & Gas Development**

CAPP is an industry lobby group for the oil & gas industry based out of Calgary; Mr. Carss serves as CAPP's Manager for B.C. and was invited to provide information on oil & gas industry trends, as well as recommendations for addressing industry needs and issues in development of the Peace Region Rural Plan; Mr. Carss also recently contributed to research commissioned by the North Peace Economic Development Commission on the employment impacts of the oil & gas industry in north-east BC (Nichol et al. 2003)³;

Access to the Resource Base, Dispute Resolution and Planning

A key issue concerns the fact that resource tenures which overlap Crown and private land are not always compatible with oil & gas development, or are themselves conflicting tenures (e.g. hunters, trappers, aboriginal traditional-use areas) – the question for industry to deal with is whose tenure rights supercedes whose, and whether or not they need to be considered individually or over a broad area.

While the industry has an arbitration and mediation (negotiation) mechanism for dealing with tenure holders, and rural landowners on financial compensation issues, it is often inadequate for dealing with many other issues including access, surface rentals, environmental health, heritage concerns, community concerns; the industry therefore needs an Alternative Dispute Resolution mechanism to deal with issues on a more comprehensive basis; it would be very worthwhile to consider the Alberta Energy Conservation Board as a model for B.C.

Creation of a 'Surface Rights Appeal Board' would be a good mechanism to advocate on land-use issues, cumulative effects management; and should be disconnected from the OGC as a legal entity; does not have to be geographic focused, but rather sector-specific to deal with common issues.

Resource Impacts

The industry recognizes the need to be able to consider the "landscape footprint of its activities"; at present, there is lack of focus on LRMP and it would be beneficial to consider other local and regional management plans to resolve landscape issues; a central issue in assessing broad level impacts is the cost for doing such studies; the oil & gas industry can only be asked to consider incremental costs of its activity, and other stakeholders will need to contribute a proportional amount of the cost (i.e. cross industry sharing between agriculture/ranching, forestry, mining); rules for considering landscape impacts cannot be prejudicial to one industry – the net result must be recognizing impacts, and finding ways to manage risk and avoid contamination, etc.; each industry has its own measure of risk tolerance, and employs different approaches to this issue; recommend that the PRRD have a

³ Authors note: although the results of this study were not available at the time of the interview, a subsequent review of the findings point to significant implications for regional growth if BC government policies are able to provide incentives for capturing a lot of the employment leakage to Alberta e.g. through permanent in-migration, expansion of firms both in, and around the main urban centers of the Regional District.

role in directing the Ministry of Sustainable Resource Management/Water Air & Land Protection/Energy & Mines in identifying impacts to communities.

There are various approaches to measuring impact; it must be possible for the OGC to have exclusions for dealing with specific local concerns, and can have that information identified in the pre-tenure or land posting stage; the key is knowing what is out there, and industry relies on government to identify and catalogue this information; industry must consider the extent of planning being done, and is difficult that there are cross-differences of mandates between Ministries, in terms of 'who owns the resource'

Compliance and Enforcement

There is a trend towards more 'self-regulatory' or preventative approach (results-based) that would lead to penalties for unsatisfactory outcomes; focus at present is on compliance, and is a graduated system with reporting of non-compliance; it does not lead to major enforcement but needs to emphasize severity of off-site problems, and must be qualified; one problem is who considers broad-level impacts.

Pre-tenure planning

Since the OGC is the front-line regulator for the industry, they now have an effective 'one-window' approach, but there is some question as to how the public might perceive bias in dealing with their interests or concerns; it would be valuable to have separation of the regulator from the policy-making branches of government, as a problem is created with overstepping; there needs to be a mechanism to consider broad planning issues. The PRRD should be in a brokering role for land-use issues resolution e.g. advocating for pre-tenure planning; don't want to wait until mineral development phase as there is potential for problems increasing in severity.

One valuable exercise (as done in LRMP's) is to define suitable/unsuitable areas for development; the PRRD could again act in a facilitating role, bringing together cross-section of stakeholders in helping to build trust; in working to resolve surface rights disputes, there must be a fair, neutral arbitrator to avoid conflicts before they hit.

There is some value in building a strategic approach to industrial development in the region; OGC provides the one-window mechanism for dealing with issues about proprietary information/disclosure about expanding fields, but there is an issue about how development scenarios will be delineated e.g. use of existing infrastructure/intensive development vs. new infrastructure/extensive development; since industry proceeds on a sequential basis i.e. from geological stage, to market pricing and then policy/regulatory phase; it can't be over-regulated or will drive industry costs too high and limit investment; so policy-makers & planners must consider the basis of economics in their long-term plans.

Rural Water Quality and Supply Protection

The gathering of base-line data must be done early; some responsibilities lie with Land & Water B.C. (water sources, water well locations), while other aspects are managed by OGC (reservoir mgt, aquifer protection for surface wells) and MWALP (pollution monitoring); sometimes, there is not effective baseline data available, or sharing of data to anticipate impacts; there needs to be better coordination between government agencies to minimize risk to water sources from oil & gas activity;

Siting of Oil & Gas Operations

Siting issues are a major flag to industry – there can be the “not in my backyard syndrome” that can develop but this results in adhoc solutions; the industry wants to have a consistent, regional approach on siting of facilities, infrastructure; it must not be subject to changing rules but should have guidelines to deal with certain problems (e.g. visual, noise, dust impacts); can't use prescriptions to deal with these issues, or regulating could lead to de-investment and impact upon industry's rates of return; one approach may be to consider delineating intensive development areas; improved planning between MEM and regional district can lead to reduced impacts. The Agr Land Reserve is a big source of frustration for the industry, however most activity occurs outside of the ALR e.g. Encana is in conflict with the ALC who is concerned about risk of precedence.

Use of Technology

New technology has evolved to deal with environmental and social impacts e.g. in the exploration phase: use of low-impact methods with winter access, narrow seismic; heli-portable operations in remote areas, exploratory drilling with 3 wells per pad); in the development phase: use of directional drilling with up to 12 wells per pad; reduced no. of roads constructed; and in operational phase, use of incineration facilities and muffling to reduce noise; through better development planning, there could be a reduced use of facilities and lower costs for industry.

Operations by Encana in the Cutbank Ridge area are an example of a pro-active approach for a single company, where development is planned proximal to rural communities (e.g. noise reduction, incineration or flaring, acid gas disposal well through disposal wells, or subsurface CO₂ disposal).

Economic Multipliers

In addition to the direct employment, the oil & gas industry creates multiplier opportunities for new business development e.g. waste-water trucking, waste mgt., catering; First Nations are negotiating various joint ventures; protocols and alliances between developers. Alberta/B.C. business harmonization is a central issue for the north-east due to differences with PST, transportation servicing, WCB which creates local non-competitiveness – the industry needs to move a more level playing field

Education & Training

There is some value in doing more public education about how the industry operates; CAPP can provide backgrounders, information sessions for the PRRD; copies of its newsletter; there is a general need for understanding of the issues, and a balance of information between what the regulator provides, and what the industry perspective is.

Summary Points

CAPP recognizes that the industry cannot develop in isolation to community plan and processes; through increased dialogue it can further develop its relationship to the Peace River Regional District; it can provide important insights on aggregate trends; informal and formal input, relevant information through its WEB sites, etc.

Bob Fedderly, President
Northern Society of Oilfield Contractors & Service Firms (NSOCSF)
June 26, 2003

Bob Fedderly is president of the Northern Society of Oilfield Contractors & Service Firms, an organization with a mandate to promote northern business development in the oil & gas industry. In 2003, the 108 member firms of NSOCSF, and their 3000 employees represented more than half of all the industry service firms in the north-east. The organization maintains a directory and Web-site for its members' businesses, and provides representation to government and industry on its needs and objectives. In this interview, we reviewed recent developments in the oil & gas industry, and the following is a summary of key points of concern with respect to regional land-use planning and development, and where noted is supplemented by additional background research:

Present Industry Trends⁴

Despite the 39% increase in the number of wells drilled from 1996-2002, and four-fold increase in government (land-sales and royalty) revenues including the August 2003 land sale in the south Peace region; a major issue is the competitiveness of north-east B.C. firms to ensure maximum benefits for employment and business development in the region's industry. According to a study commissioned by the North Peace Economic Development Commission and funded by the B.C. Ministry of Energy and Mines, the region is experiencing an estimated loss in the region of approximately \$1.6 Billion in employment income, and tens of thousands of jobs, with 4 out of 5 oil-patch jobs being taken by people outside of B.C. (3,000 of 16,000 direct industry, and 8,000 out of 45,000 indirect jobs).

Alberta firms and individuals are capturing a significant amount of this work due to their base of skilled labour which has decades of experience drilling in the Western Canada Sedimentary Basin; the report states that as a result of this imbalance, there is a loss to the north-east and B.C. of income tax revenue, PST, corporate taxes, property taxes, economic diversification, and funds for community health and stability; it goes to say that although the population base in the north-east is not sufficient to capture all the potential employment, further research by the B.C. government on the economic leakages is underway as a step toward developing a new tax and policy regime to recover some of this lost economic value.

Business Location

A key issue of concern to Mr. Fedderly is the imbalance in taxation rates between areas in the rural fringe which, while creating some incentive for oil & gas service firms to locate in these areas, it creates a significant competitive advantage over similar firms that are located within the urban areas; in some cases, adjacent firms located along the regional district - urban boundary are in fact being subsidized through the benefits of access to urban infrastructure (e.g. water, sewer), and to lower regional district business taxation rates.

⁴ Source: Northeast Oil & Gas Sector Employment Sector Analysis; Lions Gate Consulting, Vancouver; report prepared for the North Peace Economic Development Commission; Authors note: although the results of this study were not available at the time of the interview, a subsequent review of the findings point to significant implications for regional growth if BC government policies are able to provide incentives for capturing a lot of the employment leakage to Alberta e.g. through permanent in-migration, expansion of firms both in, and around the main urban centers of the Regional District.

While Mr. Fedderly explained that the city of FSJ is taking steps to reduce mill rates for business and stimulate land-use efficiency within its boundaries through in-filling, he feels the Regional District needs to consider land-use policies and zoning in the urban fringe and rural areas that ensures an equitable treatment of oil & gas service firms for maximum regional economic benefit.

Road Development

Another impediment to the regional oil & gas service industry is lack of permanent all season access between the north-east and Alberta north-west regions; construction of a permanent road will help to create some cost efficiencies and possibly competitive advantage over Alberta based-firms which service both regions.

All weather access into low lying and muskeg areas is an important issue that provincial industry program incentives are trying to overcome through the use of new road-building technology

Permitted Uses on Rural Quarters

There are many individual oil & gas contractors that reside throughout the rural areas, and who maintain their equipment as part of a home-based business.

Focus: Forest Industry Trends and Issues

<p>Steve Kozuki General Manager, Forestry Council of Forest Industries (COFI) Dec. 4, 2003</p>

Mr. Kozuki was asked to comment on key forest industry trends (current and emerging) that are likely to impact upon forest-dependent communities in the north-east. The following is a non-prioritized and inter-related set of factors that he feels are important. He was not able to offer comments on the operations or plans of specific forest companies, but rather the conditions around which they make their business conditions.

The “B.C. Working Forest” Policy

This policy initiative of the provincial government is a key force in shaping the industry over the next several years; Minister Stan Hagan is presently shopping it around, and talking to municipal leaders; a recent presentation in Prince George provided highlights of the policy which is targeted at all resource industries including oil & gas, mining, agriculture/ranching and will apply to all forests in B.C. or 45 million ha. (1/2 the provincial land base); as a higher level strategic plan, it is intended to bring certainty to land-uses without being encumbered by other processes (i.e. Protected Areas as a focus of the previous gov't....this gov't is entrenching the concept of “highest and best use” of the land (e.g. higher economically-valued resource which in any specific area may be dominated by sectors other than forestry such as oil & gas, mining, or ranching).

The policy will endeavour to achieve more coordinated planning, and operational decisions will be subordinate; it shifts away from the “Integrated Approach” to resource management because the protection of all resource values can't necessarily be achieved; as long as other uses are compatible (which is usually the case), other resource tenures will be permitted and protected (e.g. guiding/backcountry recreation) – a process will be used to determine whether tenure rights are affected and a \$200 million compensation mechanism has been established to cover impacts to tenure rights; if wildlife populations or habitats are affected, alternative silviculture approaches may be considered after an assessment to determine whether thresholds of populations will be irreparably harmed.

Tenure Re-Allocation

Another central feature of the new policy, and as specified in the New Forest Act (effective April 1, 2003) was the re-allocation of 20% of existing tenure volumes to: First Nation; BC Timber Sales; Community Forests and Woodlots; these volumes will be loaned back to companies; the new provisions frees the companies ability to consolidate multiple tenures and makes them also divisible e.g. Canfor could subdivide its Forest Licence and make it available to other forest tenure holders – this is further enabled through the withdrawal of the “appurtenance” provisions in the former legislation; a focus will instead be put on penalization for over-cutting instead of penalties for under-cutting the annual allowable cut volume.

A key element of the new policy relevant to the north-east, is the reshaping of the Small Business Forest Enterprise Program to the B.C. Timber Sales Program (BCTSP) will have tremendous ability to affect the free market given that it will represent the largest tenure in the province with an estimated 12.4 m³/yr (or 20% of the 62 million m³ currently available in

B.C.); through auction, stumpage rates will be determined by the sales in BCTSP, and will be used to establish stumpage rates for the balance of tenure holders (i.e. the 80% market balance); and the data will also be representative of major licencees (which it currently is not).

U.S. Forest Product Exports

The US Softwood dispute has a major impact on the industry given the importance of the US markets, and the high tariff payments being made to ship there over the past few years (e.g. Canfor has been paying \$200 million per year in duties); although there have been some recent false hopes set in trying to get an agreement, the impending Softwood agreement now being discussed is the closest the industry has been to getting a deal, and will include a settlement concerning the existing duty deposits (up to \$1.7 Billion may have to be given up; and 2) a quota system for between 30.5- 32.5 % of the U.S. market (equivalent to approx 17-18 Billion board ft) to be distributed between all forest licencees in B.C. (including major manufacturers, First Nations, woodlots, community forests); the net result may be that a major barrier for new entrants to the U.S. forest product export business will be created by the new agreement i.e. smaller lumber producers and entrepreneurs may not get access to the U.S. market and won't be able to compete with those larger companies that do.

The central problem with the B.C. forest industry is that while it has one of the most progressive and cost-efficient mills in the world for forest production, it does not have the most efficient system for managing the forest supply...and it is still very costly. At the end of the day, it still has to measure net profits in comparison to other global suppliers.

Higher than average dimensional lumber prices have offset the cost of the higher tariffs, but these prices fluctuate considerably; pulp prices are relatively stable, and markets could potentially expand for BC pulp; Oriented Strand Board (OSB) prices have seen a significant drop from the high last year of \$715/unit due to the US gov't purchase for Iraq rebuilding & record US housing starts to present price of \$500/unit but even at that price it is still a very lucrative industry.

New industry investments in the Peace Region (LP Veneer Plant, FSJ OSB plant) may still be dependent on negotiations regarding the provincial tenure take-back, and whether there is sufficient funds to compensate for the LP/Slocan tenure; other ventures such as the Canfor merger with Slocan is still subject to Competition Review to determine if a monopoly situation may be created as government doesn't want to diminish free-market; the major banks also must consider financing rates (higher %) given current period of uncertainty with policy/market conditions and the inherent higher risks – these all affect further development of the BC and regional forest industry markets; a driving consideration is now “global competitiveness”, but such developments have to be evaluated in the context of social/economic forces & demands in the province -- - begging the question whether a merger is needed to maintain competitiveness.

Given the above, it is not clear whether this means an opportunity or threat to the existing north-east forest industry; there should be more small business opportunities with the industry restructuring assuming other business conditions can be met.

B.C. Rail Sale

At present, 75% of B.C. Rails revenues have been historically derived from transport of timbers; although there have not been many comments from the forest industry, David

Emerson of Canfor did make public comment in support of the sale; the CN proposal, which was recommended for acceptance by the BC government on Nov.25, will result in reduction of freight rates (to an average of 7%), and reduced shipping time to Chicago (the principal distribution centre for lumber in North America) i.e. Chicago Express will be reduced from 7 days to 4 or 5 days; saving about 90 hrs)--- this cost factor is critical for both the dimensional lumber and OSB markets.

Forest Practices

Changes to forest management legislation (Forest and Range Practices Act) have shifted focus to 'results-based' measures but have not changed environmental standards; while the former Forest Practices Code was more like a cook-book with heavy emphasis on bureaucracy, and was a cumbersome, expensive processes for industry – the present focus maintains the capacity for undertaking forest practices compliance but lessens the planning/office end of the process (e.g. Forest Stewardship Plans replace Forest Development Plans and Silvicultural Prescriptions) – with results required to be documented on the ground while achieving the same previous standards for free-growing stands i.e. “the bottom line still remains to not hurt the dirt, squish the fish, manage the moose and goose”.

Forest Certification

Over the past decade, market pressures have been exerted on large forest industry in response to a public demand for more accountability on the quality of forest management; in the BC Peace region, major forest licencees are pursuing various certification processes which range from international system management & quality control standards (ISO, CSA), to industry self-regulation standards (Sustainable Forestry Initiative), while some are considering more rigorous systems (Forest Stewardship Council) that seek to address landscape management, community development and indigenous rights objectives; at present, forest certification has not been an issue for rural communities, however the industry recognizes that First Nations and environmental organizations have expressed support for FSC certification, and there may be implications in the future.

Technology Developments

There are various new developments which have impact on harvesting operations in the north-east. They include the use of forwarding equipment that lowers the footprint pressure on sensitive clay soils (as in the Peace); alternative harvesting methods e.g. cable/yarding in steep terrain; and use of aspen fibre mats for enabling summer access in wet areas (used primarily for oil & gas industry but applicable to forestry operations).

**Vic Brandl,
Chair, Transportation Advisory Committee
June 26, 2003**

Mr. Brandl serves as Chair on the B.C. Government's recently established North-East Transportation Advisory Committee. This group provides direction to the government on regional transportation priorities and issues.

Issues in Transportation:

1. Road standards
2. Linkages-key access
3. Agr. Transportation plan: signage (slower traffic, farm access), agr. road standards (width, surface restrictions), involvement of Land Commission
4. Lighting
5. Transport service (rural to urban), e.g.: Rose Prairie, Hudson's Hope to Ft. St. John
6. Utility corridor: hydro, gas

Air Transportation

Under federal government, the airport authorities are responsible for the 2 major airports, respectively; their current priorities concern upgrading, security, safety, and maintenance; The communities of Hudson's Hope, and Tumbler Ridge have made it a priority to keep air ambulance (helicopter, medevac), and air strips maintained for their rural areas.

Road Construction and Maintenance

Through the Rural Roads Task Force priorities have been established and considerable expenditures have been made in the past year (\$40+million) in both the north and south peace; a key issue is the need for improved standards for main regional roads (expand width to 9m, 2 ½ :1, not 1:1 slope); should be also constructing more burrow pits; not the same for agricultural roads, where they may not need the same standard.

A key issue is the lower legal axle limits permitted at certain times of year; there is a need to increase these limits, and were possible, enable legal axle loading year round; this has been identified as a real problem for farmers who need to move product, and are restricted to 70% of total, therefore, only hauling 30% of capacity load at certain times.

Certain road entrances and exits need to be improved, keep number to minimum; safety is priority; need signage; e.g., next to Wabi Subdivision (deceleration to subdivision restricting view, need longer and wider passing lanes).

Configuration of trucks and trailers have been getting larger, therefore there is a need to improve access/truck stops; also highway bypass routes (e.g. around Dawson Ck. to Pouce Coupe) are important to maintain; same goes for moving agricultural products

Other improvements on Alaska Highway must be made including 4 lanes from FSJ (from Swanson Lumber Rd. to Humpties Restaurant); engineering plans have now been

completed, to change access/egress which is now obsolete and makes stopping of large trucks difficult, impedes the flow of travelers and affects tourism industry.

Since 1970's, there have been increase in number of axles to have B-trains for tractor-trailers (C trains not permitted); farm tractors have also increased in size, and can't drive on shoulder and when moving wide loads like 18ft grain bins which are not currently permitted; there's some need to consider public/private partnerships, particularly for resource roads and need to have improved planning.

Road construction standards

Construction technology provides new opportunity with the use of geo-synthetics on roadbed; more clay compaction set to certain soil moisture level; another area is the contracting out of services, and labour to require less MOT staff and save budgets; use of contractor owners/operators for maintenance.

Need to put emphasis on upgrading road shoulders which requires more material; with steeper slopes using loose gravel (costs \$30-\$60 per m³); for 1 m. linear roadbed need 2m shoulder, therefore wasting 1 m. and increases costs significantly; should use burrow material and compacted clay to increase density; in developing those standards, need input from users at the table, and identify members from rural areas.

B.C. Rail

Need to get more efficient operation so privatization is being pursued by the BC government, where the province maintains ownership of railed, tracks, and right-of-way but gets new investment in rolling stock (particularly given its limited shelf life), track maintenance; it may consider removing track in certain areas and possible reuse, e.g., Tumbler Ridge);

Need to get Hythe-Dawson Creek line reopened and upgrading done on some sections; this can create alot of economic benefits with improved flow of grain to Rupert, etc.

Sector Analysis: Transportation

**References: Dawson Ck. Daily Mirror (Dec.5, 2003);
Chetwynd Echo (Dec. 2, 2003)**

At the time that key informant interviews were being undertaken, the provincial government had initiated a call for proposals on the sale of B.C Rail, with specific exclusions to retain a degree of public interest. Since there was considerable media coverage, and Rail officials were unable to comment on the implications for the Peace region pending confirmation of the deal, it was decided that a cursory review of the literature would be undertaken. In late November, the government announced that CN Rail was the successful company. Below, we consider the issues affecting operation of the company in general and in the Peace region in particular based on local news coverage.

Issues Affecting BC Rail Operations

- No new equity capital available due to Crown ownership (therefore requiring debt financing, and carrying forward of north-east coal line debt); resulting debt to equity ratio=1.76; much higher compared to other companies e.g. CP Rail=1.19, CN Rail= .79;
- Revenue yields dropped 45% in past few years, due primarily to intense competition from short-haul trucking;
- Shift in industry to consolidate Class 1 lines, has made it necessary to reduce fixed, operating costs;
- No new freight traffic sources e.g. coal mines, OSB plant in FSJ in north-east are on hold (with latter subject to other facility consolidation or closures);
- Increased dependence on forest sector has resulted in time lag for leasing of rail cars, compared to Class 1 lines (CN) which have higher value commodity traffic and diversified freight sources;
- Difficulty to maintain market share; can't lower freight rates significantly and CN asserts competitive pressure from trucking to reload facilities in Edmonton;
- Revenue erosion; BC Rail current at 85-95% operating ratio, up from 80% in 1992, but much higher than CN at 68.5%
- Costly operating environment due to extreme terrain, and natural hazards on BC rail lines;
- External cost factors, including rising diesel fuel, insurance rates and health benefits

Though the company made some improvement in past year on revenue yields, productivity, customer service, and work environment (safety, health), various factors are limiting its viability as a Crown corporation, including:

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| <ul style="list-style-type: none"> - high cumulative debt (\$500 mil+) - growing U.S. protection - rail industry restructuring - declining rural populations - aging rail infrastructure - increased costs for security - fuel cost volatility - uncertain investment in gateway function, trade corridor (NW) | <ul style="list-style-type: none"> - trend for substitution of labour to capital to remain competitive - declining commodity prices & shipments - transportation capacity exceeding demand - tepid international demand (e.g. Japan, Europe) |
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In considering the value of retaining Crown ownership of B.C. rail, various economic scenarios were considered ranging from (i) positive resource-boom growth led by oil & gas, and minerals, with resulting rural in-migration (e.g. north-east), (ii) moderate urban-focused growth based on increasing population due to in-migration for lifestyle/retirement and expanding urban infrastructure (lower mainland) or (iii) long-term decline with depleting resource base, out migration of youth, and .g. stagnant population growth (e.g. interior).

Highlights of Proposed BC Rail Agreement with CN Rail

Following the government's announcement, details of the sale conditions and commitments are as follows:

- Legislation would be enacted to legally protect BC Rail's rights-of-way, rail bed and tracks;
- CN will assume responsibility for infrastructure maintenance and railway operation;
- CN will pay the province \$1 Billion (\$750M sale + \$250 M in taxes to BC.) to acquire outstanding shares of BC Rail Ltd., along with right to operate under a sixty year lease (which is renewable for a further 60 yrs.) – thereby eliminating BC Rail's \$500+M debt, and \$30M/yr interest payments;
- CN commits to purchasing 600 new centrebeam rail cars to increase capacity for forest shippers, and will upgrade 1500 box cars to help ensure access improvements;
- Faster transit time will improve car availability by 800 rail cars;
- Operational guarantees for a 7 year term (including 2 yrs for agreement implementation);
- The BC North region will see a guarantee for the existing line operation for 5 year period on Tumbler Ridge and Fort Nelson lines (thus keeping a short-term option for further coal-mine investment in Tumbler Ridge);
- Provision for municipal taxes as a private company forecasted to be \$8.3 million (versus receiving provincial grant-in-lieu as a Crown corporation, and \$1.8 mil paid in taxes) with PRRD receiving \$1.2 mil vs. \$67,000 previously paid by BC Rail;
- Access to an integrated continental rail network to better access markets in the U.S. and Asia, reducing operating costs and shipping time;
- Grain shippers will now have improved access to Asian markets through \$17 million for container terminal expansion as part of the \$62 M port redevelopment plan at Prince Rupert; CN will also contribute \$15 toward containerization
- CN commits to reopen Hythe to Dawson Line by fall, 2004 to facilitate grain handling from the Peace region (and may also provide opportunity for Louisiana-Pacific veneer plant);
- Forest industry will see new Chicago Express established in 2004 by integrating Prince George rail networks, with access to Chicago (main timber product distribution point) in 4 days, reducing transit time by up to two days; thus increasing competitiveness for BC's resource industry;
- Shippers will also have access to new regulatory protection under the Canada Transportation Act to ensure rates will remain competitive;
- \$135 Million in sale proceeds will be used for a Northern Development Initiative which supports investment in forestry, pine beetle recovery, transportation, tourism, mining, Olympic opportunities, small business and sustainable economic development (including \$25 M for operating endowment with interest used to support operations of the NDI, plus \$15 M per region for the Peace, Prince George, Northwest and Cariboo-Chilcotin/Lilloet; \$50 M for a regional trust to support cross-regional investments, economic development, and job creation; \$15 M for First Nations benefit

- trust for economic development; educational advancement & cultural renewal for 25 First Nations along BC Rail corridor;
- CN and BC Rail will issue a request for proposals for passenger tourist train services, to create new employment opportunities in the hospitality tourism industry;
 - Loss of 430 jobs are predicted by the BC government over a three year period.
 - Regional Concerns
 - Through the various media, concerns have been expressed about the CN agreement, including Jean Leahy, a former BC Rail Board member, as well as union representatives Randy Holubush of the Industrial Wood and Allied Workers of Canada, and Jim Sinclair of the B.C. Federation of Labour. These concerns include the following:
 - Job losses for local B.C. Rail workers (ranging from government estimates of 430 jobs (including 250 by early retirement, and 180 by layoffs or attrition over 3 years; Union representatives estimate more than 750 jobs will be lost when consider both union and non-unionized positions;
 - The value of the \$1B selling price is misleading as CN is receiving \$800 M in tax credits, and \$151 M in the pension plan; also federal approval needed to approve write-off of previous BC Rail expenditures as deductions;
 - Concern over potential closures of northern rail lines to Ft.Nelson, and the line from North Vancouver to Squamish which is the north-east's link to port facilities in North Vancouver;
 - Loss of investment to BC taxpayer during history of the railway, and loss of expansion potential for long-term profit; especially given recent gains BC Rail has made in 2002;
 - Uncertainty over development of American corridor through Dease Lake or Alberta will have major economic implications for economic development in the north-east.