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# **Kitimat:**

## **Unleashing the Potential**

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By  
**LSM Consulting**  
And  
**Resource Matters!**

**Executive Summary**

**August 20, 2003**

## **EXECUTIVE SUMMARY**

### **Background of Study**

This project's ultimate goal is to identify opportunities for Kitimat and the surrounding area to release the region's economic potential. It is part of a process that includes a community task force. This study is a careful analysis of the region's inherent strengths and weaknesses, vulnerabilities, external forces and the strategic elements that are critical in determining development scenarios. Northwest British Columbia's resource-based, export-oriented economy has strong links to natural resources. Both these linkages and the nature of the resources are changing. The study is intended to help the community engage in a deep 'rethink' of its economic vision, by adding useful content in a process parallel to and linked with the community task force. The end product will be an economic development strategy for moving a declining economic region first towards stabilization and then towards playing an important role in driving British Columbia towards economic progress.

The study provides independent insights into the current economic affairs of Kitimat in particular, and indirectly the region surrounding the community. There were three distinct but integrated streams of investigation:

- Understanding the role of the Big Three (Alcan, Eurocan and Methanex);
- Sectoral analysis focusing on energy, pulp and paper, manufacturing, port development, sand and gravel export, tourism, retail and other service sectors;
- Community analysis, for context and focusing on Kitimat, with the perception theme: "Is the glass half full or half empty?"

### **At a Crossroads**

The Town of Kitimat is at a cross road; opportunities large and small present themselves, awaiting a decision from the community on what it wants to be.

Opportunities are empty ideas, however, unless the community has the vision to recognize them and has the will and the desire to take steps to seize these opportunities and turn them into reality. This will require a strategy and leadership.

Visionaries saw the opportunities that Kitimat's unique location provided and made the leap to take advantage of these features. Kitimat came into being more than 50 years ago because of the combination of the potential to generate inexpensive power and access to protected deep-sea shipping to world markets. Alcan and the government of the day released a lot of economic potential with the creation of British Columbia's instant town and a sprawling aluminum smelter. This powerful province-building force has anchored Northwest and North Central British Columbia to this day.

Later, the original backers of Eurocan saw the combination of wood fibre, inexpensive electrical power and access to deep-sea shipping. Today, this pulp and paper complex remains an essential part of Kitimat's economic fabric and is a component of the West

Fraser industrial complex. The Eurocan “dock” has the most potential for moving towards a true port.

More recently, Ocelot Industries Ltd. brought into being what is known today as Methanex because the company owned vast reserves of under-utilized natural gas in northeast British Columbia and had a vision of converting those reserves into methanol on the coast at a location that provided deep-sea access to world markets — Kitimat. Although smaller than Alcan and Eurocan, this petrochemical foothold could be a catalyst for the next big thing- the Bowser, Nechako and offshore basins.

There is however, a need for Kitimat to reinvent itself quickly and do so with reasonable expectations.

### **Key Economic Underpinning**

Today all three operations are still the key underpinnings of the local and regional economy, providing a standard of living and incomes to Kitimat residents that are unrivalled in any community of similar size and composition anywhere in British Columbia. The average industrial wage in Kitimat is the highest or among the highest in British Columbia. Each of these three operations has their own share of difficulties in remaining competitive in the long run but each provides Kitimat an opportunity to build on strength. The Big Three, labour and the community are all in this together.

To appreciate the economic impact that the Big Three (as Alcan, Eurocan and Methanex are commonly referred to) have, one just has to look at what Alcan spends each year on goods and services and on wages and salaries. In 2002 Alcan spent more than \$120 million, with almost \$91 million finding a home in British Columbia. In 2002 Alcan employed 1,625 people in the province with a total payroll covering wages and benefits of \$130.8 million. Eurocan and Methanex, with 530 and 125 employees respectively, have proportional numbers as their payroll average, are also amongst the highest wages in British Columbia. The Big Three taken together provide a strong base for the community and for the province. These three represent 12 per cent of the province’s manufacturing GDP.

These three operations are part of the “old” economy that is based on primary processing of stranded resources<sup>1</sup>. This is a term used by economists to describe a circumstance in which a resource is located far from markets and/or processing capacity. These resources — electricity, wood chips and natural gas are no longer stranded. There is a strong need for the big three and Kitimat to rework and recalibrate the old formulas for why Kitimat, British Columbia’s highest income city, is at the end of the road and the end of a fjord. These companies require sustained and heavy re-investment to keep them competitive in world markets. If any community in British Columbia needs a positive investment climate — it is surely Kitimat. Kitimat runs on continuous reinvestment if even to remain at the status quo. If not, the Big Three will move towards “swing capacity.” They may be there now.

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<sup>1</sup> The “old” economy is a significant user and driver of technology and knowledge based employment.

### **Big Three No Longer New Employment Drivers**

The Big Three are no longer the drivers of new employment; in fact, the need to remain competitive means investments in new technology that will result in reduced employment. This study cannot emphasize enough that the old economy is needed as the base to allow Kitimat to launch a new future.

Kitimat will want these companies to remain viable and profitable. Kitimat can help these businesses in the “old” economy through providing a stable political and regulatory environment so that they can attract the investments that are required to maintain efficiency and competitiveness in world markets. With that, and continued re-investment, the Big Three can continue to support a healthy local economy in the near term. The longer term is more uncertain and will depend on factors largely beyond the control of local authorities but they can continue to provide a strong and important economic base. However, many factors — community/industry relations, management/labor relations, regulatory climate, taxes, legal, joint positioning on larger provincial and national issues — are clearly in the community’s purview, and can greatly influence investment climate.

In the past Kitimat held the view that there would be new investment in new plants equivalent to the Big Three and they set aside approximately 4,145 hectares<sup>2</sup> of industrial land in Kitimat. This is enough for approximately 10 plants with a footprint the size of Methanex. This is not going to happen. There has not been a large green field investment in Kitimat in 21 years, in spite of a stack of studies recommending everything from new aluminum (non-Alcan), iron and steel and copper smelters, etc. There may be a new green field investment of this size — but 4,145 hectares of industrial land is not realistic.<sup>3</sup> Kitimat needs to think of a more balanced and comprehensive growth strategy.

Together the Big Three employ about 2,400 people, or about 46 per cent of the town’s workforce of 5,200, and provide over 70 per cent of Kitimat’s property tax revenues, the major factor in keeping residential tax rates very low.

### **Kitimat, the Port City?**

Is Kitimat, “the port city” really a port? Granted, there are three large resource processors that have their own deep sea shipping facilities in their own back yards and tonnage shipped is high.

Moving to a true port is a step towards unleashing the potential. Ports are places where goods come in and out to service a hinterland. Kitimat’s location, based on helping stranded resources get out, can reinvent itself as having resource infrastructure materials come in for the new energy fields of Alaska and the Mackenzie valley. Kitimat sits at the

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<sup>2</sup> The size of the industrial land varies between reports, with the NorthWest Corridor Report suggesting up to 12,000+ hectares in the Kitimat-Terrace corridor. This would hold 21 Methanex plants.

<sup>3</sup> Intuitively, if there is little opportunity cost for holding this land it is not a problem. However many documents and interviews implied that these land holdings are viewed in the context of it being an industrial strategy by itself.

centre of what could be a rediscovered transportation web, offers opportunities for the community to declare itself as a true port city. The Edmonton-Calgary corridor, one of the hottest regional economies in the world- is Kitimat's natural hinterland — but Kitimat is not servicing it.

In order for Kitimat to secure its own future it must be prepared to adopt a vision for itself as a true port with three essential components:

- Passenger facilities for small cruise ships and pleasure boats;
- Freight handling facilities to support offshore supply activities and/or receiving incoming steel pipe for the Enbridge, Mackenzie and Alaskan pipeline projects connecting via rail transshipment;
- An area reserved for offshore and Bowser/Nechako basin energy related operations; and
- Facilities to support exports for existing and new industries.

This could potentially put Kitimat in direct and healthy competition with Prince Rupert, which is vying for a container port. If this happens, it would foreclose the potential of a container port at Kitimat.

Kitimat does need to diversify its economy and improve the access to services. Terrace has by its actions and by default developed a retail and service sector. The two communities should work together to build their strengths. Research shows that significant portions of the people who work in Kitimat live in Terrace and Kitimat residents have been increasingly relying on Terrace-based services. They also share an airport.

### **Kitimat is Unique**

Close analysis shows Kitimat is unique in British Columbia among communities of the same size. When communities are compared that are larger than 8,000 population and smaller than 19,000, and outside of commuting distance to Vancouver, Victoria or Nanaimo (Whistler was excluded as a special case) Kitimat is very unique. The comparison looked at a number of factors that are considered indicators of socio-economic wellness. The analysis showed that Kitimat has:

- High income;
- Lack of service industry (including tourism);
- Lack of entrepreneurs;
- Few small businesses;
- Few retirees;
- High percentage of workers in manufacturing; and
- Low crime rates.

### Unleashing the Entrepreneurial Spirit

Kitimat needs to take a closer look at the business culture, tax policies, labour, regulations, community values and the community's willingness to support entrepreneurial activity. The research showed there are a startlingly low percentage of people who are self-employed compared to other areas in the region and across British Columbia. Any number of issues may be involved, but the community will want to know if the town's own regulations and attitudes represent a barrier to attracting small businesses. Small business is the engine of growth in Canada. Kitimat has ignored this to its peril. This needs to change.

Aside from small business formation, Kitimat is doing well compared to other communities. There are very positive aspects to Kitimat's quality of life.

Where will the community look to chart its future?

The immediate priorities appear to be the following:

1. Work closely and co-operatively with the Big Three to stabilize them and undertake whatever measures are possible locally to support their long-term strength in the local economy.
2. Develop a port that can accommodate small cruiser and private pleasure craft passenger traffic, freight including products associated with offshore and/or pipeline expansion, and natural gas processing and transportation facilities.<sup>4</sup>
3. Develop an enhanced retail and other service industry jointly with or separately from Terrace in the Kitimat/Terrace axis.

In Canada today economic growth is coming mainly from attracting and providing services, growth in the service industry, entrepreneurs, small business, high technology and light manufacturing. Kitimat is lacking these job creation drivers. Is this by accident, or design? This needs to change. Alcan alone supports over 1,350 retirees in British Columbia — the majority who have left Kitimat. Assuming at least 200-300 more for Eurocan and Methanex, this translates to a total of 1,500 to 1,600 with 2 people per retiree household for 3,200 total retirees. Kitimat would be a growing city with rising or stable real estate- not a declining town. Kitimat, “a city on the move”, could have a double meaning.

The sectors that are in decline in most G-7 countries are the primary sector, large manufacturing plants and large businesses.<sup>5</sup> Kitimat is very dependent on this sector; one that will experience a declining job base. However, these sectors still buy lots of goods

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<sup>4</sup> One is tempted to recommend a public port authority similar to Prince Rupert, but this study recognizes that the private aspect differentiates it from Prince Rupert. A private venture may be more agile and aggressive than a public authority.

<sup>5</sup> Mergers, capital investment, out sourcing to non G-7 countries, pursuit of shareholder value, etc. are all by products of globalization and have lead to fewer jobs in large companies, heavy manufacturing and primary sectors. Increases in efficiency and competitiveness are essential to long term viability.

and services, pay high wages, create a large disposable income and are part of Kitimat's attraction and strength.

What this means is that communities like Kitimat will want to secure the Big Three economic contributors. This can ultimately secure a reliable and long-term local economy within which all of the growth industries can flourish.

In order to preserve and maintain these benefits a stable and hospitable investment climate must prevail. The only way in which such an industrialized base can be kept competitive is by vigorous plant upgrading. Such upgrading will achieve a higher level of profitability, thus permitting a longer lifespan, in only one way — by increasing output from a given level of input. That input is a combination of energy, capital, materials, entrepreneurship and human resources all in the context of a community that has a positive investment climate. The cost of applying such upgrading activities to an existing plant can be considerable, and may exceed the costs of building an entirely new plant. It may be possible to extend plant life through such investments but the nature of the labour force for the revitalized plant will be altered and in terms of numbers will almost inevitably be reduced.

Capital investment, efficiency and profit in spite of some downsizing is an essential part of remaining competitive. It makes it more difficult for a company to walk away. For example, it was very easy for Repap to walk away from Prince Rupert after the assets were run down. Once a large capital investment has been “hollowed out” and closed, it is very difficult to restart or obtain some sustainable future. This is a much larger and competitive world than the 1954 world of Kitimat's birth.

### **Kitimat and New Energy**

Kitimat is strategically positioned to play a role in emerging energy resource developments, but it will need to have port infrastructure and leadership to become involved. Kitimat needs to firmly grasp this vision and aggressively champion its case. There are opportunities that require firm and dedicated action. Yes, there is rivalry and competition with Prince Rupert. Yet there are avenues to cooperate with Prince Rupert as well. The container port may now be destined for Prince Rupert. If so, Kitimat needs another port idea as there are unlikely to be two container ports in NW British Columbia. Kitimat may wish to think about how to either compete for the container port or to take advantage of a Prince Rupert container port.

The consultants believe offshore oil and gas (and Bowser and Nechako Basins) show strong promise. Kitimat is positioned to be the major supply and service location. Natural gas found offshore will logically be carried in an underwater pipeline to Kitimat, for export of Liquefied Natural Gas (“LNG”), or for being shipped in a reversed PNG pipeline to markets across continental North America. Bowser shows oil, gas and coal bed methane potential. Increased interest and study in the Bowser Basin just to the east holds promise for energy discoveries. Mineral development in Northwest and north

central British Columbia also shows strong potential and could contribute to the raison d'être of a Kitimat port.

As in the case with offshore discoveries, the PNG system would have to be upgraded and expanded to take larger volumes and would have to be competitive. The majority of the corridor has value for new pipelines.

There is a growing demand for both the Mackenzie Valley and the Alaska Pipelines to proceed as the demand for natural gas outstrips supplies from other producing areas in North America. The United States requires a secure land pipeline source of energy rather than dependency on imports of LNG. Kitimat is in an excellent position to be the port of entry for the steel pipe that will be required for these pipeline projects.

These energy investments hold the promise of unleashing Kitimat's potential. This promise requires co-operation and teamwork involving all of the community's stakeholders. This could drive Kitimat into the 21<sup>st</sup> century. Whether Kitimat is up to the challenge remains to be seen. Dedication and far-sighted community commitment will be required, along with the capacity to make things happen with strong follow-through. Maybe British Columbia's Olympic spirit and bid can be an example to Kitimat.

There is also significant sand and gravel (aggregate) deposits nearby that may be found to be commercial in nature. Markets can be found along the West Coast. Kitimat could plan the necessary port handling facilities.

### **Lessons from Other Small Communities**

The problems posed for communities are the challenge of change. Change is with us all the time and is inevitable. The community's choices are: 1) to simply accept and drift with change or 2) adapt to and influence the changes. Change can cause a community to thrive, or conversely, adverse change can precipitate decline or extinction. Can Kitimat influence its future and will it do so, or is its future simply subject to forces beyond its control?

In today's world changes affecting communities such as Kitimat have global dimensions. Mobility of capital, of ideas, and of physical transportation have rendered natural or man made barriers ineffective in preserving a given (no change) life style.

The term we prefer to use for this process is "reinventing oneself", and connotes a rational, conscious effort to realistically confront impending change and to devise an exit strategy from the economic shackles of the past.

With the potential opening up of the British Columbia offshore area to exploration and exploitation of hydrocarbon resources, an obvious parallel exists between Kitimat, a resource-based community possibly facing a declining future, and many towns and villages along the North Sea coast line in the early 1960s.

More interesting is the example of three communities in particular - Aberdeen, Sumburgh, and Stavanger. Kitimat's location is somewhat similar to that of Stavanger and Aberdeen. These are covered in **Chapter 4**. To ensure lasting benefits, such an opportunity needs to be grasped with a clear idea of the intrinsic, strategic, long-term advantages Kitimat might have over other communities along the British Columbia coastline. Hopefully this report, Unleashing the Potential, will help Kitimat as it considers its future.

In addition, the study looked at Sidney NS which was overwhelmed by change and never recovered. A similar reaction has taken place in the province of Taranaki on the southeast corner of the North Island of New Zealand. The economy got a dramatic boost during the nineteen sixties with the discovery of the Maui gas field, a huge offshore gas resource with no market. The gas was "stranded". Development of the resource was rendered possible by linking the gas field to a methanol production complex to be built north of New Plymouth along the coast line, and so overnight Taranaki's economy received a significant boost. Years later Methanex acquired that plant which hence became a rival for a share of world markets with the Methanex plant of Kitimat. That gas field is now depleted, and although other gas fields have been found, their resource has become too valuable to be converted into Methanol. (The gas supply feeding Kitimat will not be depleted any time soon, but here too the gas has become too valuable to be converted into methanol).

The elimination of the high paying jobs associated with the Taranaki Methanex plant (over 200), will have a significant negative impact on the economy. A reaction has been to create an agency "Venture Taranaki" that is now exploring a wide range of opportunities that may plug the significant economic hole left by the demise of the Methanex plant in 2003.

Sept Iles, Québec illustrates re-invention on a larger scale and is discussed in **Chapter 4**. Several former British Columbia "company towns" also provide indicators of possible directions for Kitimat; Tumbler Ridge, Powell River, Squamish and Nanaimo.

Each town and its history is unique, so none of the examples briefly reviewed here can give precise help in predicting difficulties, opportunities or strategies for Kitimat to adopt as a course to a specific preferred future. For the reasons discussed in this report, the uninterrupted continuation of Kitimat's main industries in their historic roles can no longer be taken for granted. In some cases, the other communities briefly reviewed here have made fundamental changes that have helped them adapt successfully to changing times. Other cases have had different outcomes.

The authors of this study recommend that, in order to gain maximum advantage from experiences in other communities, Kitimat should select and review in some detail the causes, manners, and outcomes of transitions accomplished in communities that have faced situations similar to that now facing Kitimat. In this way helpful strategies toward a healthy future can be adopted, and unhelpful ones avoided. In the consultant's view,

*the winning conditions of adaptation are flexibility, acceptance of change and leadership. Communities need to think outside the box.*

### Recommendations

The strategies Kitimat should consider can be summarized as follows:

- Develop a true port to accommodate oil & gas services related business, general cargo and small cruise passengers/pleasure boats.
- Diversify by means other than heavy manufacturing, i.e. recognize that the “The Big Three” are not likely to produce more jobs in the future, but keep them as stable as possible to minimize job losses. However, if another large industry does wish to locate in Kitimat — go for it!
- Find a way to build on global knowledge and contacts, technical expertise (process automation, equipment development, IT, petrochemical and energy) of the Big Three personnel.
- Develop a strategy of co-operation for encouraging re-investment in the “Big Three” to support their sustainability.
- Develop a strategy to capitalize on Kitimat’s appeal to new “economic drivers” needing harbour-front land and port facilities.
- Develop a strategy for increasing tourism, educational, and other service sectors, i.e., “economic supporters.”
- Embrace an entrepreneurial-positive investment climate.
- Work closely with First Nations. The local native community is open for business.
- Convince retirees Kitimat is good place to retire after they retire from the “Big Three” employers and make it attractive for retirees elsewhere to move to Kitimat.
- Develop an enhanced service industry to meet the needs of the community and to support economic initiatives.
- Prepare for on and off-shore oil & gas and pipeline development.
- Examine apparent anomalies in education levels in Kitimat, develop a strategy and implement it.
- Have the Heartland Strategy recognize the key role Kitimat plays in anchoring the economy of Northwestern and north central British Columbia.

Studies of this region are not new. What are required now are direction, leadership and champions to unleash the potential that is so obviously available. There needs to be a clear and positive articulation of the community’s vision and the establishment of high level priorities for getting the economy moving in new and complementary directions. Cities have to right to fail or succeed based on their actions. Kitimat has choices that are still open to it.