

**Address to the Prince Rupert & District Chamber of Commerce
by Don Krusel, President & CEO of the Prince Rupert Port Authority
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Thank you, Mark and thank you for the invitation to be here today. I know that it's been billed as kind of an update and what's happened at the port over the last year. But I'm going to expand it a little bit because I find it very hard to contain discussion on what's happening at the port to a single year.

It's kind of like a Charles Dickens classic and trying to read one chapter in the middle of the story and expecting everybody to understand what the beginning and ending is all about. So I'd just like to veer from just simply talking about the last year a little bit and expand it a little bit.

Let me start with the....we've had a little bit of a communications program and you may have seen it in the, the newspaper.

Trade builds strong communities. And really, trade is port activity, because ports is all about moving Canadian trade through this particular gateway. Port activity is building this community and communities all along the northern corridor into very strong and vibrant economies. We refer to that as the gateway economy.

And that theme is going to meld its way through my presentation today as I go through. I'm going to run quite rapidly because I got a stack of slides that I want to share with you today. And so excuse me if I'm rushing things a little bit and just breezing over the surface. But I do want to cover a fair bit of information today.

Ports around the world measure their size and importance by how much tonnage flows through their gateways. And by all measures Prince Rupert has done a fantastic job, um, you know, over the last seven years, we've actually increased by 375 percent in the volume of traffic.

Now we've tapered off a little bit in the last couple years, as we're going to see a bit of a decline, and I'll come back to that shortly. Probably more significantly, and I think more importantly to this audience is the net income of the port authority. I wouldn't want to put a percentage to that, there's too many zeros to it.

Last year we had a, a record of \$26.3 million in net income, or profit. So why is that important to this community? Well, unlike most other commercial entities who have shareholders and have owners to the draw on that profit, we do not have shareholders nor owners. And so all the money that is made by the Port Authority is reinvested into this community in one form or fashion.

Now yes, there is some leakage and we hire consultants from places outside of this community, and we do send a tax check to the federal government every year. But other than that, when you see high profits at the port, one should take comfort that is going to be reinvested into this com-

munity. And it's reinvested in infrastructure or services and activities that take place.

This chart shows the level of capital investment that has taken place just from the port authority alone, not any of its terminal operators or other investors outside of the port. And over the last two years, over \$100 million the port authority has invested over \$100 million in capital works in this community.

And although it hasn't been approved, I can tell you that over the next two to three years we're going to be spending at least \$100 million more on other capital activities in this community.

This slide represents the investment that the port is making on non-port related projects. And this is our community investment fund. We are setting aside a certain portion of our profits every year, and most people in this room are familiar with the community investment fund.

We are investing in legacy community projects. Since its inception six years ago, a total of \$2.5 million has been set aside to invest in community projects that hopefully will add to the vibrancy and the health of this community and make Prince Rupert more attractive than Portland, Oregon for people to come and visit and live in.

Job creation. The gateway economy has done a fabulous job of creating jobs in this community and right across Northern BC. In the last five years, the number of direct jobs related to moving goods through this gateway has doubled to 3,000 direct jobs. And when you include indirect jobs, there's over 5,000 women and men employed in moving goods to and from this port, and through this port.

Fabulous growth. And, they're getting paid well. The amount of the average salary of a gateway employee is \$64,000 a year, and that's up 18 percent over the last five years.

So, once again, this is how communities are being built stronger as a result of the type of gateway economy and trade economy that is being generated by what we have here in Prince Rupert.

Now, just to emphasize how significant that is for a community like Prince Rupert, this chart compares us to other ports. And you may not be able to see it, but the percentage of the population in Prince Rupert that is working directly on port activities is 12.5 percent.

So 12.5 percent, one in eight people in this community, are employed in the gateway economy. Compare that to Vancouver, where only 1.5 percent of the population is employed in the ports. And in Los Angeles, it's 0.75 percent. So one can really look at this particular community and say it truly is a port. gateway type of economy.

What, how does this all translate into municipal taxation? Well, in the last year it was nearly \$7 million was paid by the entire port community to the municipalities of Prince Rupert and Port Edward. And as the graph shows, that has continually grown since 2005.

But to put it into perspective and once again compare ourselves to everyone else, here in Prince Rupert 32 percent of the revenue base of this municipality comes from the port industry tax payers. And province-wide, if you look at the heavy industrial base, on average, contributes only four percent to the average, municipality.

So there's a huge advantage of having a port industry here in this municipality. And just by comparison to some of our communities in and around here, Terrace has two percent of its municipal revenues from heavy industry.

Prince George is 12 percent. Smithers is 10 percent. And yes, Kitimat is on the other end of the spectrum with 60 percent of its municipal revenue from heavy industry. So now let me just turn now to what's been happening in the port over the last year. I'm going to start with Fairview Terminal...and another phenomenal year. We're at the end of October and in the first 10 months of this year we already, collectively, have exceeded the volume of containers that moved through Fairview Terminal all of last year.

And, by the way, last year, Fairview Terminal was the fastest-growing container port in all of North America. So we are up 31 percent compared to last year, on a year-to-date basis, and we still have two months to go.

Maher Terminals has been sold to DP World. And you know, Mark is not going to be with us for very long, and I just wanted to take this opportunity to thank Mark. He has been a force down there and has ensured that the type of volume that we are experiencing on the terminal has successfully flowed through that facility. So thank you very much, Mark, and we are really going to miss you.

But this kind of volume is going to increase. Back in September, the largest and the second largest container shipping lines in the world by market share and size, what we refer to as the 2M service, [began service] through Prince Rupert. Maersk and MSC.

As I say, they're the first- and second-largest shipping lines in the world...so things are looking very positive. And, of course, construction has started on the northern expansion, and that \$200-plus million expansion will take that facility to a capacity of well over 1.3, 1.4 million containers a year.

And so with the kind of activity that's on there now, we'll continue to grow and build over the years. And it should be fully open and operational by 2017, that expansion.

Prince Rupert Grain is going to have another fantastic year. If you look at the numbers here, it says that 5.9 million [tonnes] projected for the remainder of this year, but down eight percent.

And it doesn't sound that good, but that's down eight percent from 2014, which was an all-time

record of over six million tonnes. So the fact that it's down slightly from the record year, we still need to applaud everybody out at Prince Rupert Grain. They're doing a fantastic job, and this will probably end up being the second best year on record for Prince Rupert Grain.

Westview Terminal, now nearly two years that it's been up and running. We expect that that facility will ship about 800,000 tonnes, which is up 54 percent from the previous year. So a huge growth.

When that facility was first brought on, there was a lot of anxiety about it, and I want to point out that it's been 22 months of operation now. It has never exceeded its air quality [objective] levels. We have had issues with noise and dust.

And I applaud everybody that's working hard down there to reduce that and to bring it down. And I think that the trend lines are in the right direction. In fact, I know they're in the right direction, and everybody's working hard to ensure that facility is able to meld well in the location that it is.

And by the way, there was a world record established at the Pinnacle Pellet facility. Back in June, the vessel Popi S loaded 60,000 tons of wood pellets, which was a world record. There's never been another vessel [shipping] more wood pellets.

And once again, the reason why that facility was located where it's located [was] so that large vessels could load there and take the economies of scale and make that facility economical.

Another milestone for 2015 was the introduction of our project cargo facility on Ridley Island. The port invested over \$10 million to bring that facility in place to respond to the demand [for] moving large project cargo modules to construction sites in Northern British Columbia and Northern Alberta, and that's up and running now.

The cruise industry continues to respond positively to cruise traffic. The numbers aren't large [and] they haven't grown, but what has grown is the number of cruise passengers that are participating in shore excursion activity, which is really what drives the local economy here.

The capture rate, which means the percentage of cruise passengers that come in and are drawn into the local shore excursions, was at 71 percent. In other words, 71 percent of all passengers that came into Prince Rupert on a cruise ship went on a local shore excursion.

That was up 18 percent from the previous year, which means that although the overall numbers aren't growing year over year, the number of passengers that are participating on the real economic activity in this community are growing annually.

And also, what is really great about the cruise industry is the collaborative effort that's taking place in this community. The cruise working group that incorporates a lot of the tourist-minded industries in the port, working together to come up with strategies to grow this particular industry

sector.

The coal terminal. This is the area that I said earlier, our total traffic levels are down. RTI's experiencing some challenges. From its really stellar years a few years back, coal is in decline.

This chart shows the price of coal, how it went way up and it's coming way down. And really, that kind of transitions into what I want to speak ever so briefly on. Some of the challenges and opportunities that we're facing are kind of like the ice berg. It looks pretty on the top, but there's a lot of danger points underneath the surface that one has to be concerned about.

And one of the biggest issues for us, being where we are located, is Asian economies [and] what's happening in China. The growth and expansion of trade in Western Canada, and indeed North America, has been driven by the really phenomenal growth in the economy of China.

And probably even more importantly for us is the fact that many of the large-scale projects that are still in the planning stage were built on the basis of continued growth and expansion in China.

This chart shows how the economy in China is in decline. It's more than just flattening out. And, it's starting to decline faster than a lot of people expected. It's a big issue and a big concern.

The other aspect is that the world trading patterns are changing slightly. The manufacturing heartland is moving further west into places like Vietnam. And while trade with Canada and China is in decline, trade with Vietnam is increasing, and Cambodia, and even moving further west into India.

Now the issue for the Port of Prince Rupert is that our advantage in accessing those markets... we are losing the benefits because it's further and further sailing time. In fact, when you get to places [like] Vietnam, it's even shorter and more economical to go through the Suez Canal to the east coast of North America. So we have to be cognizant of that.

Our competition, ports down south along the West Coast, are looking at the phenomenal growth that we have experienced at Fairview Terminal and are trying to figure out "What is their secret sauce?" And they're trying to replicate it. And I can tell you that our competitive advantage is shrinking and narrowing, and we have to stay on top of things and try to continue to move ahead.

One of the big risks that we have is, unlike any other container port on the west coast of North America, 100 percent of the containers moving through Prince Rupert are discretionary. Discretionary traffic, meaning they don't have to come to Prince Rupert.

Places like Vancouver, Seattle, and especially LA and Long Beach, a good portion of those containers go to the local market, so there'll always be container ships going into those ports. But if we lose our competitive advantage, there's no reason for a container ship to come into this

facility.

And the reason we are growing and expanding so rapidly is because we have a competitive advantage right now, but the competition is breathing down our back.

This is really the big area of risk for us. The windows of opportunity open and close on a very short time frame. Now on the left-hand side, you can see the potash prices and how the potash market went way up, and then it declined. And this happens over a very short period of time, a matter of years.

What's happening on the right-hand side graph shows you the differential between the price of gas in the United States and the price of gas in Japan. That is what created the LNG opportunity. The large gap in the differential in the price, that gap is shrinking now and the window is starting to close once again.

Why that is such an issue for us? These kinds of windows of opportunity open and close in a matter of years, while it takes us at least a decade to plan, design, develop, get environmental approval, construct, and, and raise the hundreds of millions of dollars required for the infrastructure to capitalize on these types of opportunities.

So, what are we doing to respond to these opportunities and meet those challenges, and what the heck does a duck have to do with that?

Well, a duck propels itself forward and looks really nice and calm on the surface, but all the activity is happening below the surface. I just want to share with you a little bit of all of the vigorous activity that's happening below the surface here.

First off, we have moved forward with what we refer to as that 2020 Gateway vision. And this is our strategy to build an export platform on Ridley and Lelu Islands and ensure that this gateway is ready for the accommodation of in excess of 100 million tonnes of traffic.

And we've developed this in a strategic way...so that we can reduce congestion, we can reduce the impacts on the community and on the environment as best possible. And so, that was developed in a way to create a platform that the road rail, the utility corridor was the foundational piece of infrastructure. And we celebrated the opening of that facility this year.

And now we have that foundation for that hundred million additional tonnes of cargo. We hope the appropriate execution of that 2020 Gateway plan will bring more than just 100 million tonnes of cargo. We'll bring diversification.

Back in 2004, when we only had 4.7 million tons of volume moving through this gateway, nearly 90 percent of our cargo was just based on two commodity types, coal and grain. And that's not diverse.

Through the Gateway 2020 plan, by 2024, when we believe we will have nearly 80 million tonnes of cargo...no single commodity will make up more than 25 percent of the pie.

And we'll have at least five or six different types of commodity-based that make up this gateway. That's diversification, and it ensures that the economy will manage the ups and downs in individual sectors. What will this growth mean, getting back to municipal taxation?

If we are successful in building the full build out of that Gateway 2020, and bring all those pieces of infrastructure to this community, the revenue to our municipalities will grow to \$60 million a year.

So I know that's cold comfort to Mayor Lee Brain and the council now, and they are kind of struggling to pay the next bill. But the point is, it's the light at the end of the tunnel that we can all focus our collective energies toward. Then we'll once again build a strong community.

We're building infrastructure to manage that extra hundred million tons of traffic, but it'll also have impacts on the water. And it's what I keep on referring to as, "Out of sight, out of mind." Everybody in the community is very conscious with what's happening with new builds, whether it be the Fairview Corridor or the new utility corridor. Sometimes [we] neglect to see what's happening in the water.

Today, we have less than 500 deep sea vessel visits a year. That will grow to nearly 2,000 deep-sea vessel visits a year. So we have to prepare for that growth, and I'm going to quickly show just some of the things that are happening below the surface, out of sight.

We are doing studies on vessel traffic to figure out how all that traffic can grow in not only the deep sea vessels, but include the pleasure crafts and fishing boats. How everybody can move in and out of this harbour safely. And one of the potential options is actually having designated shipping lanes. But it's only one of the options.

We have put in tide and current monitors, and they're online, so it's not just the deep-sea vessels that benefit from this. Pleasure crafts can now get on to our website and get real time current activity.

We are investing hundreds of thousands of dollars every year in partnership with Coast Guard to add aids to navigation in this port. One of the more exciting additions is a five million dollar investment is being made on [shore-based] radar.

Believe it or not, this port gateway has not had radar. And this is exciting, because we'll be able to see everything that's happening in this gateway. Whether it be large or small [vessels] or even a kayak, we'll be able to pick it up in all types of weather conditions. It's going to be a huge increase to the safety and security of this port.

We are doing water sampling continuously throughout the port. We've been doing this for a number of years throughout the harbor. We are doing air [quality] sampling and setting up more air-quality stations throughout the whole port community to ensure that we have the base levels to measure and see how that changes.

We are looking at carbon emissions. Every year we have done a carbon emissions study...and Jason and his team are driving this effort. We now had three staff members employed at the port, totally focused on environmental stewardship activities.

[We continue to set up] noise monitoring stations. [We will] be setting one up in Port Edward to make sure that as the port grows we can not only monitor but manage the additional noise nuisances that will be created, and work with the community to try to ensure that isn't a nuisance.

We have partnered with many of the port users to do a shoreline habitat evaluation of the entire harbor and up the Skeena River. And that has been a great benefit to some of our proponents. Invasive species monitoring are kind of the canary to make sure that if there's any invasive species coming into this harbor, we are aware of it immediately. That's ongoing in partnership with the local community college

We are tracking marine mammal activity in the harbour and making sure that we can use that information to feed into our vessel traffic studies to ensure that marine mammal activity in this harbor is protected.

So I'm trying to stick to my time period here, and let me just wind this down by talking about the [Pacific NorthWest] LNG facility because that's been front and center in the media for the last little while.

First off, you know the Port Authority is very focused on protecting the fish habitat, and we fully understand and appreciate the importance of the Flora Bank area. As in all projects, we recognize the importance of the marine environment and in the planning and development of that facility.

So, that's number one. Everybody, and I think I can speak for every organization that is involved in this particular project, everybody is aware of the importance of the Flora Bank fish habitat area and wants to protect that completely.

Secondly, this project hasn't been approved. Right now, PNW has the ability to investigate the potential of developing a facility. And they have followed a very rigorous environmental assessment program, and they are in consultation with agencies and First Nation Groups, and have been.

They are responding to a rigorous evaluation process, and they have been changing and adapting

their design to respond to issues that have arisen during this environmental review process. I want to also make it clear that the current design does not touch Flora Bank.

In fact where the current berthing facility will be potentially located is at least 200 meters from the edge of the floor bank. So, no decision has been made.

They are responding to this assessment process and they will have to meet the requirements... of all environmental regulations and standards, and meet all provincial and federal laws before there will be any decision made.

And if they're not able to meet those strict laws and regulations, they will not get permitted. What we as a community have to do is wait that process through. I guess the only other comment I'll make is that the amount of scientific rigor that is going into evaluating this process is unmatched.

The type of modeling and work that is taking place to demonstrate that this project will not impact the fisheries resource on the Flora Bank has never been done before in the sense of the rigor that has been followed on this project.

So the [Canadian Environmental Assessment Agency] process is winding its way a conclusion of the evaluation stage. I know that some of that scientific data that PNW has completed, [specifically] the 3D modeling, is now posted on CEAA's website and it's public information.

As they have peeled down the layers and gone deeper and deeper into more scientific analysis, they're proving that they will have less and less impact on any of the fisheries resource on Flora Bank.

So with that, let me just conclude by saying that as the Port Authority, there are two challenges that we continually face. One challenge that I kind of alluded to earlier is that on the one hand, these windows of opportunity open and close in years, while we have to try to meet those windows of opportunity by building pieces of infrastructure that take at least a decade to get up and running, and take hundreds of millions of dollars to finish.

So that's one challenge. The second challenge is that we have to find a path forward where we can successfully have a vibrant economy and at the same time have a vibrant environment...a pathway where both of those important aspects to our community can be met.

I have to believe that if we, as a society, can put people on the moon and bring them back, and explore the outer reaches of the solar system, that we surely can have faith in the science and technology. Where we don't have to be put in a position where we have to choose one over the other. Where we don't have to choose industry over environment, where we don't have to choose berthing infrastructure over fish habitat.

I believe that we can have those side by side and as a result, if we can meet those two challenges collectively we can have a very strong and vibrant gateway community that allows us to continue with the quality of life and the lifestyle that we've had over the last many years, as well as a protected environment.

So, thank you very much for your attention.