FINANCIAL AND ECONOMIC ANALYSIS OF TREATY SETTLEMENTS IN BRITISH COLUMBIA

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Preface

The research and analysis for this report was carried out in September and October 1998 and a draft report was issued at that time. All of the information contained in this report relates to conditions and events which were current at October 1998. Some minor technical revisions were made to the report in March 1999 and this represents the final report.

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Section 1: Executive Summary

In 1996 the Government of BC commissioned a report which estimated the economic costs and benefits from treaty settlements in BC. That report was based on the treaty negotiation process up to that time and it took into account prior studies and treaties which had been settled elsewhere in Canada as a base for the economic and financial model generated. Since then there have been some further developments affecting treaty settlements in BC, most notably the conclusion of the Nisga'a Final Agreement which was initialled in August 1998. This study updates the earlier report to take account of the Nisga'a Final Agreement and other significant factors. Like the earlier report, this study presents the impacts from a BC perspective only.

This report has been divided into two sections, the main report and the appendices, which are available under separate cover. This report first provides an estimate of the financial impact of the Nisga'a Final Agreement, based on the assumptions set out in this report. This is then used to provide a range of financial and economic impacts of treaty settlements in general on BC, consistent with the Nisga'a agreement and with other currently available information. In similar fashion to the earlier study, this report relies on the cost sharing agreement between the federal and BC governments to support the relative amounts of land and cash transferred to First Nations. However, it assumes that some of the other types of costs related to the treaty may also pertain in other treaty settlements.

The key findings of this study are:

The Nisga'a will receive cash (capital transfer) of $195 million, 2,019 square kilometres of land (with a notional value of $107 million), and resource revenue transfers valued at $37 million. Payments to third parties for the transfer of resource interests and compensation are estimated to be $44 million. Total settlement costs are estimated to be $276 million.

Other costs specific to the Nisga'a negotiations relate to implementation costs, pre-treaty costs, net costs for implementing self-government, and upgrades to the Nisga'a Highway, and are estimated at $115 million, excluding net annual funding. BC's share of this cost is $65.4 million. After taking into account these costs, the net financial benefit to BC is $188 million.

The benefits accruing to the Nisga'a Nation resulting from these transfers will likely include greater self-reliance and increased employment, together with positive economic effects. Applied to British Columbia as a whole, this greater self-reliance and increased employment is expected to improve economic conditions for First Nations. Reduced uncertainty from obtaining treaty settlements may improve the investment climate, although many factors apart from unsettled treaties affect investment. Also, following treaty settlements there may be opportunities for governments to achieve savings in program expenditures.

Taking into account the Nisga'a experience, once completed, the total financial benefit of all treaty settlements to British Columbia's First Nations is estimated at between $6.3 and $6.8 billion. After British Columbia's share of the costs, including cash, pre-treaty and negotiation costs, as well as BC taxpayer's share of federal costs, the net financial benefit to British Columbia as a whole is estimated to be between $3.8 billion and $4.7 billion. As was reported in the earlier study, the benefits originate with the payment of cash to First Nations, which is primarily funded by the federal government. Under the federal-provincial cost sharing agreement, the federal government will contribute most of the cash (approximately $5 billion) and BC will contribute rural land and up to 25% of the financial contributions. Following the Nisga'a settlement as an example of treaty settlements generally, BC's share of cash is expected to range from $0.9 to $1.5 billion, but it could vary depending on the amount of rural land contributed. The costs estimated include estimates of the costs of negotiating and implementing treaties, based on the Nisga'a and other experiences, as well as the cost sharing agreement. When these costs are added to BC's share of the financial contributions, the total cost to provincial taxpayers, without taking into account the market value of rural land in excess of the value of resources thereon, is estimated at $2.1 billion to $2.5 billion. Rural land values are excluded as they are both difficult to value on a province-wide basis and, in any event, do not affect provincial financial flows. The financial analysis also included costs related to road and highway construction, although these were part of separate agreements. These specific costs have not been incorporated into the estimate of total costs in BC since they are unique to the Nass Valley region, but there could well be other costs related to future treaty settlements. The economic benefits which are estimated to fall to British Columbia from the investment of the cash transfers have been calculated as between $7.0 and $11.6 billion in 1998 constant dollar terms, totalled over 40 years. Most of this benefit is expected to accrue to First Nations. Even though there will be some economic displacement of other British Columbians in the resource sector, these may well be offset by spin-off effects from the investments made by First Nations, provided the quality of that investment is maintained, and through adjustment programs.

The estimates provided in this report carry a substantial degree of risk since many of the variables used are complex and rely on a number of factors taking place. For example, the earlier report was based on prevailing economic conditions at that time, which have changed in the three intervening years and will undoubtedly continue to change. Inevitably, the accuracy of the numbers is dependent on the occurrence of future events which, by their nature, cannot be assured. As a result, the actual costs incurred and impacts achieved could well differ from these estimates.

Section 2: Introduction

Treaty negotiations between First Nations, the BC and federal governments have been an ongoing feature of British Columbia activities for the last six years. This resulted from recognition by governments of their obligations to First Nations and a desire to resolve outstanding issues. This has, to some extent, been reinforced by the Delgamuukw court case, where the underlying key message has been for First Nations and governments to settle treaties and deal with outstanding issues in an expedient manner.

Most of the responsibility for overseeing and facilitating treaty negotiations has been assumed by the BC Treaty Commission, which has, since its inception, received initial claims from 50 First Nations; over 60 in total are anticipated. However, a final agreement for a treaty was initialled on August 4, 1998, by the Nisga'a Nation, British Columbia and Canada, and if ratified, will be the first treaty in BC since 1899. The proposed Nisga'a treaty was completed outside the BC Treaty Commission process, as their negotiations began prior to inception of the Commission.

In 1996 the government of BC engaged a consulting firm to estimate the financial and economic impacts of treaty settlements in BC. That firm's report set out the impacts in terms of two scenarios, based on various assumptions. Since that report, the Nisga'a Final Agreement has been concluded, although it has yet to be ratified. Grant Thornton has been engaged to update the earlier report to take account of the Nisga'a Treaty and any broader application that treaty may have on treaty settlements in BC. Other changes since the earlier report were also to be considered. Like the earlier study, the scope of the report was restricted to the impact from a British Columbia perspective only.

This report provides an independent assessment of the estimated financial impacts of concluding the Nisga'a Final Agreement, and the range of financial and economic impacts associated with treaty settlements and self-government overall for First Nations in BC, having regard to the implications of the proposed Nisga'a treaty on future treaty negotiations.

Notwithstanding the greater definition brought to bear on treaty settlements by the conclusion of the Nisga'a Final Agreement, the actual impacts cannot be predicted with certainty due to such factors as the pace of settling all treaties, the cash payments and land transfers made, the subsequent activities of First Nations, and the economic conditions at the time of settlement. Moreover, the Nisga'a negotiations take into consideration a variety of issues and negotiating provisions which were specific to that treaty and which may not have a similar bearing or relevance to other treaties. Nevertheless, having regard to these different uncertainties, the range of impacts presented in this report appear to be reasonable.

Section 3: The Provincial Position

When the federal government, the province of BC and the First Nations Summit established the negotiation process under the BC Treaty Commission, British Columbia made a commitment to negotiate treaties which maintain or enhance basic social program standards, as well as comparable justice systems and taxation levels for all British Columbians. Under Premier Harcourt, the provincial government made specific commitments to the provincial objectives for negotiated treaties.

Since that time, two important events have occurred. The Supreme Court of Canada made a decision on the Delgamuukw case in December 1997 and Canada, British Columbia and the Nisga'a initialled the Nisga'a Final Agreement in August 1998. Premier Clark has stated that the Supreme Court decision obligates governments to negotiate land claims in good faith and that the Nisga'a Final Agreement is the first accomplishment in that effort. He has committed the government to the process of ratifying the Nisga'a Treaty and to ongoing negotiations to resolve the more than 50 other outstanding land claims in B.C.

As well, in light of the Delgamuukw decision, the provincial government has made a commitment to working in partnership with Canada and the First Nations Summit to help streamline and improve negotiations. If successful, these efforts would accelerate the conclusion of negotiated settlements with First Nations.

British Columbia's stated objectives for treaty negotiations are outlined below.

The Canadian Constitution, including the Charter of Rights and Freedoms, will be applied to all citizens of British Columbia. Treaties will recognize and respect the existing legal rights of all citizens. Existing Aboriginal rights will be respected and defined through treaties. Agreements must be affordable to BC taxpayers. The federal government's primary constitutional, fiduciary and financial responsibility for treaties and for First Nations must be maintained. The province will avoid disruption to interests held in Crown land. If disruption occurs, compensation will be fair and consistently applied across the province in a timely manner. Private property will not be on the negotiation table. Province-wide standards of resource management and environmental protection will apply. Treaties will encourage the management of natural resources in accordance with principles of sustainability and environmental protection. Access to land and resources for hunting, fishing and recreational use will be guaranteed. The province also guarantees access to public roads. Jurisdictional certainty between First Nations and municipalities will be clearly conveyed. The tax exemption for individual Indians under section 78 of the Indian Act will end after a transition period. The provincial government has indicated its commitment to resolve treaties within this framework.

Section4: Changes since Prior Study

Background

Historically, treaty settlements were negotiated between the federal government and First Nations only. However, in 1990 with the Nisga'a negotiations, it became clear that BC's presence was critical due to the claims for land which are largely provincial Crown lands. BC formally joined the federal government at the Nisga'a negotiating table at that time. In the spring of 1993 the British Columbia Treaty Commission (BCTC) was formed by a tripartite agreement between the province, the federal government and the First Nations Summit, with the responsibility of overseeing treaty negotiations.

Policies for the BCTC negotiation process itself were established, clearly defining six stages.

1. Filing of a Statement of Intent.
2. Preparing for negotiations and assessing readiness.
3. Negotiating a Framework for Agreement.
4. Negotiating an Agreement in Principle.
5. Negotiating a Final Agreement.
6. Implementing a final treaty.

The main components of treaty settlements to be addressed by the BCTC are transfers in the form of cash payments, Crown lands, resource interests and other assets of value; aboriginal self-government, including legislative, taxation, land management and other powers; and, implementation and funding arrangements.

The Treaty Commission has largely been accepted in its efforts to resolve land claims and the three parties involved are committed to its success. It should be noted, however, that the Union of BC Indian Chiefs (UBCIC) have not participated in the Treaty Commission process due to differences in fundamental beliefs on the issue of land claims.

Recent activities

While there has been little substantive progress made in the majority of aboriginal land claims since the 1996 study, a number of significant events have taken place which have and will continue to set the course for future treaty negotiations in British Columbia. The following is a chronological summary of events and milestones reached over the past two years, since the previous study.

August 1997: Proposal for Sechelt agreement in principle

The second substantive offer for an agreement in principle with a First Nations group was made to the Sechelt Indian band in August 1997 (Nisga'a Nation signed the first agreement in principle in March 1996). The Sechelt offer included the following components:

- Land: 222 hectares of urban lands and 126 hectares of rural lands, to be held in fee simple Cash: $48.2 million Fishing licences: transfer of 11 existing commercial fishing licences with a market value of $1.5 million Taxation: current exemptions to be phased out in eight years for transaction taxes and 12 years for income taxes Governance: BC would enact legislation necessary to ensure the continued operation of Sechelt governance.

The proposal was ultimately rejected by the Sechelt due to substantive differences in their goals with respect to the phased elimination of the tax exemption and title to land, however negotiations are still ongoing.

December 1997: Decision from Delgamuukw vs. Her Majesty

The now famous Delgamuukw trials for aboriginal title to territory in north-central British Columbia began in the Supreme Court of British Columbia in 1991, then moved to the BC Court of Appeal in 1993. In both trials, the claim for aboriginal title was not only denied, but the right to aboriginal title itself was not recognized. The case was further appealed to the Supreme Court of Canada.

In December 1997, the Supreme Court of Canada referred the case to a new trial due to procedural errors, however a landmark decision was delivered which stated that aboriginal title does exist, and that it provides the right to exclusive use and occupation of specific lands for a variety of purposes. The source of aboriginal title is considered occupation of the land before assertion of British sovereignty, which, in British Columbia, began in 1846. Occupancy can be proven if possession is recognized by common law, or by laws of the particular aboriginal group at the time of sovereignty. However, how occupancy will be proven under the latter term remains to be seen.

With this decision, the Supreme Court of Canada has set the course for the potential outcome of all future land claims and has prompted the process of treaty negotiations. From 1995 to 1997, between the time the Delgamuukw case moved from the BC Court of Appeal to the Supreme Court of Canada, many of the treaty negotiations which were in process had slowed, in anticipation of the outcome of Delgamuukw. With that decision made, and the decision clearly reinforcing aboriginal rights, treaty negotiations are once again active.

March 1998: Accelerated treaty negotiations

Both the provincial and federal governments expressed a strong interest and intent to manage the treaty negotiation process in as efficient and expedient a manner as possible. They also moved to accelerate the process compared to historical time frames and this has been considered in assumptions for the pace of treaty settlements in our analysis.

August 1998: Nisga'a final agreement

A final agreement for a treaty was initialled on August 4, 1998, by the Nisga'a Nation, British Columbia and Canada, and if ratified, will be the first treaty in BC since 1899. Negotiations for a Nisga'a treaty were completed outside of the Treaty Commission process, as negotiations were underway prior to formation of the Commission, however the terms of the agreement are in keeping with the intentions of the Treaty Commission process. A treaty for the Nisga'a has been actively negotiated in a tripartite process since 1992 and significant concessions were made by all parties in order to reach a Final Agreement. A ratification vote by the Nisga'a will take place in late 1998, and can only be accepted with a majority vote. The provincial and federal governments will likely take their vote in 1999 as well. If ratified, a treaty for the Nisga'a could become effective as early as April 2000 or January 2001, according to representatives of the provincial government. Section 7 and Appendix C of this report offer a detailed discussion of the financial impacts of the proposed Nisga'a treaty.

Status of other treaty negotiations

There are a total of 50 bands who have or had made land claims and shown an interest in treaty settlements. Forty-four First Nations are presently active in the British Columbia Treaty Commission process including two First Nations seeking trans-boundary agreements, the Champagne-Aishihik and Teslin Tlingit Council. The Nisga'a commenced negotiations prior to formation of the BCTC and therefore are outside of the process. In addition, there are five other bands who submitted Statements of Intent but are no longer active in the BCTC process.

The following exhibit summarizes the six steps which make up the treaty negotiation process and the number of groups at each stage.

Exhibit 4-1: Status of Treaty Negotiations Process

Stage		BCTC	Trans-boundary	Outside BCTC	Total
1	Acceptance of a statement of intent	47	2	1	50
2.i	Preparations				
	First Nations	38	2	1	41
	Provincial Government	39	2	1	42
	Federal Government	39	2	1	42
2.ii.	Declaration of issues to be negotiated	36	2	1	39
3	Framework for an agreement	36	2	1	39
4	Signing of an agreement in principle	0	0	1	1
5	Signing of a final agreement	0	0	1	1
6	Implementing a final treaty	0	0	0	0

The amount of time required for each step to be completed varies with the desires of the band and the nature and quantity of items to be negotiated. Since the 1996 study, another 33 bands have established a framework for an agreement and have progressed to Stage 4, negotiating an agreement in principle. There are now a total of 39 bands in this stage. It is noted however that there is no set length of time to establishing an agreement in principle and many have been in this stage for two or more years. Negotiations with the Nisga'a took five years between the time a framework for an agreement was established and the agreement in principle was signed.

Nevertheless, the fact that 39 bands are now negotiating for an agreement in principle, versus three bands three years ago, is a strong indication of the intent and desire of First Nation groups to settle land claims issues and to establish their cultural and social rights within Canadian society. Through the establishment of the BC Treaty Commission, a process has been put in place to settle land claims and it appears that the process is working. However, it is anticipated that considerable time is required before all land claims will be settled in a satisfactory manner.

Section 5: Overview of Benefits And Costs

There are a number of real financial costs incurred by governments and others as a result of the treaty process. At the same time, there are expected to be a number of tangible and intangible benefits arising from treaty settlements, for governments, First Nations and other British Columbians. These are summarized below.

Overview of costs

The earlier study identified various cost elements as costs to the two levels of government, BC and Canada, which were essentially those contemplated in the federal-provincial cost-sharing agreement. Those costs covered such things as transfers of land, payments of cash and cash equivalents, foregoing resource revenues, compensation payments to third parties, support funding and implementation costs.

The Nisga'a Final Agreement has confirmed the nature and scope of these costs and has clarified some others such that the costs now fall into the following categories:

Land - the rights to negotiated land will be transferred from the province to First Nations, which may or may not include sub-surface rights. Cash and cash equivalents - this will encompass cash transfers, foregone resource revenues and, where applicable, cash equivalents for the value of urban and other appraisable lands. Other cash funding - depending on the particular treaty, there may be other cash funding such as, in the case of Nisga'a, funding for resource management.

Third party interests - the costs of purchasing third party interests where necessary to conclude treaties, and including specifically, payments for tenure licences and other legal interests. Under the definition as set out by the federal-provincial cost sharing agreement, third party interest does not include other compensation to businesses in the resource sector for extended economic losses such as loss of income or the need for re-training. Self-government costs - to fund First Nations' self-government and other related programs. Pre-treaty costs - related to the negotiation and public consultation surrounding the treaties being negotiated, interim measures related to the protection of resources, as well as costs related to assessing eligibility of citizens to become treaty beneficiaries and costs related to the treaty ratification process, Implementation costs - related to the development of a final agreement which, in the case of the Nisga'a Treaty, included land and other surveys.

Overview of benefits for First Nations

Treaties are expected to bring a number of benefits to First Nations which, based on experiences elsewhere, would include: increased economic activity in First Nations communities brought about by transfers of capital to those communities; increased employment, especially in resource based industries; and greater self-reliance and other social benefits resulting from higher employment and financial incomes, as well as better infrastructure in First Nation communities. Of course, the benefits realized will depend on a number of factors, including investment strategies, management skills, and the quality of the supporting infrastructure and administrative systems.

Overview of benefits for other British Columbians

A number of studies have suggested that the uncertainty related to whether treaties will be settled and how they will be settled has been discouraging investment in BC. By clarifying the rights and obligations of First Nations, uncertainty is reduced and private investment may well increase, although this will depend on other factors as well.

Other British Columbians can also be expected to benefit from the significant cash influx to the province which, based on traditional multiplier effects, will have a positive impact on the provincial economy. Cash transfers will result in local investment and consumption which, in turn, will likely lead to spin off effects both within and outside the aboriginal communities.

Overview of benefits for governments

The provincial and federal governments can be expected to benefit from taxes collected from First Nations as a result of investment, economic activity and employment in aboriginal communities. To the extent that First Nation's activities are not subject to federal or provincial tax, a portion of the First Nation's own revenues will reduce the amount of program funding required by the federal and provincial governments. In addition, there may, over time, be reductions in demands for social programs aimed at First Nations as they become more self-reliant. For example, the province can expect to realize savings in provincial expenditures where the government has traditionally provided top-up expenditures on federal programs. Similarly, if First Nations flourish through increased investment and employment, the high unemployment payments will be reduced.

Section 6: Overview of the Financial and Economic Model

Overview

As discussed earlier, the objective of this report is to provide an estimate of the financial impact of the Nisga'a Final Agreement, and to use that estimate to update an earlier assessment of the financial and economic impact of treaty settlements in general in British Columbia. Section 7 of this report assesses the financial impact of the Nisga'a Final Agreement from the perspective of the Nisga'a, the province and other residents of British Columbia, taking into account the financial terms of the Final Agreement and various supporting Agreements. In Section 8, the report shifts its focus to treaty settlements in British Columbia in general, having regard to changes which have occurred since the 1996 study. The impact of the Nisga'a experience, together with updated financial and economic assumptions, are assessed using a financial and economic model developed for this purpose.

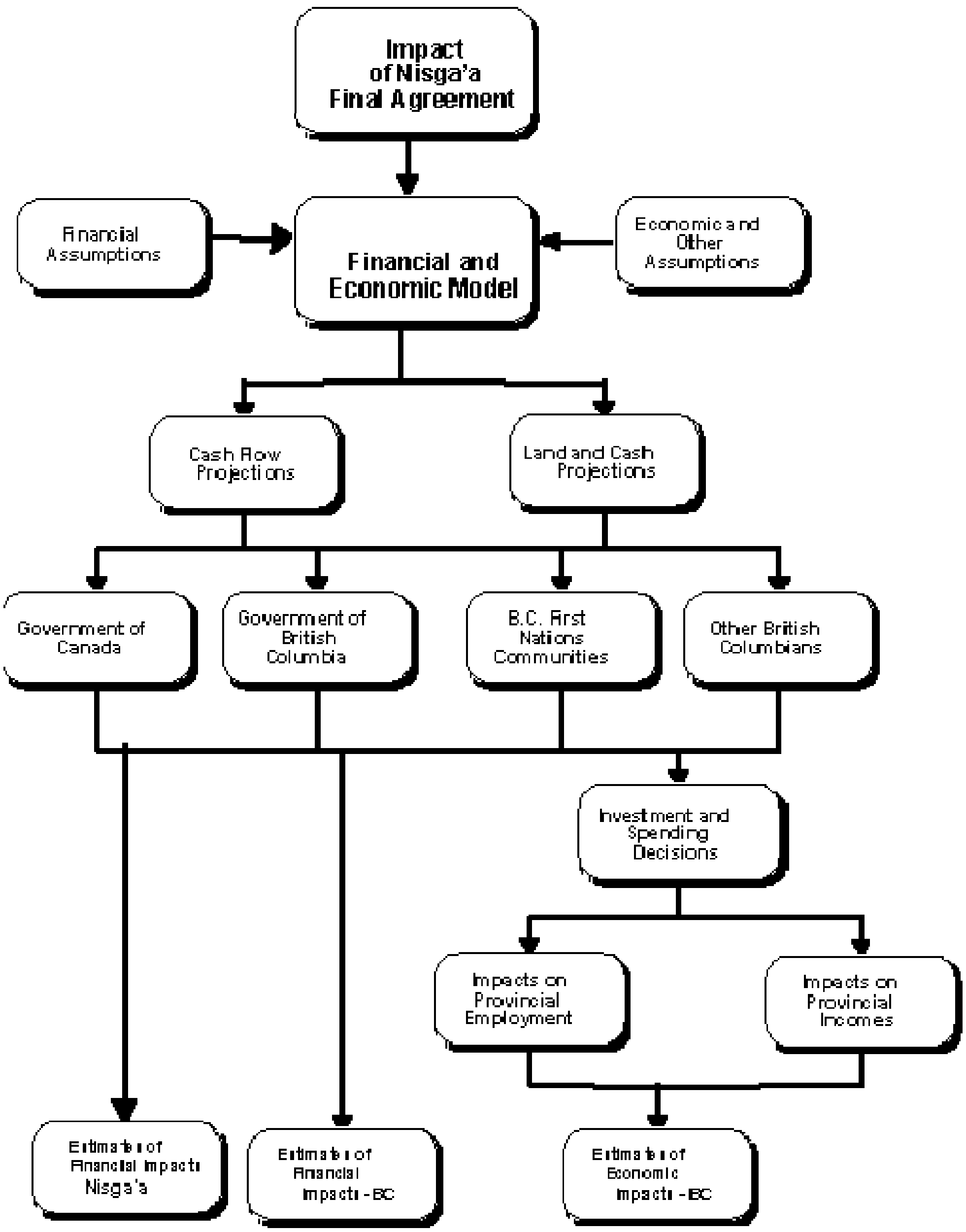
In Section 8, two scenarios have been developed to reflect settlements comprised of different proportions of land and cash and further varying First Nations' investment and spending practices. The scenarios provide a range of impacts consistent with information currently available and an indication of how changes in key variables can affect the financial and economic impacts of treaty settlements. Much of the structure and many parameters of the 1996 study have been retained in the present analysis to focus attention on substantive rather than methodological changes.

The model

The model used to estimate the financial and economic impacts requires numerous assumptions relating to the pace of treaty settlement, the magnitude and composition of the principal treaty settlement components (land, cash and cash equivalents), the potential extent of third party compensation, the scope of self-government, potential pre-treaty settlement and implementation costs and various economic variables, having regard to the federal-provincial cost sharing agreement, as well as details of the Nisga'a treaty and other precedents. Sector cash flow projections were prepared for the stakeholders, including the provincial and federal governments, First Nations communities and other residents of British Columbia. These cash flow projections were used to assess the financial impact of treaty settlements on individual stakeholder groups and for British Columbia as a whole. The economic impact of treaty settlements was assessed through consideration of the possible allocation of both land and cash over the estimated period of treaty settlement. Further, the impact of treaty settlements on provincial employment levels and incomes was estimated through the application of a number of economic ratios and multipliers. Combining the results of the foregoing analysis enabled the derivation of the total economic impact of treaty settlements. A schematic diagram of the model is shown in Exhibit 6-1, on the following page.

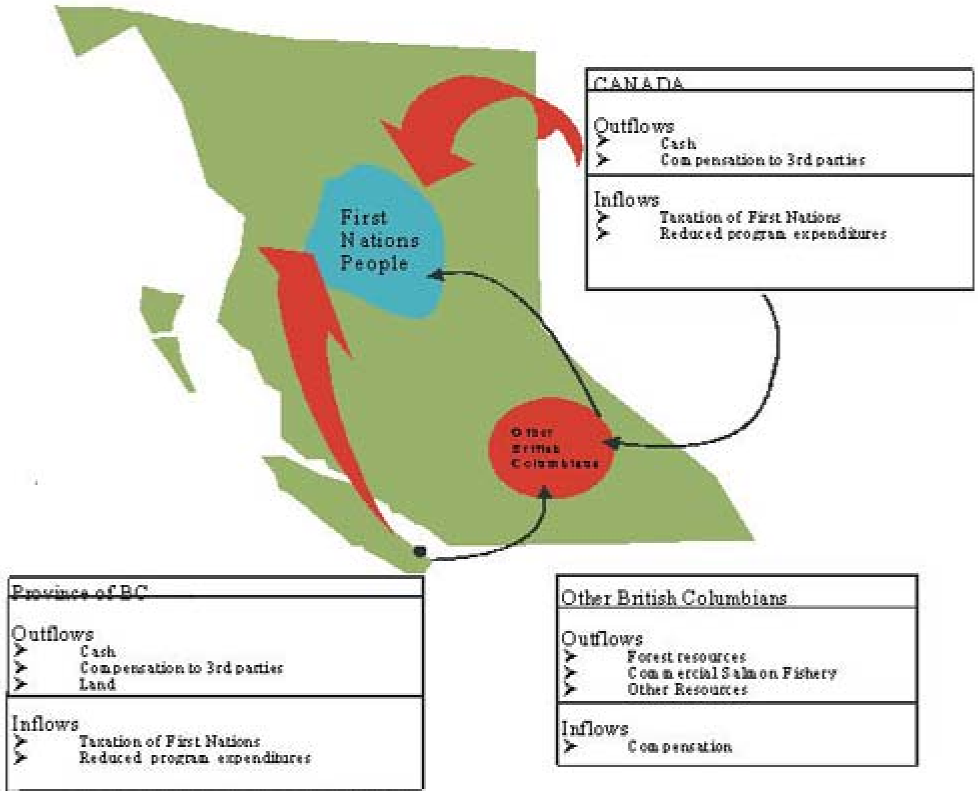
Exhibit 6-1: Financial and economic model

Treaty Settlements in B.C.



The results of the model are detailed in the following sections of the report. However, the following diagram, presented as Exhibit 6-2, is a pictorial representation of the financial impact of the treaty settlement process in British Columbia. The arrows in the diagram represent the inflows/outflows to/from First Nations, the federal and provincial governments and other British Columbians.

Exhibit 6-2: Estimated Financial Impact of Treaty Settlements in B.C.



Throughout this report, financial and economic impacts are discussed in terms of "constant dollars" and "net present value". Constant dollars is a concept used to bring a number of future cash flows to today's dollars, adjusted only for inflation. The estimates cover the financial and economic impacts over 20 years for the proposed Nisga'a treaty and over the assumed 40 year settlement period for all treaty settlements in BC. Net present value is also a concept used to bring a number of future cash flows to today's dollars, but after adjusting for the time value of money. In the context of the land claims settlement process, it is the amount of money which, if invested today at a certain discount rate, would yield sufficient funds to cover all future inflows and outflows. The net present value calculations have used a 6.2% real rate of return as the discount rate. This rate was derived in reference to long term risk free returns (i.e., long term government bond rates) less long term inflationary expectations.

The reader is cautioned that the uncertainties inherent in a process of long term negotiations preclude the development of precise projections. Rather, the results provided are the best estimates of what may occur, should the federal and provincial governments and First Nations bands continue negotiation and conclude agreements that are consistent with past practice and stated commitments. Readers should, therefore, recognize the limitations of the reported results.

Section 7: The Nisga'a Treaty

Overview

The Final Agreement for a Nisga'a Treaty was initialled August 4, 1998 by the Nisga'a Tribal Council, British Columbia and Canada and is now in the preparation stages for eligibility and enrolment of Nisga'a citizens and for ratification by the three parties. If ratified, it would become the first aboriginal treaty in British Columbia since 1899. Regardless of whether the treaty is successfully ratified however, the Nisga'a Final Agreement represents a milestone achievement in the treaty negotiation process.

This section of the report assesses the financial impacts of the potential Nisga'a Treaty, taking into consideration all financial terms in the Final Agreement and supporting Agreements. Appendices B and C offer detailed discussion of the estimates, findings and conclusions outlined in this section of the report. The assessment is from the perspective of the Nisga'a and British Columbia, including the provincial government and the residents of British Columbia, utilizing the methodology developed in the 1996 study. This report considers only the financial impacts of the Final Agreement; a review of the economic implications of the Agreement was not within the scope of this section of the study.

In brief, the proposed Nisga'a treaty calls for a transfer of cash and land to the Nisga'a Nation, and annual funding for the purposes of self-government, including funding to establish a fisheries conservation program. The cash component of the agreement includes a capital transfer over 15 years, foregone resource revenues, and the purchase of third party interests. In addition, compensation to third parties will be required in the fisheries and forestry sectors.

Financial terms and general characteristics

The terms of the Nisga'a Final Agreement, inclusive of all land, cash and non-cash transfers to the Nisga'a, as well as other costs born by the province, are highlighted here and summarized in Exhibit 7-1. The amounts noted are per the terms of the Final Agreement and supporting agreements, unless specified otherwise as an estimate. All figures are presented in 1998 dollars.

A capital transfer of $195.1 million dollars will be made to the Nisga'a, with BC contributing $14.8 million and Canada paying the remainder. The lower amount of cash contribution by BC is in accordance with the cost sharing agreement between the provincial and federal governments, and is based on the relative mix of land and cash.

BC will forego an estimated $36.7 million in forestry revenues as a result of the settlement. Of this, $4.4 million is estimated as cash to be paid to the Nisga'a during an initial five year transition period; the remaining $32.3 million represents a non-cash transfer of potential government revenue to the Nisga'a after the transition period.

The actual value of the resource to the Nisga'a will depend on actual timber harvest levels and prevailing market conditions. Third party interests include funding of $11.8 million to provide the Nisga'a with funds to purchase fishing vessels and licences from existing licence holders for increased participation in the commercial fisheries industry.

Third party interests also include compensation to the forestry and fishery sectors to ensure the designated timber harvest from Nisga'a lands and annual allowable fisheries catch, as set forth in the Final Agreement, will be available to the Nisga'a. The compensation is for the purchase of legal rights to the specified allocations of fish and timber, and represents a potential value to the Nisga'a, similar in concept to that of foregone resource revenues (except to the private sector).

The actual value of the resource will depend upon actual levels of timber harvested and fish caught. Compensation to third parties has not been negotiated yet, but will be equally funded by the federal government and BC. Based on discussions with the BC Ministry of Finance and research undertaken by Grant Thornton, this is estimated as:

Fisheries - $5 million for purchase of fishing licences Forestry - $27.5 million, based on the current market value of timber tenures, as supported by recent sawmill transactions in BC, and the amount of timber available on proposed Nisga'a lands

Total land to be transferred to the Nisga'a will comprise 2,019 square kilometres of land and will be held in fee simple. The province will contribute 1,945 square kilometres of Crown land and the federal government will contribute the 74 square kilometres of existing reserves. For purposes of the cost sharing arrangements between Canada and BC, the provincial land has been ascribed a notional value of $106.7 million.

Implementation costs include the cost of surveying lands and water. These costs are estimated at $3.1 million and will be funded by Canada and BC. Pre-treaty costs include the costs of negotiations, public information, conducting eligibility and enrolment, ratification and interim protection measures. Provincial negotiation and communications costs are estimated at $17.6 million. The amount of federal pre-treaty costs is unknown and therefore has been excluded from this analysis. Similarly, Nisga'a negotiation costs are also unknown. However, their costs are being funded by a loan from the federal government. Under the terms of the Final Agreement, loan payments can be deducted from the annual capital transfer payments. Costs for eligibility and enrollment and ratification total $1.1 million, and will be shared 60%/40% by Canada and BC respectively, as per the separate agreements for these items. Finally, throughout the negotiation process, interim measures were undertaken for the protection of wildlife and the environment. Since 1993, $2.4 million has been spent on these interim measures. Under the five year Fiscal Financing Agreement negotiated pursuant to the Nisga'a Final Agreement, Canada and BC will pay annually $30.6 and $1.2 million respectively to the Nisga'a to support self-government initiatives in the areas of health, social services, education, housing, land and resource management and other government and local services. To the extent that First Nation's activities are not subject to federal or provincial tax, as the Nisga'a generate their own revenue from commercial/ investment activities, tax revenues and other similar sources, a portion of these monies will be deducted from the annual payments by the federal government and BC under the negotiated Own Source Revenue (OSR) Agreement. With respect to tax revenue, Nisga'a individuals will become taxable after a transition period of 8 years for transaction taxes and 12 years for other taxes under the negotiated Taxation Agreement. However, to assist the Nisga'a with initial economic development, own source revenue deductions will be phased in over a transition period of 12 years.

For the purposes of this report, conservative assumptions were used to project OSR, in order to highlight the potential financial impact on BC. OSR was assumed to be derived primarily through taxation of Nisga'a citizens currently enjoying a tax exemption for their "on-reserve" income and notional taxation of income earned on settlement funds. As an economic impact study for the Nisga'a was beyond the scope of the engagement, OSR from taxation of new wage incomes and new commercial ventures has not been considered in this analysis. The extent of such economic spin-off will depend in large part on the investment and spending decisions of the Nisga'a. However, to the extent that incomes and employment rates rise to rates of comparable communities in the rest of British Columbia, additional tax revenues and own source revenue will reduce federal and provincial government costs.

Under the Final Agreement, funding support for self-government also includes $10.3 million from the federal government for the Lisims Fisheries Conservation Trust, a fish conservation management program, to be managed jointly by the federal government and the Nisga'a. In addition, the Fiscal Financing Agreement ensures Canada will supplement funding from the trust for fisheries projects to a maximum of $400,000 per year, or $2 million over the five year term. This additional $2 million has been included in this study. Under the Fiscal Financing Agreement limited time funding to a maximum of $7.5 million total will also be provided for self-government purposes, paid $1.2 million by BC and $6.3 million by Canada. These funds have been designated for specific purposes, such as development of a land management program, training, development of core laws, communications and capital projects. Outside of the Final Agreement and Fiscal Financing Agreement, Canada has agreed to pay $30 million for various infrastructure type projects, including training, preservation of cultural artifacts, government buildings and other projects. These funds will be provided over five years, in predetermined amounts each year. In addition to the above settlement costs, there are also commitments made with respect to roadwork costs. Firstly, BC has made a commitment to upgrade the provincially owned, two lane gravel road which serves as primary access for 3,000 Nass Valley residents and a new provincial park. According to the provincial government, this is the only direct or indirect element of the Nisga'a Treaty which is not either paid directly to the Nisga'a or paid to third parties for the exclusive benefit of the Nisga'a. Long term plans for this roadwork have existed for some time and partial work was completed in the early 1990's. With the signing of the Final Agreement, the provincial government has also made a commitment to complete the outstanding roadwork over the next seven years, at a cost of $41 million. For purposes of this study, we have attributed the full $41 million as a cost of the treaty. However, it is noted that portions of this roadwork may have been completed over the next 20 years in any event; therefore, only the difference should be attributed to the proposed treaty. However, as it is unknown as to how much of the work would have been completed in absence of the treaty, the difference cannot be reasonably estimated.

Further, commitments are almost in place for an extension from Greenville to Kincolith at a total cost of $30 million, with BC contributing $15 million, Canada $10 million and the Nisga'a $5 million (net cost to BC and Canada of $25 million). BC had made a commitment to fund one half of the cost of the Kincolith extension as far back as 1985, subject to federal cost sharing. The federal government committed $10 million to the Kincolith extension in February 1996, one week prior to the signing of the Agreement in Principle. With the signing of the Final Agreement, it is likely the Nisga'a will also have funds available to commit to the Kincolith extension, although an agreement has not been finalized between BC and the Nisga'a to this effect. The province has taken a firm position that its commitment to the Kincolith extension is not specifically treaty related, as the commitment was made prior to negotiations, which, for the province, commenced in 1992. However, since some view these as treaty related, total costs are discussed both with and without these costs.

The following exhibit summarizes the terms of the Nisga'a settlement, as discussed above. The reader is cautioned that the terms cannot be simply added to determine the financial impact of the proposed settlement, and is referred to Section 3 for a detailed discussion of these financial implications.

Exhibit 7-1: Summary of Financial Terms and Land Settlement Associated with the Nisga'a Final Agreement

	BC Cost	Canada Cost	Nisga'a Benefit	Nisga'a Cost
	($ Millions, 1998 Constant Dollars)			
Land Settlement - hectares	194,500 ha	7,400 ha	201,900 ha	
Capital Transfer	$14.8	$180.3	$195.1	
Resource Revenue from Settlement Lands				
Forestry Transition	4.4		4.4	
Additional Foregone Revenue	32.3		32.3	
Third Party Interests				
Commercial Fisheries Funding	5.9	5.9	11.8	
Third Party Compensation				
Fisheries	2.5	2.5		
Forestry	13.8	13.8		
Implementation Costs	2.8	0.3		
Pre-Treaty Costs	20.4	0.7+*		*
Self-government				
Fiscal Financing Agreement				
Annual Funding	1.2/yr	30.6/yr	31.8/yr	
Limited Time Funding	1.2	6.3	7.5	
Lisims Fisheries Conservation Trust		12.3	12.3	3.1
Federal Infrastructure Agreement		30.0	30.0	
Roadwork**	41.0			

*Federal and Nisga'a implementation costs exclude the costs of negotiations, which were not available for this study.

**Roadwork costs shown are for the Nisga'a Highway upgrade and exclude the extension to Kincolith, which is estimated at $30 million.

The treaty, if ratified, could become effective as soon as April 2000 or January 2001. For the purposes of this study, and ease of analysis, we have assumed the effective date to be January 2000, and have used a 20 year projection period. The number of Nisga'a beneficiaries is estimated to be between 5,000 and 6,000.

Summary of financial impacts

Settlement costs

Settlement costs are defined generally as payments to the Nisga'a and affected third parties, and include cash transfers to the Nisga'a, foregone revenues, the purchase of third party interests and compensation to the third parties, to ensure the agreed-upon quotas of fisheries and forest resources are made available to the Nisga'a, as stated in the Final Agreement and supporting agreements.

Settlement costs of the treaty over a 20 year period from the effective date of the treaty are summarized in Exhibit 7-2. The total cash settlement is $276.1 million. In addition, there is a land settlement of 201,900 hectares, including 7,400 hectares of existing Indian Reserve land, representing a non-cash transfer.

Exhibit 7-2: Direct federal & provincial settlement costs

	Total	**BC**	**Canada**
	1998 constant dollars, $ millions		
Cash Component			
Cash to the Nisga'a			
Capital Transfers, Foregone Revenues, and Third Party Interests	$243.6	$57.4	$186.2
Cash to Others - Third Party Compensation	32.5	16.3	16.3
Cash Settlements	$276.1	$73.6	$202.5
Non-Cash Component			
Land Settlement - hectares	201,900 ha	194,500 ha	7,400 ha*

*It is noted that the 7,400 hectares of federal land is a transfer of Indian Reserve land (which is held in trust for the Nisga'a) to fee simple title, but does not represent a settlement cost per se.

Net financial benefits to British Columbia

The assessment of net financial impacts includes all cash settlement costs discussed above, as well as net costs of self-government and other costs related but not paid directly to the Nisga'a such as pre-treaty costs, implementation costs and provincial roadwork. The net financial impacts are presented in Exhibit 7-3 in two parts: benefits to the Nisga'a, and costs to other British Columbians.

Exhibit 7-3: Net financial benefits to British Columbia1998 constant dollars, $ millions

Benefits to Nisga'a	
Cash and Resource Revenues	$231.8
Third Party Interests - Fisheries Funding	11.8
Third Party Compensation	32.5
Incremental funding for Nisga'a self-government	71.4
Financial Benefits to Nisga'a	347.5
Costs to Other British Columbians	
Provincial Government Costs	
Cash, resource revenues, third party interests	57.4
Incremental Funding for Nisga'a self-government31	(10.9)
Pre-Treaty Costs	20.4
Implementation Costs	2.8
Third Party Compensation	16.3
Provincial Roadwork	41.0
Other British Columbian Costs	
Taxpayers' share of net federal costs	32.3
Financial Costs to Other British Columbians	159.3
Direct Net Financial Benefits to BC	$188.2

Net financial benefit to British Columbia as a whole, that is benefits minus costs, over 20 years from the effective date of the treaty, is projected to be $188.2 million. Net financial benefits to the Nisga'a are estimated to be $347.5 million, inclusive of all cash receipts, foregone revenue, potential resource revenues (as represented by third party compensation) and net funding for self-government purposes. Direct net financial costs to other British Columbians is expected to be $159.3 million.

If the costs for the road extension to Kincolith, estimated at $30 million ($25 million net to BC and Canada) are included, the net financial benefit to British Columbia as a whole would be $171.8 million, and the net financial cost to other British Columbians would be $175.7 million.

Risks and unknown factors

The reader is cautioned that the actual net financial benefits of the proposed Nisga'a treaty may vary from that estimated, and the variances may be substantial. This is due to the following risks and unknown factors.

Federal and Nisga'a costs with respect to negotiations (pre-treaty costs) have not been included in the analysis.

The projected financial impact assumes the Nisga'a will undertake self-government responsibilities efficiently and effectively, and that Nisga'a citizens will become actively employed in forestry and fisheries, such that the permitted levels of timber harvest and allowable catch of fish are realized. In the event that the Nisga'a are unable to progress as efficiently and effectively as assumed in negotiation of the Final Agreement, there may be additional costs incurred to maintain government programs such as health care, income assistance and other social programs, and these costs would likely be borne by Canada and BC.

The utilization of capital transfers, as they are placed into settlement trusts and invested in the local economy or in qualifying investment instruments, will affect the Nisga'a's revenues generated from the trusts, a portion of which are deducted from the funds received through the Fiscal Financing Agreement. The level of funding from the federal government and BC will be affected by the performance of settlement trust investments over the long term.

The own source revenue estimates in this study are projections only, based on broad assumptions with respect to economic development and spending strategies. As with income from settlement trusts, should overall own source revenues be lower than projected, future funding from the federal government and BC may be higher than estimated.

With respect to management of the environment and resources, the Nisga'a have agreed to maintain or exceed provincial standards. As with self-government assumptions, should the Nisga'a be unable to maintain provincial management standards, additional costs may be incurred by BC.

Compensation to third parties in both the fishing and forestry sectors have not been negotiated with the parties involved yet; the figures above represent estimates only by the provincial government and Grant Thornton based on current market conditions and represents only the amount required to purchase existing licences and rights.

The third party compensation figures do not include other compensation, such as for loss of business causing the need for re-employment and training. In forestry, the five year transition period will provide time for businesses and employees affected by the transfer of forest lands. To the extent that adjustment programs are needed beyond existing programs, additional funding may be required, for example, training programs. Under the federal-provincial cost sharing agreement, Canada will provide $3.2 million to British Columbia for adjustment purposes. Adjustment programs will apply to all sectors, that is, forestry as well as fisheries. This study does not account for the cost of adjustment programs as this is largely an issue of economic impact, not direct financial impact.

Section 8: Treaty Settlements In British Columbia

This section of the report reviews the impact of treaty settlements in BC overall. A more detailed discussion of the estimates, findings and conclusions outlined in this section are included as Appendices D and E.

Assumptions used in scenario development

It will be many years before all treaties in British Columbia are finalized. As noted in earlier analyses, the composition and timing of treaty settlements will have a significant impact on various sectors and stakeholders. The pace of treaty settlement and the period for payment of the settlement will affect overall financial and economic impacts. Further, the negotiation costs to the federal and provincial governments will mount as the treaty process lingers on.

The scenarios used in the 1996 study were updated based on current information. The primary difference between the two scenarios relates to the proportionate mix of land and cash to be contributed by the province, as contemplated in the federal-provincial cost sharing agreement. Scenario 1 assumes the province contributes 12% of cash settlements while Scenario 2 assumes a contribution of 22%. This is discussed further in the following paragraphs. Both scenarios assume that negotiations are concluded evenly over a 20 year period, with the Nisga'a settlement in 2000 being the first. The period for payment of the cash settlement is assumed to be 15 years, as originally estimated in the 1996 study and as provided in the Nisga'a Final Agreement.

Financial assumptions

As no treaties had been settled in British Columbia at the time the prior study was completed, the 1996 study applied cost estimates derived from treaty settlements in Northern Canada. These treaties dictated cash payments of approximately $35,000 (in 1990 constant dollars) per beneficiary. The resulting projected per capita cash settlements were $40,000 to $43,100.

Grant Thornton has also taken into account the negotiated costs of the Nisga'a settlement in deriving current cost estimates. The cash settlement to the Nisga'a of $243.6 million equates to $44,300 per beneficiary, based on an estimated population of 5,500, and includes the capital transfer, foregone revenues and $11.8 million in third party interests for commercial fisheries funding. For comparison purposes to the 1996 study and other treaty settlements, the value of third party interests should be excluded, resulting in a cash settlement of $42,100 per Nisga'a beneficiary. This amount has been considered in the review of other treaty settlements, in the following section of this report.

While the federal-provincial cost sharing agreement restricts the province's share of cash to the range of 10% to 25% on a cumulative basis, the actual mix of cash and land will vary from one treaty to another. It is expected that the province's share of cash will fall within this range, as it does in the Nisga'a Final Agreement, for which the province is responsible for 22% of the cash component of the settlement.

Numerous assumptions have been used in deriving the model; the major assumptions follow:

The initial population of approximately 118,000 eligible First Nations beneficiaries would grow to approximately 140,000 beneficiaries by the time all treaties are settled.The province's share of cash would range from 12% to 22%; the less land the province contributes, the more cash the province pays. Application of the federal-provincial cost sharing agreement, based on cost estimates tied to the Nisga'a settlement, results in province-wide settlement costs of $6.0 billion to $6.3 billion (in 1998 constant dollars) of cash, including capital transfers, cash equivalents and the transfer of the resource revenue base. Between 2.4 and 2.9 million hectares of representative land (i.e., representative of the overall land base of the province) would be transferred to First Nations. Based on 86 million hectares of provincial Crown land, this range indicates settlement lands of approximately 3% of BC's Crown land. Sixty treaties would be negotiated by 2019, with the first occurring in 2000.Capital transfers after treaty settlement would be structured as annuity payments occurring over a 15-year period. This period is consistent with the Nisga'a Final Agreement. BC taxpayers will be responsible for their proportionate share of the net costs incurred by the federal government (about 13.5%).

Exhibit 8-1 provides a summary of the combined federal and provincial settlement costs based on the assumptions for Scenarios 1 and 2. The table divides settlement costs between Cash Components (cash, foregone resource revenues, cash equivalents and compensation for third-party interests) and Non Cash Components (rural land).

To be consistent with the 1996 study, costs such as self-government funding for First Nations, implementation costs and interim protection measures are not considered as settlement costs for the purposes of Exhibit 8-1. However, these costs are included in the full financial impact analysis shown in Exhibit 8-3.

Exhibit 8-1: Estimated federal and provincial settlement costs

	Scenario 1	Scenario 2
Settlement Costs-Cash Components	($ Million 1998 Constant Dollars)	($ Million 1998 Constant Dollars)
Cash (Capital transfers, foregone revenues & cash equivalents)	$ 5,440	$6,080
Compensation for third-party interests	520	250
Settlement Costs - Cash Component	$ 5,960	$ 6,330
Settlement Costs - Non Cash Component		
Rural land - Representative hectares (millions)	2.9	2.4

The representative hectare used in the rural land estimate is equivalent to an average mix of land quality and forest resources within BC. Under the Canada/BC cost sharing agreement, the provincial government is responsible for the transfer of provincial Crown rural land. For cost sharing purposes, rural land has an implicit value. Assuming this value is such as to bring the total provincial contribution to somewhere close to the federal contribution, rural land would be valued at approximately $2.8 to $3.5 billion. When this value is added to the cash component of settlement costs noted above, total settlement costs range from $9.2 to $9.4 billion.

This compares with $9.0 billion (in 1995 Constant Dollars) estimated in the 1996 study. After taking into account an inflation rate of 2.6% from the date of the earlier study to today, the increase in estimated costs of approximately $0.2 to $0.4 billion (in 1998 Constant Dollars) is minimal. Assuming future treaties are negotiated at a cost similar to the Nisga'a settlement, the cost of successfully concluding treaties will be consistent with the cost estimated in the 1996 study.

It should be pointed out, however, that there are potential differences between the Nisga'a settlement and other future settlements. For example:

Nisga'a lands are in a rural setting and the settlement has a substantial component of rural land and resource values. This would not be reflected in other settlements in which urban and other appraisable lands are more significant or where the aspirations of First Nations can be more effectively met through cash components. The scope of self-government may be different. Nisga'a people represent more than 90% of the population in the Nass Valley and there are many functions which may be economic for Nisga'a government to undertake. These may not be reasonable in other situations in the province. The Nisga'a Final Agreement is the first of many anticipated treaties, and a considerable amount of pre-treaty costs have been incurred in both the process of negotiations and public information/communications. The experience of all parties with the details of the Nisga'a treaty and negotiation process should reduce pre-treaty costs for future treaty negotiations.

Exhibit 8-2 shows the provincial government's share of the total settlement costs organized in a manner similar to Exhibit 8-1. The province's estimated share of the Cash Components of settlement costs range from $0.9 to $1.5 billion (in 1998 constant dollars), or 12% to 22% of the total. The actual share will depend on the mix of land and cash for all treaties.

The cost estimates assume a particular approach and time frame for the negotiation process and a change in these variables may have a significant impact on the overall cost of treaty settlements. While the Nisga'a Final Agreement provides an important bellwether for expectations, the degree of precision for long-range planning purposes cannot be high. As more settlements are reached and policies become more firmly established, cost estimates will become more reliable.

Exhibit 8-2: Estimated provincial settlement costs

	Scenario 1	**Scenario 2**
Settlement Costs-Cash Components	($ Million 1998 Constant Dollars)	($ Million 1998 Constant Dollars)
Cash (Capital transfers, forgone revenues & cash equivalents)	$ 650	$ 1,340
Compensation for third-party interests	260	120
Settlement Costs- Cash Components	$ 910	$ 1,460
Settlement Costs-Non Cash Component		
Rural land-Representative hectares (millions)	2.9	2.4

Economic and other assumptions

Based upon the Nisga'a treaty, settlements in other jurisdictions and with reference to the Canada/BC cost sharing agreement, the following major assumptions have been made in estimating the economic impact of treaty settlements:

Resource industries will be affected by the increased participation of First Nations in British Columbia's commercial fishery and forestry industries. Transfers of tenures and licenses will result in compensation to the current owners and possible economic displacement for other British Columbians in the primary resource industries. Employees in secondary processing sectors may also be affected, depending on how First Nations choose to process their newly acquired resources. It should be noted that there are time restrictions in the Nisga'a Final Agreement relating to their ability to establish timber and salmon processing facilities. Significant economic dislocations will be addressed through adjustment programs and funding identified in the cost sharing agreement. Assumptions have been incorporated into the model which acknowledge these potential outcomes.For non-renewable resources, including minerals, petroleum products and natural gas, settlements could also expand First Nations' involvement in the mining industry although, due to numerous uncertainties, no amount has been quantified in the model. Treaty settlements should also cause an increase in certainty for the business community, although there could be displacement of non-aboriginals with aboriginal business and/or employers over the longer term. This results in assumptions regarding additional investments. The economic impacts resulting from the settlement funds will vary depending upon how the funds are utilized by the First Nations. As the Nisga'a will not receive funds until their treaty is ratified, there is a limited basis for developing assumptions around investment and spending alternatives for funds received by First Nations. Some portion of the settlement is likely to be used for the consumption of goods and services and local administration and infrastructure spending. The balance is likely to be invested in a combination of conservative investments and local businesses. The more cash allocated to long term investments such as local businesses and resource development, the better the chance for the economic development of First Nations and for the province as a whole. However, the allocation of funds to these items is unique for each First Nation and there are no clear precedents for comparative purposes. The experience in the Yukon, Alaska, Northern Quebec and New Zealand has ranged from primarily investing in economic development initiatives to primarily investing in conservative instruments, each with varying degrees of success.The federal government will fund First Nation government core institutions; program delivery costs and the cost of additional services and programs will be negotiated between the federal and provincial governments, as was the case with Nisga'a. The Nisga'a Final Agreement also indicates that First Nations people will likely give up their tax exemption under the Indian Act and eventually pay income and other taxes after a phase-in period. Taxation of First Nations people will reduce the amount of funding required to finance First Nations governance. Further, as the income disparity between aboriginals and non-aboriginals is diminished, some savings in social expenditures have been assumed to occur.

Estimated financial benefits

The scenarios used in the model consider the number of First Nations beneficiaries, the pace of treaty settlement, the mix of land and cash components, resource management and revenue decisions, expected pre-treaty and implementation costs, the investment choices of First Nations, changes in the investment climate, community adjustment programs and self-government arrangements. Estimates for variables were developed and divided into financial benefits and economic impacts. The variables with a financial impact are:

- Transfers of cash, resource revenues, and cash equivalents to First Nations.

- Purchase of third parties' resource interests.
- Negotiation costs.
- Grants and interest-free loans.
- Interim measures.
- Community adjustment programs to help retrain workers displaced through licence and tenure loss.
- Pre-treaty and implementation costs.
- Funding for First Nations institutions of self-government.
- Savings in social assistance costs and program funding from the federal government.
- Savings in targeted provincial program expenditures for First Nations.
- Increased provincial tax revenues resulting from increased levels of economic activity after claims settlements.
- British Columbians' share of net federal costs as federal taxpayers.

No estimates have been included for the cost of capital as this is a time value concept which does not affect an analysis based on constant dollars.

The results for each of the two scenarios described above are shown in Exhibit 8-3, below, in 1998 constant dollar terms. The results are presented for First Nations, the provincial government, and all other residents of British Columbia.

The total financial benefit to British Columbia's First Nations is estimated to be approximately $6.3 to $6.8 billion. After deducting net provincial costs of approximately $2.1 to $2.5 billion, the net financial benefit to British Columbia ranges from $3.8 billion to $4.7 billion (in 1998 constant dollars).

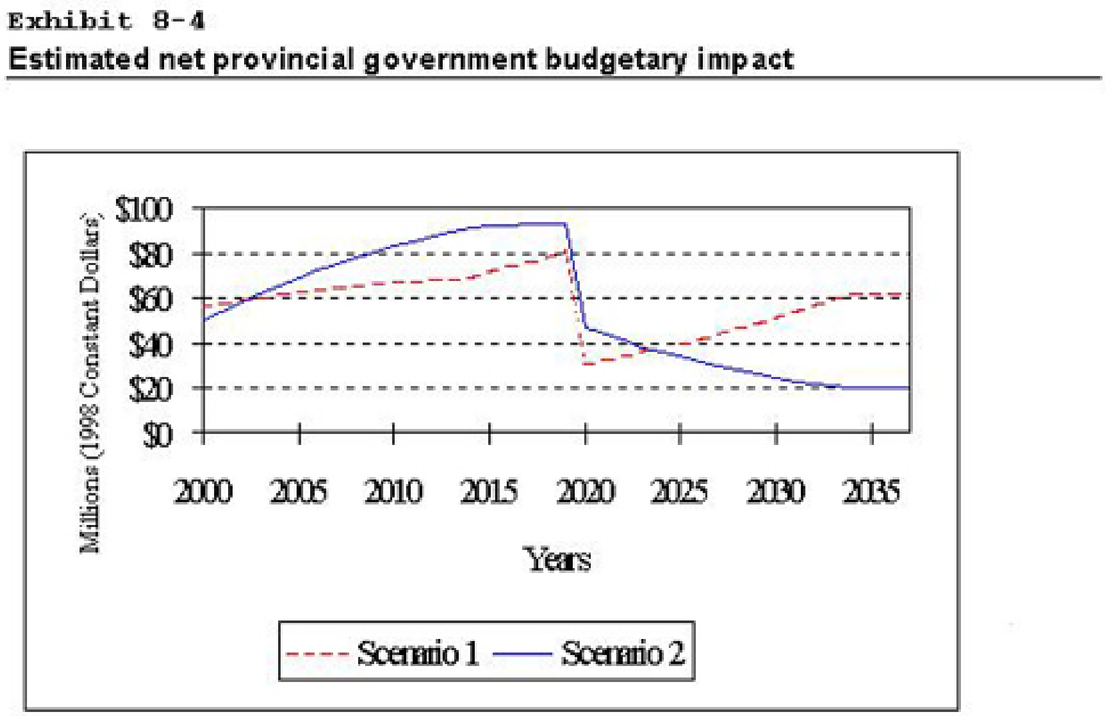
Exhibit 8-3: Total net financial benefits to British Columbia

	Scenario 1	Scenario 2
Benefits to British Columbia	($ Millions, 1998 Constant Dollars)	($ Millions, 1998 Constant Dollars)
First Nations		
.Cash, resource revenues & cash equivalents	$ 5,440	$ 6,080
.Tenures from third parties	520	250
.Interest-free loans and grants	90	90
.Funding of First Nations' core institutions	230	340
Total Financial Benefits to First Nations	$ 6,280	$ 6,760
Costs to other British Columbians		
A. Provincial Government Costs		
.Provincial share of cash, cash equivalents and resource revenues to First Nations	$ 650	$ 1,340
.Pre-treaty costs	810	800
.Implementation costs	900	860
.Costs to third parties for purchase of tenures	260	120
.Reduction in provincial program costs	(540)	(1,180)
	$ 2,080	$ 1,940
B. Other British Columbians Costs		
.Provincial taxpayers' share of net Federal costs	400	140
Total Financial Costs to other British Columbians	$ 2,480	$ 2,080
Total Net Financial Benefits to British Columbia	$ 3,800	$ 4,680

It is important to note that the following items have been considered, but not included in Exhibit 8-3.

Land values have been omitted from the analysis, as they do not affect provincial financial flows. Tax impacts on new levels of economic activity represent a transfer between First Nations, Other British Columbians and the provincial government and would not affect the overall net impact. Roadwork or other infrastructural upgrades, as experienced in Nisga'a, have not been shown, given the uncertainty of whether or not such items may form part of future treaty settlements. It is difficult to extrapolate the Nisga'a experience to other treaties, given that many claims will involve less remote areas of the province. However, the reader is cautioned that costs of upgrading bridges, roads, etc. may be incurred in the conclusion of other outstanding claims. In the same vein, other significant items specific to individual treaties may be negotiated, as roadwork was to the Nisga'a Final Agreement. The total provincial government costs of approximately $2 billion average around $50 million a year over the period of analysis. The impact on the provincial budget is shown in Exhibit 8-4.

Exhibit 8-4: Estimated net provincial government budgetary impact



Estimated economic impacts

The economic impacts were estimated using the assumed change in employment incomes resulting from claims settlement. The variables expected to have an economic impact include:

First Nations' business activity resulting from the use of their capital transfers as a funding source. Potential dislocations of existing business interests in forestry and the commercial salmon fishery. Increased business investment as a result of a more "certain" business climate. Results of the model are highly sensitive to investment decisions for revenues received by First Nations as cash transfers from other governments or resource revenues, the assumed success of the investments in business and conservative investments, and the indirect and induced income and employment effects associated with industrial, retail, business and public administration activities.

The economic model utilizes the same scenarios used for the financial impacts. Exhibit 8-5 summarizes the estimated impacts on provincial incomes under each of the two scenarios described above. Results are presented for First Nations and all other British Columbians.

As shown in Exhibit 8-5, the total economic benefits expected over the period of analysis are estimated to range from $7.0 billion to $11.6 billion (in 1998 constant dollars), with the greater benefit accruing to First Nations. Scenario 1 assumes the province contributes 12% of cash settlements while Scenario 2 assumes a contribution of 22%.

Exhibit 8-5: Estimated economic impact on provincial incomes

	Scenario 1	Scenario 2
Impact on Provincial Incomes	($ Millions, 1998 Constant Dollars)	($ Millions, 1998 Constant Dollars)
First Nations		
.Natural resources (e.g., logging, salmon)	$ 770	$ 310
.Community infrastructure projects/local programs	2,480	2,170
.Other business opportunities funded by First Nations settlement investment funds	2,090	4,970
.Increased certainty (incremental investment)	10	30
Increased Incomes - First Nations	$ 5,350	$ 7,480
Other British Columbians		
.Natural resources (e.g., logging, salmon)	$ (1,100)	$ (440)
.Community infrastructure projects/local programs	2,160	1,870
.Other business opportunities funded by First Nations settlement investment funds	270	1,620
.Increased certainty (incremental investment)	300	1,060
Increased Incomes-Other British Columbians	$ 1,630	$ 4,110
Total Increase in Provincial Incomes	$ 6,980	$ 11,590

The estimated economic impact for the affected parties can be summarized as follows:

First Nations receive a significant positive economic benefit, based primarily on increased involvement in community infrastructure and business opportunities. There is also some benefit to First Nations in the resource sector.

Although there is dislocation of existing business interests in the resource sector, this should be offset by significant spin-off effects from First Nations' investment.As noted in the 1996 study, this is consistent with what was found in other settlements, where the changes were less dramatic than was originally anticipated.

These conclusions are essentially the same as those found in the 1996 study. While the Nisga'a Final Agreement represents a significant development in the treaty settlement process, there is little in the way of new information where economic variables are concerned. If the Nisga'a Final

Agreement is ratified by all parties, it will only be at some future time when the actual economic impact of the treaty can be used as a basis for estimating what will occur in other treaty settlements in BC. As well, it should be noted that the foregoing analysis assumes prudent management and spending decisions on the part of First Nations beneficiaries. To the extent that settlement amounts are not managed effectively, a risk exists that the economic impact will fall short of expectations. While this risk has not been factored into the analysis, users of this report should be aware of the potential for a much lower economic impact.

Section 9: Conclusion

This report has estimated the financial impact of the proposed Nisga'a treaty and the financial and economic impact of treaty settlements in BC, based on the most current information available. This study has largely updated a similar study completed in 1996, taking into account events which have occurred over the past three years, the most significant of which is the signing of a Final Agreement between Canada, BC and the Nisga'a Nation.

The Nisga'a Final Agreement calls for transfers of land and cash, compensation to third parties and funding for self-government initiatives. In total, settlement costs for the Nisga'a Final Agreement are estimated to be $276 million. As well, there are pre-treaty costs, implementation costs and costs associated with upgrades to the Nisga'a Highway to consider. These costs total $115 million.

Assuming the costs associated with other treaty settlements are similar to the Nisga'a settlement, the total benefit to BC's First Nations is estimated to be between $6.3 and $6.8 billion. British Columbia as a whole (First Nations and other British Columbians) is projected to realize a net inflow of between $3.8 and $4.7 billion as a result of treaty settlements.

In applying the Nisga'a experience to other treaty settlements, the reader is cautioned that this is only one settlement and is not necessarily representative of the 'average' settlement in BC. Although the Nisga'a treaty may be the first modern treaty in BC, it may or may not serve as a model for other treaty settlements, since there is likely to be considerable variation to reflect individual First Nations' situations and aspirations. For example, the Nisga'a already have some familiarity with self-government, being actively involved in the local School District. In addition, the Nisga'a lands are in a rural setting and the settlement has a substantial component of rural land and resource values. However, the application of Nisga'a to other treaty settlements does provide an indication of what treaty settlements may look like.

We have assumed treaties in BC will be settled within 20 years, as in the 1996 study. As BC progresses on the issue of settling treaties, and in light of its commitment to accelerating the process, this is reasonable to assume. Still, the estimated benefits occur well into the future, and are therefore relatively uncertain, whereas the estimated costs are more certain and immediate. Furthermore, because of fiscal constraints, government will be required to make payments under treaties over a long period of time, which will jeopardize the maximization of benefits. Finally, given the number of claims and First Nations involved, there will be significant pressures on negotiators to increase costs as negotiations proceed.

The estimates included in this report are based on a number of assumptions which may or may not come to pass. The financial and economic benefits set out assume, among other things, favourable economic conditions and sound management of resources by First Nations. In order to minimize these and other risks, and to ensure the positive potential of treaty settlements is realized, steps should be taken to ensure that:

Governments maintain their commitment to accelerated settlements, in order to minimize the risks of a protracted settlement process and the associated costs, as well as to reduce economic uncertainty associated with unsettled claims; sound fiscal controls on all treaty commitments are in place and cost drivers of treaties are constrained to ensure that the financial targets established are not exceeded; an environment is provided which encourages First Nations to invest in education and training to enhance their ability to effectively manage their resources and government; and,capital and land transfers are bound by certain conditions which will have greater potential for positive results (e.g., establishing agreements for the ongoing availability of resources, minimizing employment disruption and dislocation, and putting in place performance standards against which future results will be measured).

It must be recognised that, given the uncertainty of future governments and exactly how amounts will be distributed to First Nations, it is only possible to make an informed speculation about the exact financial consequences of treaty settlements. However, the analysis undertaken confirms that the challenge for British Columbia is to ensure that social and economic development flourishes within First Nations communities, while preserving the cost targets established for treaty settlements and encouraging a climate which acknowledges the benefits to be gained from treaties.

1. PMG. Benefits and Costs of Treaty Settlements in British Columbia - A Financial & Economic Perspective. January 1996.
2. See Appendix A for a summary of the cost sharing agreement.
3. The land in the Nass Valley transferred to the Nisga'a Nation was given a notional value for cost sharing purposes between the federal and provincial governments.
4. In addition, commitments for a road extension to Kincolith have been made by the federal and provincial governments, with total costs estimated at $30 million. Given the provincial commitment was made in 1985, these costs have not been added to the total financial costs, although some view these as treaty related. If these costs are included, the net financial benefit to B.C. would be $172 million.
5. According to the provincial government, some or all of this roadwork would have been completed regardless of the proposed treaty, however the work has been accelerated as a result of the treaty.
6. KPMG. Benefits and Costs of Treaty Settlements in British Columbia- A Financial and Economic Perspective
7. In our analysis, we have estimated 60 treaty settlements will be made, inclusive of bands represented by UBCIC, assuming these groups will come to a similar form of settlement over the long term.

8. This component was made by Canada unilaterally but was not part of the joint federal-provincial offer under the cost sharing agreement, according to the BC Ministry of Finance.
9. The right to exclusivity may be infringed upon by valid Crown legislation which includes, for example, development of agriculture, forestry, mining and hydro electric power, the general economic development of the interior of British Columbia, protection of the environment or endangered species, development of infrastructure and settlement of foreign populations to support those aims.
10. Bull Housser & Tupper, Executive Summary Delgammukw vs. Her Majesty. December 11, 1997
11. BC Ministry of Aboriginal Affairs. Canada, BC and First Nations agree to joint review of the BC treaty process. News Release. March 13, 1998.
12. Source: BC Ministry of Aboriginal Affairs.
13. Discrepancies between this number and federal documents are due to the fact that some First Nations in the BCTC process are listed independently, rather than part of a treaty group by Canada. This number also includes 5 First Nations who are no longer involved in the BCTC process.
14. Foregone resource revenues represent the potential value to First Nations of revenues the province could have collected from the extraction of resources (eg. timber or minerals). The actual value of the resource will depend on the First Nations self-government policies and the actual amount of resources extracted.
15. See ARA Consulting Group Social and Economic Impacts of Aboriginal Land Claim Settlements: A Case Study Analysis, December 1995
16. See Steven Globerman Investment and Capital Productivity in Prospering Together; Laurier Institution, January 1998 and Price Waterhouse Economic Value of Uncertainty Associated with Native Claims in BC, 1990
17. Based on a five year rolling average.
18. Financial provisions in the Final Agreement are generally stated in dollars for the fourth quarter of 1995 ($1995Q4). In this report, these numbers have been escalated to $1998 based on Statistics Canada's published growth rate in Canada's Final Domestic Demand Implicit Price Index from 1995Q4 to 1998Q2.
19. Memorandum of Understanding, June 1993
20. Foregone resource revenues of $36.7 million was estimated by the federal and provincial governments, and was confirmed in a letter of agreement in December 1995.
21. Source: CIBC/Wood Gundy Spotlight Paper & Forest Products, July 16, 1997. Discussions with the Ministry of Forests indicate there have been no sizeable transactions since. The estimate is based on a market value of $125/m3, which is within the price range of actual transactions over the past four years, and errs on the conservative side to estimate forestry compensation at the high end of the likely range.

22. Source: Memorandum of Understanding, June 1993. A 'representative hectare' system is used to account for different types of land such as benchmark, forest and other lands. A consistent value is applied to each representative hectare, to determine a notional value. We note also that in another study of the Nisga'a settlement by Robin Richardson, land has been valued based on market values. For the purposes of this study, we have not placed a market value on the land as there is no direct cost to the province of giving up Crown land, other than the foregone resource revenue which is calculated separately as a cost. However, the $106.7 million is relevant to this study as it represents a notional value in the determination of the federal and provincial shares of financial components of the settlement, defined in the federal-provincial cost sharing agreement as 'cash'.
23. Information provided by BC Ministry of Finance.
24. ibid.
25. ibid.
26. BC has also spent $5.4 million on highway upgrades and helipads in two communities, however these costs are unrelated to the proposed treaty.
27. In the Richardson study, roadwork costs were estimated at $80 million compared to the provincial estimate of $71 million. In addition, this study included a third road, from Nass Camp to Highway 37, at a cost of $42 million. We have excluded this road as the Nisga'a Final Agreement states the road will be considered at some time in the future, in accordance with long term provincial plans. There are no plans for the road at present, and none are expected in the short term, according to the Ministry of Transportation and Highways.
28. There are an estimated 5,212 Status Indians in Nisga'a Nation as at July 1998, according to Indian and Northern Affairs Canada. It is understood a range of population estimates from 5,000 to 6,000 has been utilized by parties during the negotiation process and therefore the mid-point of 5,500 has been applied in this study.
29. In net present value terms, the cash settlement is $244.4 million.
30. Amounts shown for "Incremental funding for Nisga'a Self-government" reflect funding for Self-government, net of new tax revenues and OSR contributions. These amounts include both one-time funding and cumulative annual funding over the period of analysis. The financial benefit to the Nisga'a of $71 million is the result of deducting new tax revenues and OSR contributions of $43 million from Self-government funding of $114 million. These amounts were derived in reference to the Final Agreement, the Fiscal Financing Agreement, and the Own Source Revenue Agreement. While this footnote breaks down the net incremental funding into two components, it is important to note that these items should be considered to go hand-in-hand. Similarly, the province's account shows net savings of $11 million, due to incremental funding for Self-government of $1.6 million being offset by new tax revenues and OSR contributions of $12.5 million.

31. Total roadwork costs of $41 million have been included in this study. However, to the extent that some of the roadwork would have been completed over the next 20 years regardless of the treaty, only the difference in cost should be attributed to the treaty.
32. In net present value terms, the direct net financial benefit to BC as a whole is $164.6 million.
33. In net present value terms, the net financial benefit to BC as a whole is $164.6 million.
34. The net present value is $152.4 million in net financial benefits and $151.9 in net financial costs to other British Columbians.
35. Estimating third party compensation on the basis of market value of the business is considered reasonable. In the forestry sector, this is estimated at $27.5 million. However, Skeena Cellulose has made a claim for $80 million. The rationale for this claim is unknown but is well above market value of the timber rights. It does reinforce that negotiations for third party compensation are not complete, and this compensation could have a significant impact on the projected financial impacts of the treaty.
36. Equal to $3 million in 1993 dollars, per the federal-provincial cost sharing agreement.
37. The 1996 study estimated $39,000 to $42,000 in 1995 constant dollars, which inflates to $40,000 to $43,100 in 1998 dollars.
38. A representative hectare is a concept used by the provincial government to compare land and resources provided as compensation to First Nations to an average profile of the lands and resources of British Columbia. A representative hectare is equivalent to one hectare having an average mix of land quality and forest resources. Land is ascribed a notional value for cost sharing purposes only, to determine the mix of land and cash.
39. In net present value terms, total financial settlement costs range between $3.1 and $3.3 billion.
40. In net present value terms, the provincial share ranges between $0.5 and $0.8 billion.
41. Ministry of Aboriginal Affairs, Province of BC Summary, Summary Report: Social and Economic Impacts of Aboriginal Land Claims Settlements: A Case Study Analysis. December, 1995. (Original report prepared by ARA Consulting Group Inc.)
42. Pre-treaty costs include negotiation, surveys, public information, consultation with third parties, interim measures and other pre-treaty costs.
43. Implementation costs include provincial interface, adjustment programs, training and other implementation costs.
44. In net present value terms, the total net financial benefits to British Columbia range between $1.8 and $2.0 billion, based on a discount rate of 6.2%.
45. As described earlier, if rural land values were included, benefits to First Nations would increase by approximately $2.8 to $3.5 billion, and Costs to Other British Columbians would increase by a like amount.
46. In net present value terms, the total increase in provincial incomes range between $2.0 and $2.9 billion.

47. In addition, another $25 million has been committed by the federal and provincial governments for a road extension to Kincolith, although these costs are not directly associated with the treaty, according to the province.
48. The 1996 study used a projection term of 25 years, including five years back to the cost sharing agreement, and assuming settlements would commence in 1998 and continue for 20 years thereafter.