



Project Report

BENEFITS AND COSTS OF TREATY SETTLEMENTS IN BRITISH COLUMBIA — A FINANCIAL AND ECONOMIC PERSPECTIVE

Victoria, BC
January 17, 1996

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Executive Summary

The governments of British Columbia and Canada have expressed their wish to resolve outstanding obligations to First Nations in British Columbia by the settlement of treaties. Through the recently established Treaty Commission, a process for treaty settlements has been initiated. There are currently claims received from over 40 First Nations which represent 70% of the Status Indians in British Columbia. A further 20 First Nations are estimated to be involved in the treaty process.

The estimates provided in this report, like those produced by others for British Columbia, are based on the experience of treaty settlements in Northern Canada and elsewhere and extended to the BC situation. They are also based on the cost sharing agreement between the Federal and provincial governments, which has provided the basic information to support the analysis in this report, including the nature of the costs and the shares paid by each government. From this, a series of scenarios were developed to provide a range of financial and economic impacts on BC consistent with this agreement and other currently available information. The scenarios developed also provide the basis for calculation of the benefit-cost ratio under various assumptions. Specifically, the cash assumptions were based on the experience of other treaties and the relative amounts of land and cash were based on the Memorandum of Understanding between the Federal and provincial governments.

This report provides the results of two scenarios, based on the assumptions above, which represent a range of estimates for the financial and economic impacts on British Columbia resulting from the settlement of treaties. The salient features of these estimated impacts are as follows:

- Government has stated that treaties are expected to involve transfers of land and cash by both the Federal and BC governments to First Nations, accompanied by self-government on treaty settlement land.
- Treaty settlements are expected to bring a number of benefits to British Columbia. These include cash and resources for First Nations, which will likely lead to increased employment and greater self-reliance, as well as economic spin-off effects. Increased certainty is expected to lead to an improved investment climate. Over time, governments will also have the capability to realize savings in social program expenditures. Taken as a whole, British Columbia is expected to benefit from the inflow of money from the Federal government.
- When all of the financial impacts in BC are considered, British Columbia can expect about three dollars worth of total financial benefit for every dollar of provincial financial cost. The total financial benefit to British Columbia's First Nations is estimated to be approximately \$6 billion. After deducting net provincial costs of some \$2 billion—including BC's share of cash, pre-treaty

and negotiation costs and a further deduction for the share of Federal costs paid by British Columbians as Federal taxpayers—the net financial benefit is estimated at between \$3.9 billion and \$5.3 billion (in 1995 constant dollars).

- These benefits originate with the payment of cash to First Nations, funded primarily by the Federal government. The BC government has negotiated an agreement with the Federal government whereby, with respect to these transfers, the Federal government will contribute most of the cash—roughly \$5 billion—and British Columbia will contribute rural land and between 10% and 25% of the financial contributions which include cash, urban land and forgone revenues. British Columbia's share of the financial contributions is expected to average \$1 billion, although it may be more or less depending on the amount of rural land contributed.
- The analysis also included estimates of the costs of negotiating and implementing treaties, based on a variety of sources, including the Federal-provincial cost-sharing agreement, government budgets, and other experience. These include estimates for consultation with regional and sectoral groups, information programs for the public, funding of the BC Treaty Commission, possible adjustment programs to ensure jobs are protected in resource-based communities, and purchase of third party tenures. When these costs are added to British Columbia's share of the financial contributions, the total costs to provincial taxpayers, excluding land and any cost of capital, are estimated at approximately \$2 billion and average \$50 million a year over the 40 year period, or about one quarter of one per cent of the provincial annual budget.
- The economic benefits accruing to British Columbia from the investment of these cash proceeds are estimated to fall in the range of \$6.7 billion to \$11.4 billion (in 1995 constant dollars), when totalled over 40 years, with the greater benefit accruing to First Nations. While treaty settlements could lead to economic displacement for other British Columbians, especially in the resource industries (forestry and commercial salmon fishing), these should be offset by spin-off effects resulting from First Nations' investment, and through adjustment programs.
- Once all treaties have been settled, the analysis indicates that the economic impacts are expected to lead to increased annual incomes to British Columbians of between \$200 million and \$400 million. This could result in an increase in employment of between 7,000 and 17,000 jobs.

The estimates provided in this report are the best which can be provided with current knowledge. Readers should be aware that these estimates carry a substantial degree of risk since no one can predict the outcome of negotiations and should not be misled by the apparent precision of the results. However, recognizing that the accuracy of the estimated financial and economic impacts is dependent on the occurrence of future events, the challenge for British Columbia will be to maximize the economic benefits and the opportunity for social and economic development, while adhering to strict established cost targets.

A. Introduction

In recent years, British Columbia and Canada have recognized their outstanding obligations to First Nations and have indicated their desire to define and resolve these issues through the negotiation and settlement of treaties. The BC Treaty Commission, established in 1994, has been charged with overseeing and facilitating treaty negotiations. To date, the Commission has received initial claims from over 40 First Nations, representing 70% of the total number of status Indians in BC.

KPMG was engaged by the government of BC to carry out an independent assessment of the expected range of financial and economic impacts associated with the settlements of treaties and subsequent self-government with First Nations in BC. The report sets out the estimated impacts of treaty settlements and presents these impacts in terms of scenarios, using assumptions based upon the Federal-provincial cost-sharing agreement and research regarding the various settlements made in Northern Canada and elsewhere, and extended to the BC situation. Different payment streams were assumed and financial analysis of these scenarios conducted. Various economic impacts, both direct and indirect, were then considered to present order of magnitude numerical estimates of their impacts.

The scope of the engagement was to present the financial and economic impacts from a British Columbia perspective only, setting out the estimated net financial position for the province as a whole and the estimated impact on employment within the province for First Nations and for other British Columbians.

Because of the lack of any readily comparable precedents elsewhere, and the fact that no modern treaties have been settled in BC, a wide range of possible outcomes could be expected from treaty settlements. The actual impacts are impossible to estimate precisely because they depend on such things as settlement dates, payments made, land transfers, First Nations' activities after treaties, and prevailing economic conditions at the time of settlement, as well as the negotiating issues and the positions of the parties at each of the treaty negotiations. However, the two scenarios presented here demonstrate a reasonable range of possible outcomes.

B. The provincial position

The provincial government has stated its commitment to maintain or enhance basic social program standards, as well as comparable justice systems and taxation levels for all British Columbians. Following affirmation from the Premier in 1994 to openness in treaty negotiations, certain provincial commitments have been made:

- 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 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 provincial government has indicated its commitment to resolve treaties within this framework.

C. Overview of benefits

There are anticipated to be a number of tangible and intangible benefits arising from treaty settlements—for First Nations, the provincial government and British Columbians as a whole. In addition, the Federal government is expected to receive some benefits from settling treaties as the pressures on First Nations funding are eased.

1. Benefits for British Columbians

a) Increased certainty

Organizations base their investment and operating decisions, in part, on the level of certainty about future ownership of lands and resources. By clarifying the rights of First Nations, the government reduces the rationale for blockades to roads and rail right-of-ways, demonstrations and other potential disruptions. This, in turn, promotes private investment by reducing the risk of commercial disruption. Experience from other settlements suggests that controversy which might occur before and during the negotiation process is reduced during the implementation period.

An earlier report by Price Waterhouse suggested that resource-based companies have assigned a potential risk (albeit slight) to investment in

regions which fall under a land claim. However, while this risk was considered low by comparison to other risk factors such as environmental exposures, the report clearly identified that there would be increased benefits to these industries if the land question is resolved.

b) Spin-off effects

As described below, the Federal government is expected to contribute approximately \$5 billion (in 1995 constant dollars¹) to the land claims settlement process in BC. Conventional economics suggests that this capital infusion, along with related multiplier effects, will have a positive impact on the provincial economy. While the use of government funds in the past to boost economic development has been criticized, the infusion of settlement funds from other treaty settlements suggests that there will likely be some spin-off effects. As cash payments are received by First Nations, local consumption will increase with some of this spending flowing to local businesses. Non-aboriginals are expected to benefit from the portion of this consumption that occurs outside of the aboriginal community. The magnitude of the impact will depend, largely, on First Nations investment decisions. For example, successful investments in aboriginal business ventures will have a greater positive effect than passive investments in non-domestic markets.

c) Improved socio-economic standing

Aboriginal peoples, as a segment of Canadian society, are traditionally characterized by low income levels and high levels of unemployment. The relatively poor socio-economic status of aboriginals is viewed by many as a result of unfair treatment since the time of European settlement. It is anticipated that resolving land claims will contribute to an improvement in the socio-economic standing of aboriginals in BC.

2. Benefits for First Nations

a) Cash settlement

Consistent with the Federal-provincial cost-sharing agreement, the financial payments to First Nations are expected to be cash, cash equivalents (such as urban land) and resource revenues in the settlement. The final total paid will

¹ Throughout this paper, when discussing financial and economic impacts, the concepts of “constant dollars” and “net present value” are referred to, with all numbers shown in 1995 terms. **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 the assumed 40 year settlement period. **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.

vary according to the land-cash mix but, as described below, the amount expected is in the range of \$5 billion to \$6 billion (in 1995 constant dollars). Transferred resource revenues are expected to be made up of forestry, mining, and other land-based incomes. This influx of financial wealth can be expected to lead to a significant increase of economic activity within First Nations communities.

The transferred cash, cash equivalents, and resource revenues will require First Nations to make spending decisions on investments, payments to their own citizens, and projects or programs that are priorities for their citizens. The success of these decisions will dictate the extent to which the settlements are able to provide long term benefits for the First Nations.

Additional revenues will emerge from the participation of First Nations governments in the Federal and provincial taxation systems. First Nations may have the power to tax aboriginals on settlement lands, and the province might, on a restrictive basis, delegate the power to tax non-aboriginals on settlement land. As aboriginal incomes increase due to cash transfers, royalties, and economic development, their tax base will also increase. This income will likely provide a steady stream of revenue towards achieving First Nations self-reliance.

b) Increased employment

Settlements should result in First Nations having greater access to employment, in both the private and public sectors. Other studies have shown that, not only are First Nations likely to invest in service sector companies, but also the transfer of land and resources will increase participation of First Nations in resource-based industries. Public sector jobs are likely to also increase, not only in the areas of resource management, but also in social services.

c) Increased self-reliance

Increased ownership and autonomy with respect to land and resources, coupled with higher employment incomes and a greater degree of financial independence, should lead to greater First Nations self-reliance. For example, aboriginal businesses should be better able to develop partnerships with industry and government (a noted concern by First Nations has been their organizational ability to respond to economic opportunities given their lack of resources). Aboriginal communities will also, in all likelihood, seek to improve their standard of living by developing new infrastructure (such as cultural centres, roads, sewers), housing and schools. All of these activities, in turn, would provide economic opportunities for aboriginal firms and communities.

3. Benefits for provincial and Federal governments

Taxes collected by First Nations will likely reduce the amount of program funding required by the Federal and provincial governments. Also, as First Nations become more self-reliant, over time the governments may observe reduced demands for social programs targeted for aboriginal groups. The majority of this benefit will be realized by the Federal government, but the provincial government may also reduce some of its social spending.

The province can expect to realize savings in provincial expenditures that presently "top-up" Federal programming. According to a Ministry of Aboriginal Affairs' 1994 survey, for the fiscal year 1993/94, total provincial expenditures for programs which targeted aboriginal peoples directly amounted to \$85 million. The need for these programs could be substantially reduced.

Additionally, the very high unemployment rate experienced in First Nations communities results in significant Federal welfare and unemployment payments. These costs will be reduced as First Nations employment rates increase.

In the absence of taxation imposed by other levels of government, First Nations can be assumed to impose their own levels of taxes on treaty settlement lands, with the result that First Nations will have a wider, more stable base of revenue. Since the Federal government has the primary responsibility for funding First Nations governments, Federal obligations could be reduced to the extent of First Nations tax capacity.

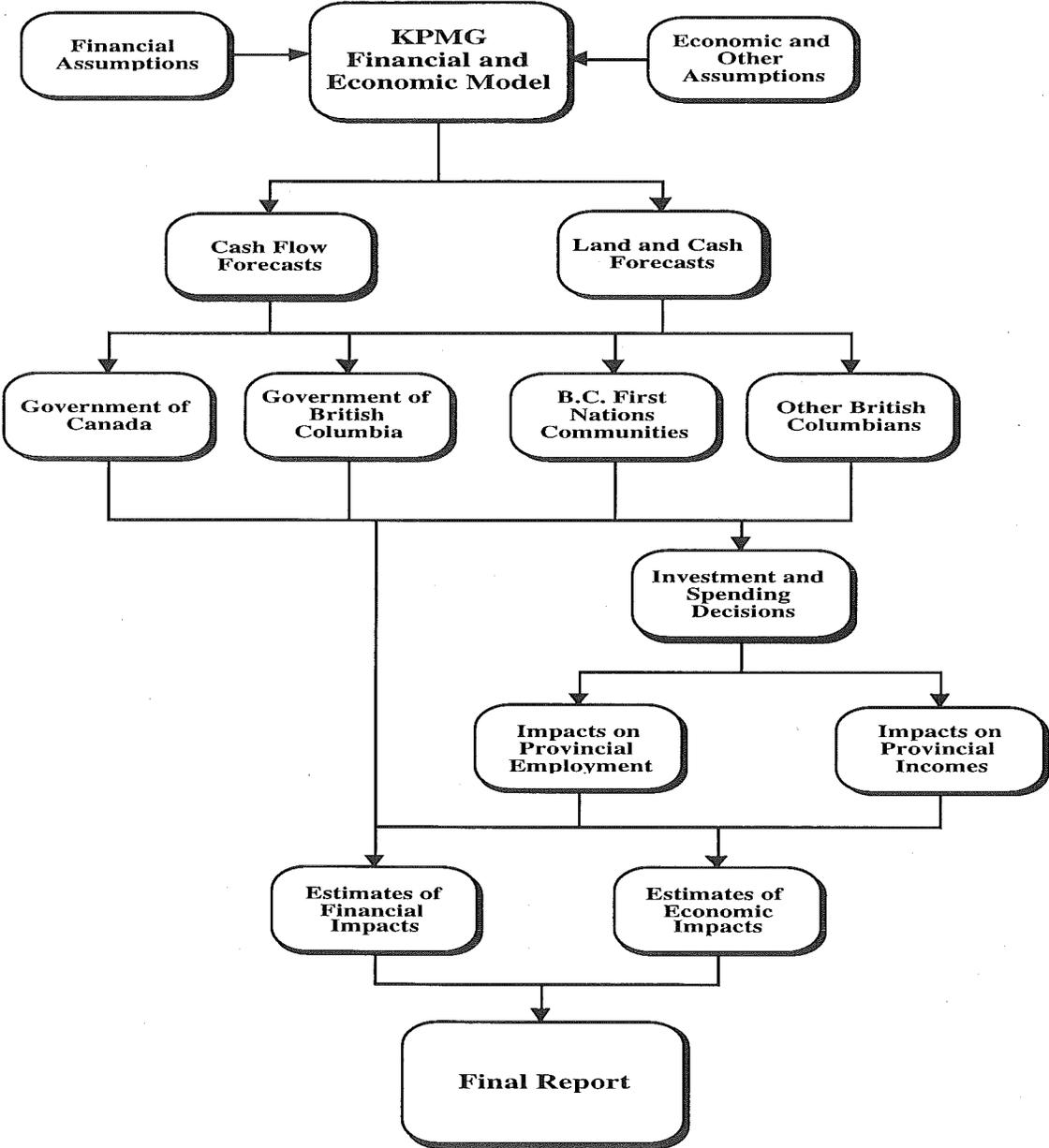
D. Overview of the financial and economic model

To assess the financial and economic impact of settlements on BC, KPMG developed a financial and economic model, encompassing a number of scenarios. The scenarios provide a range of different impacts consistent with the information currently available and some indication of how changes in key variables can affect the financial and economic impacts of treaty settlements. The scenarios reflect different proportions of land and cash and varying First Nations' investment and spending preferences. A schematic illustrating the inputs to the model is shown in Exhibit One below.

The model began with a number of assumptions related to treaty settlement and implementation costs and economic impacts, having regard to the Federal-provincial cost-sharing agreement and other precedents. Using these assumptions, the financial impacts of treaty settlements were assessed by developing sectoral cash flow forecasts for the provincial and Federal governments, British Columbia's First Nations communities and other British Columbians. For the economic impacts, forecasts were prepared of the possible allocation of land and cash over the settlement period. Using a number of assumptions, economic ratios and multipliers, the impact that the treaty settlements would have on provincial employment and incomes was then estimated. Combining these impacts provided estimates of the overall economic impacts.

It should be noted that, while there has been an attempt to use the most reasonable, available data, the speculative nature of this exercise means that none of the estimates can be viewed as precise forecasts; instead, they are order of magnitude estimates of what could occur. Readers should, therefore, not be misled by the apparent precision of the results.

**Exhibit One
Financial and economic model**



E. Assumptions used in scenario development

Treaty settlements are expected to take many years to finalize. It is clear that the exact composition and timing of the treaty settlements will have a significant impact on various sectors and stakeholders. The timing of settlements and payments will greatly affect the overall impacts. Moreover, the longer the negotiations take to complete, the greater are likely to be the costs to the Federal and provincial governments.

Several general assumptions were necessary in developing the estimates. In the course of this study we investigated several scenarios. Ultimately, two scenarios were selected that were considered to best represent the most likely range of outcomes, while at the same time providing a sense of the range of possibilities. The scenarios assume that negotiations are concluded over the 25 year period that commenced in 1993, and the period for paying out each cash settlement is 15 years. These scenarios also assume that over these 25 years the Federal, provincial, and First Nations governments will continue to act according to their current mandates and stated commitments, such as the provincial government's commitment that settlements will be affordable.

1. Financial assumptions

Cost estimates were developed based on experience in treaty settlements in Northern Canada, and with reference to obligations of the Federal and provincial governments as set out in their cost sharing agreement. For example, those recently concluded Northern treaties saw cash payments of approximately \$35,000 (in 1990 constant dollars) made to each beneficiary. At the same time, the cost sharing agreement between the Federal and provincial governments affirms that the primary responsibility for the transfer of cash to First Nations will be assumed by the Federal government, and the province will be primarily responsible for the transfer of land and resources. The agreement restricts the province's share to a minimum of 10% of the cash and a maximum of 25%, but the actual mix of land and cash will vary from treaty-to-treaty with the most likely percentage falling somewhere between these two extremes—perhaps 17%.

It is important to note that, although other settlements can provide a guide, any settlement in BC must take account of the idiosyncrasies and characteristics of the BC landscape. For example, BC land, with its higher occupation, commercial use and richer natural resources, has significantly higher value than land in Northern Canada. In addition, urban lands are more valuable so that any BC settlement would likely involve smaller amounts of land, or where richer land is transferred, smaller amounts of cash.

The major assumptions on which the estimates are based include:

- An initial 125,000 eligible First Nations beneficiaries, growing to approximately 146,000 beneficiaries by the time all treaties are settled.
- The provincial share of cash would range from 12% to 22%, while the amount of the Federal government's cash contributions stays constant. The more cash the province pays, the less land it contributes. The mix of land and cash included in each settlement could vary, depending upon negotiations with First Nations.
- There would be from \$5.3 billion to \$6.0 billion (in 1995 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. This range approximates 3% but, depending upon the quality of the land, could be up to 5% of the provincial Crown land.
- Sixty treaties would be negotiated by the year 2018.
- Capital transfers to a First Nation after their treaty is passed in law would take place over a 15-year period.
- Whatever net costs are borne by the Federal government, BC tax payers will be responsible for their proportionate share through the collection of Federal taxes (about 13%).

Various other assumptions have been used in deriving the model, including standard wage rates, economic multipliers, rates of return, etc. Exhibit Two provides the two scenarios (scenarios 1 and 2) which represent a range of likely outcomes of the combined Federal and provincial settlement costs. The table divides the settlement costs between Cash Components and Non Cash Components (rural land). The Cash Components are further divided between cash, which includes transfers of financial capital, resource revenues and cash equivalents (Federal lands, urban lands and "exceptional forest" land), and compensation for third-party interests.

Other costs, which include support funding for First Nations, costs associated with implementation, and interim protection measures, where lands and resources are protected during negotiations, are not counted as settlement costs and, consequently, are omitted from Exhibit Two. These are included in the full financial impact analysis shown in Exhibit Four.

Exhibit Two
Estimated Federal and provincial settlement costs

	Scenario 1	Scenario 2
	(\$ Million 1995 Constant Dollars)	(\$ Million 1995 Constant Dollars)
Settlement Costs—Cash Components		
Cash (Capital transfers, forgone revenues & cash equivalents)	\$ 5,300	\$ 6,000
Compensation for third-party interests	380	160
Settlement Costs- Cash Component²	\$ 5,680	\$6,160
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 Federal-provincial cost-sharing agreement, the provincial government will be wholly responsible for the transfer of 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 around \$3 billion. When this value of rural land is added to the financial settlement costs, the total settlement costs approximate \$9 billion.

Exhibit Three is organized in the same manner as Exhibit Two, but it shows just the provincial government's share of the total settlement costs. For the provincial government only, the estimated cash, cash equivalent and settlement costs range between \$0.8 and \$1.4 billion (in 1995 constant dollars). The province's share of the cash settlement costs ranges between 12% and 22% of the total. The actual share may well be between these two scenarios (approximately 17%, or \$1 billion).

These cost estimates assume a particular approach and timeframe for the negotiation process and any change in either of these could have a significant impact on the costs of reaching treaty settlements. For long-range planning purposes, the degree of precision of the estimates cannot be high. As settlements are reached and the number of assumptions and their variability decreases, and as policy and precedent become more firmly established, cost estimates will become more reliable.

² In net present value terms, total financial settlement costs range between \$3.1 and \$3.4 billion.

Exhibit Three
Estimated provincial settlement costs

Settlement Costs—Cash Components	Scenario 1	Scenario 2
	(\$ Million 1995 Constant Dollars)	(\$ Million 1995 Constant Dollars)
Cash (Capital transfers, forgone revenues & cash equivalents)	\$ 640	\$ 1,330
Compensation for third-party interests	190	80
Settlement Costs- Cash Components³	\$ 830	\$ 1,410
Settlement Costs—Non Cash Component		
Rural land—Representative hectares (millions)	2.9	2.4

2. Economic and other assumptions

In estimating the economic impact of treaty settlements, it was necessary to make a number of assumptions, based upon prior settlements in other jurisdictions and with reference to the obligations of the Federal-provincial cost sharing agreement. While it is impossible to know the exact outcome, some predictions and assumptions have been made:

- Obviously, the resource industries will be affected. There will probably be increased participation by First Nations in British Columbia's commercial fishery and forestry industries. Any transfers of tenures and licenses will result in compensation to the current owners and probably economic displacement for other British Columbians in the primary resource industries. Depending on how First Nations choose to process their resources, employees in secondary processing sectors may also be affected. Adjustment programs are expected to redress any significant economic dislocations and funding has been identified in the cost-sharing agreement, with fixed Federal contributions to handle such an eventuality. Assumptions have been incorporated into the model which acknowledge these potential outcomes (e.g., changes in harvesting rights for forestry and for the commercial salmon catch).
- For non-renewable resources—minerals and petroleum products—settlements could also expand First Nations' involvement in the mining industry, increasing resources and employment opportunities for aboriginals, although nothing has been quantified in the model.

³ *In net present value terms, the provincial share ranges between \$0.45 and \$0.8 billion.*

- 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. First Nations will be faced with several investment and spending alternatives for their funds. A portion of the settlement will likely be used for the consumption of goods and services and some funds may be allocated to local administration and infrastructure spending. The amount of the settlement invested could be applied to conservative blue chip stocks and GICs, or to local businesses. The less cash spent on consumption and the more allocated to longer term investments such as local businesses and resource development, the better it will likely be for the economic development of First Nations and for the province as a whole. The scenarios chosen assume varying degrees of business versus passive investment.
- The impacts resulting from self-government are dependent on future negotiations. Funding for core institutions of governance (covering the necessary overheads for decision-making and law-making structures, land management, etc.) will be provided by the Federal government; program delivery costs and the cost of additional services and programs will be negotiated between the various governments. First Nations can be expected to apply direct taxes to their own people on settlement land, and in some cases to exercise restricted, delegated powers to tax non-aboriginal people on reserves. First Nations taxation (tax revenues will increase as aboriginal incomes increase) will reduce the amount of funds required from other governments to finance First Nations governance. At the same time, as the income disparity between aboriginals and non-aboriginals is diminished, savings in social expenditures—and less reliance on Federal and provincial government support—have been assumed to occur.

F. Estimated financial benefits

The scenarios used in the model consider: the land/cash mix of the final settlements; the investment choices of First Nations; changes in the investment climate; resource management and revenue decisions; community adjustment programs; and self-government arrangements. Using certain assumptions, 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.

It should be noted that no estimates have been included for the provincial government's cost of capital.

We selected two scenarios (scenarios 1 and 2) which represent the range of estimated financial impacts; these are shown in 1995 constant dollar terms in Exhibit Four below. The results are presented for three separate groups: First Nations, the provincial government, and all other British Columbians. Each of these groups is further divided by the sources of these financial impacts (e.g., benefits to First Nations are divided between cash, resource revenues and cash equivalents, tenures from third parties, interest-free loans and grants, and funding of First Nations' core institutions).

When all of the financial impacts are considered, British Columbia can expect about three dollars worth of total financial benefit for every dollar of provincial financial cost. The total financial benefit to British Columbia's First Nations is estimated to be approximately \$6 billion. After deducting net provincial costs of some \$2 billion—including BC's share of cash, pre-treaty and negotiation costs and a further deduction for the share of Federal costs paid by British Columbians as Federal taxpayers—the net financial benefit to British Columbia is between \$3.9 billion and \$5.3 billion (in 1995 constant dollars).

Exhibit Four

Total net financial benefits to British Columbia

	Scenario 1	Scenario 2
	(\$ Millions, 1995 Constant Dollars)	(\$ Millions, 1995 Constant Dollars)
Benefits to British Columbia		
First Nations		
• Cash, resource revenues & cash equivalents	\$ 5,300	\$ 6,000
• Tenures from third parties	380	160
• Interest-free loans and grants	90	90
• Funding of First Nations' core institutions	250	380
Total Financial Benefits to First Nations	\$ 6,020	\$ 6,630
Costs to other British Columbians		
A. Provincial Government Costs⁴		
• Provincial share of cash, cash equivalents and resource revenues to First Nations	\$ 640	\$ 1,330
• Pre-treaty costs ⁵	780	750
• Implementation costs ⁶	1040	980
• Costs to third parties for purchase of tenures	190	80
• Reduction in provincial program costs	(740)	(1,710)
	\$ 1,910	\$ 1,430
B. Other British Columbians Costs		
• Provincial taxpayers' share of net Federal costs	200	(60)
Total Financial Costs to other British Columbians	\$ 2,110	\$ 1,370
Total Net Financial Benefits to British Columbia⁷	\$ 3,910	\$ 5,260

⁴ It should be noted that the province's cost of capital (such as any financing cost) has not been included in the scenarios.

⁵ Pre-treaty costs include negotiation, surveys, public information, consultation with third parties, interim measures and other pre-treaty costs.

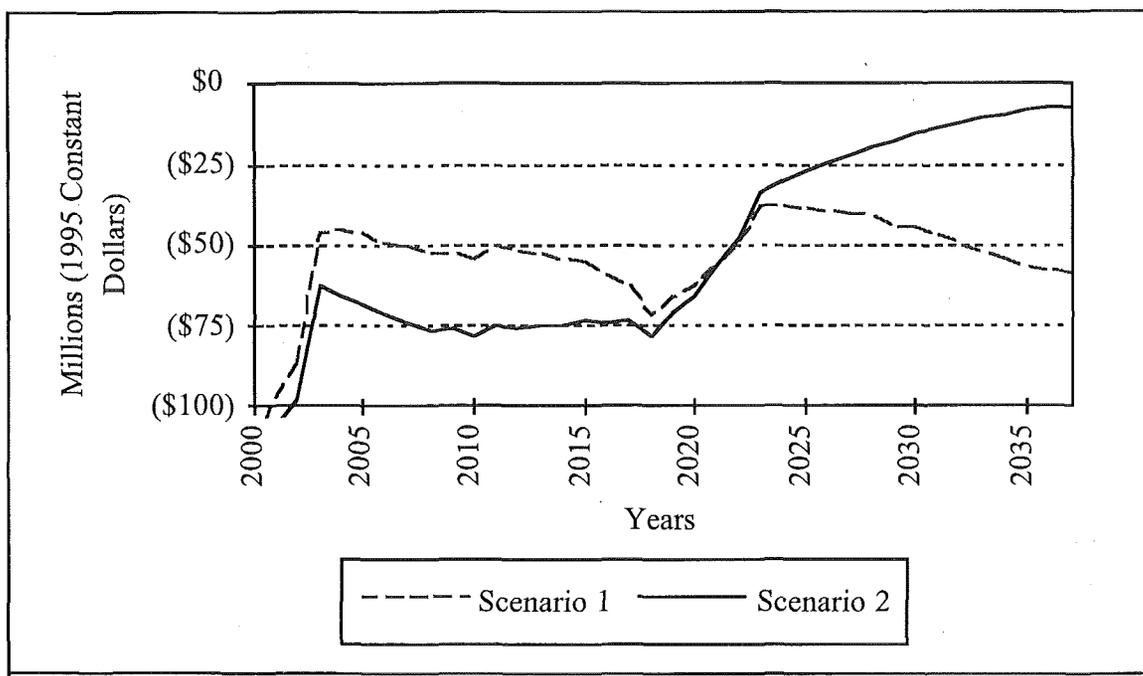
⁶ Implementation costs include provincial interface and co-management boards, adjustment programs, training and other implementation costs.

⁷ In net present value terms, the total net financial benefits to British Columbia range between \$1.98 and \$2.26 billion.

Land values are omitted because they do not affect provincial financial flows.⁸ From a province-wide perspective there is no overall change in the total net benefit. There will also be tax impacts on new levels of economic activity; these would be a transfer between First Nations, Other British Columbians and the provincial government, and consequently, since they do not affect the overall net impacts, these have not been shown.

The expected impact of these payments on the provincial budget is shown in the range provided in Exhibit Five.

**Exhibit Five
Estimated net provincial government budgetary impact**



These budgetary impacts include, on the positive side, reduced program costs because of the improvement in socio-economic conditions for aboriginals. Those items having a negative budgetary impact include: lower resource revenues as resources are transferred;⁹ compensation to third parties for resource interests; and pre-treaty and implementation costs. Land transfers are not shown on the provincial budget.

⁸ As described earlier, if rural land values were included, benefits to First Nations would increase by around \$3 billion, and Costs to Other British Columbians would increase by a like amount.

⁹ In valuing resource revenues as a component of the cash settlement in Exhibit Four, the future revenues are stated as a single present value amount. For budgetary purposes in Exhibit Five, the foregone resource revenues are shown as the annual reduction in provincial revenues.

These provincial budgetary costs, totalling roughly \$2 billion, average approximately \$50 million a year over the 40 year period, or one quarter of one per cent of the provincial budget. As shown in Exhibit 5, in scenario 1 the costs range between about \$40 million and \$75 million a year, averaging approximately \$50 million a year throughout most of the settlement period; in scenario 2, these costs average around \$75 million annually over the settlement period and fall thereafter, as estimated benefits are realized.

G. Estimated economic impacts

The economic impacts were estimated by taking the assumed change in employment incomes resulting from claims settlement. The variables expected to have such an economic impact are:

- First Nations' business activity (e.g., in natural resources, community infrastructure, local programs), using their capital transfers as a funding source.
- Potential dislocations, over time, of existing business interests in forestry and the commercial salmon fishery.
- Increased business investment resulting from a more "certain" business climate.

In estimating the economic impacts, an economic model was developed—utilizing the same scenarios used for the financial impacts. The model provides an estimate of the sensitivity and risk to the overall accuracy of individual numbers.

Exhibit Six is organized in the same manner as Exhibit Four with the impacts being presented in terms of two scenarios which represent the range of estimated impacts on provincial incomes. The results are presented for two separate groups: First Nations and all other British Columbians. Each of these groups is further divided by the sources of these impacts on incomes (e.g., sources for First Nations' incomes are natural resources, community infrastructure projects, other business opportunities, and increased incremental investments as a result of increased certainty).

As shown in Exhibit Six, the total economic benefits over 40 years are estimated to be between \$6.7 billion and \$11.4 billion (in 1995 constant dollars), with the greater benefit accruing to First Nations.

Exhibit Six Estimated impact on provincial incomes

Impact on Provincial Incomes	Scenario 1	Scenario 2
	(\$ Millions, 1995 Constant Dollars)	(\$ Millions, 1995 Constant Dollars)
First Nations		
• Natural resources (e.g., logging, salmon)	\$ 740	\$ 270
• Community infrastructure projects/local programs	3,160	2,860
• Other business opportunities funded by First Nations settlement investment funds	1,550	4,510
• Increased certainty (incremental investment)	10	20
Increased Incomes—First Nations	\$ 5,460	\$ 7,660
Other British Columbians		
• Natural resources (e.g., logging, salmon)	\$ (1,090)	\$ (380)
• Community infrastructure projects/local programs	1,600	1,450
• Other business opportunities funded by First Nations settlement investment funds	570	2,020
• Increased certainty (incremental investment)	190	650
Increased Incomes—Other British Columbians	\$ 1,270	\$ 3,740
Total Increase in Provincial Incomes ¹⁰	\$ 6,730	\$ 11,400

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.

This confirms findings from other settlements where there have been less dramatic changes than those originally anticipated.

¹⁰ In net present value terms, the total increase in provincial incomes range between \$1.9 and \$2.9 billion.

Exhibits Seven and Eight show the estimated impacts on combined provincial incomes and employment.

Exhibit Seven
Impact on combined provincial incomes

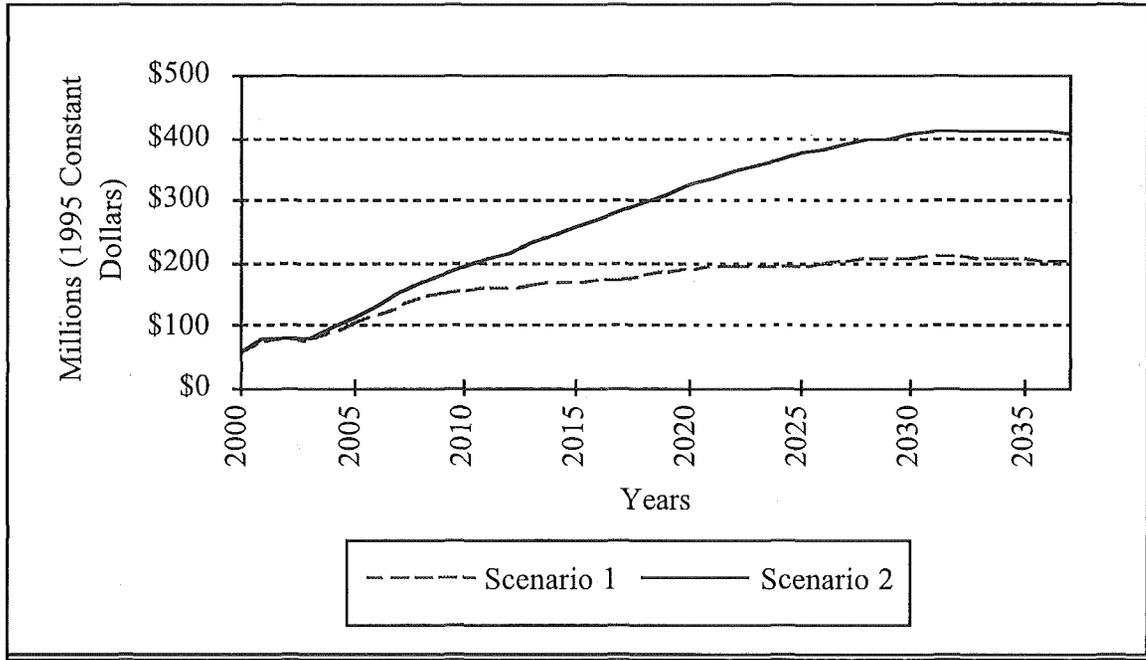
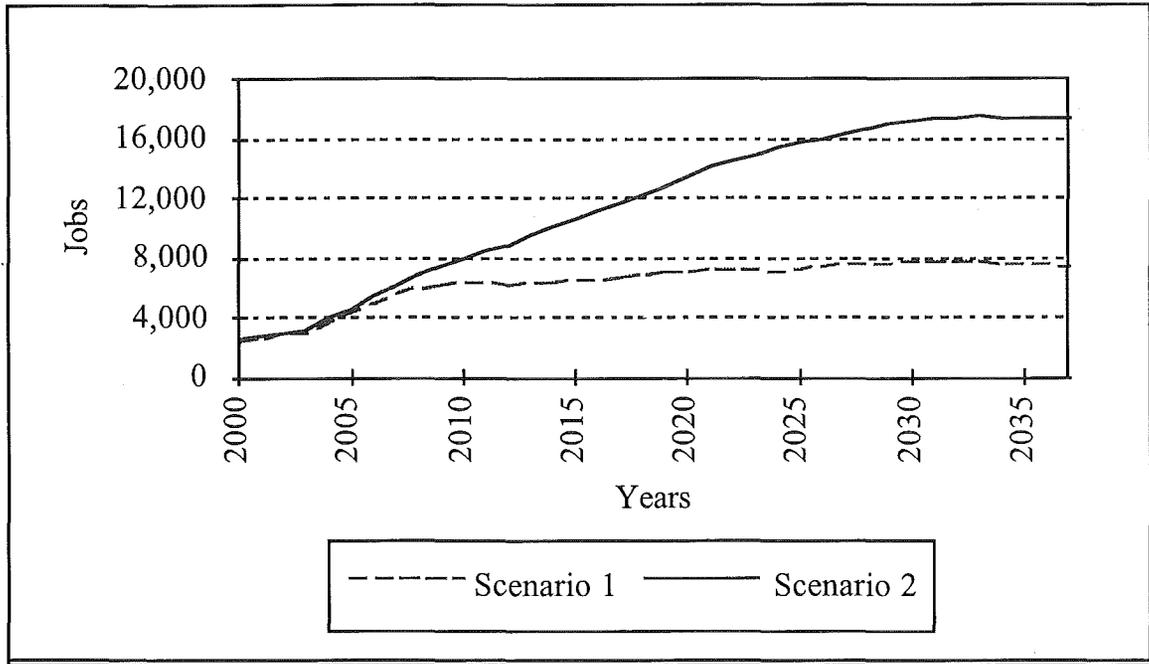


Exhibit Seven properly suggests that the full impact on provincial incomes will not be felt until the settlements are made but that, at that time, annual increases in provincial incomes could range between \$200 million and \$400 million.

Exhibit Eight shows the estimated employment increase, which could range between 7,000 and 17,000 jobs.

Exhibit Eight Impact on provincial employment



H. Conclusion

Treaties are expected to take 25 years to conclude and the estimated financial and economic impacts described in this report have been based on various assumptions. The settlement of treaties within this time period, while adhering to the underlying assumptions, presents significant challenges for the provincial government. The estimated benefits occur well into the future, and are therefore relatively uncertain; the estimated costs are more certain and immediate. 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. Furthermore, given the number of claims and First Nations involved, there will be significant upward pressures on costs.

Therefore, in order to minimize the risks, and to maximize the positive impacts, the provincial government should:

- Develop clear mandates and controls on all financial commitments related to treaty settlements to ensure that the government does not exceed its financial targets for costs; ensure key cost drivers of treaties are constrained within a tightly controlled financial framework.
- Ensure certainty through the timely distribution of information regarding the status of treaty negotiations.
- Encourage First Nations to invest in education and training, to guide them in their investment and resource management decisions, and prepare them for participating in new businesses and institutions with other British Columbians.
- Tie payments of cash and transfers of land to certain conditions which will have greater potential for positive results (e.g., establishing agreements for continued supply of resources, minimizing employment dislocations, and defining standards against which future results will be measured).

It must be appreciated that our estimates of the financial and economic impacts carry a substantial degree of risk. Many variables enter the picture in an area which is both complex and lacking in precedent, at least within a resource rich environment like BC. The estimates provided in this document are the best which can be provided with current knowledge. 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.

Notwithstanding these risks, the analysis undertaken confirms that the real challenge and opportunity for British Columbia is to maximize the social and economic development within First Nations' communities while, at the same time, adhering to the cost targets established for treaties.