

LEGISLATIVE ASSEMBLY OF THE
NORTHWEST TERRITORIES
7TH COUNCIL, 47TH SESSION
RECOMMENDATION TO COUNCIL
NO. 2-47



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RECOMMENDATION TO COUNCIL NO. 2-47

A TANNERY FOR THE NORTHWEST TERRITORIES

DISPOSITION

Tabled	To Committee	Accepted as Read	Accepted as Amended	Deferred (to Session)	Rejected	Noted not Considered

A TANNERY FOR THE NORTHWEST TERRITORIES

General Background

During the year 1966 a tannery was set up and operated in the Aklavik vicinity. Due to problems of illness, the manager was not able to give the needed leadership, therefore the tannery never got into successful production and the product was of poor quality. As a result the furs could not be sold and everyone became disenchanted with the idea of a tannery in the Delta.

Subsequent to this endeavour a series of reports were prepared by experts in the field who were hired from the southern industry. In July 1967, a Mr. John G. Griefenender visited the Mackenzie Delta to endeavour to locate suitable sites for the establishment of a tannery. In October 1967 Mr. Greifenender submitted his report to the Department of Indian Affairs and Northern Development. In his report Mr. Greifenender stated that he considered that a successful tanning operation could be established in Aklavik and that possibly a second tannery could be established in the Yellowknife Region. However, his report lacked the basis of an economic study and appeared to report on whether or not a tannery could be physically set up in the Mackenzie Delta.

During the year 1968 a report was written by Mr. A. Am. Cohn of D. Cohn TransCanada Ltd., "to evaluate the possible establishment of a fur dressing factory in the Mackenzie Delta either by utilizing the existing facilities in Aklavik or by the construction of a new plant in an alternate location. The conclusion that Mr. Cohn came to was that a successful tannery should be closer to the consumer market and suggested such points as Fort Smith, Hay River or Yellowknife. Once again, a basic economic study was not included. However, it was Mr. Cohn's opinion that the cost would be such that a return on the investment could not be projected for at least three to five years and went on to state "this is perhaps an optimistic viewpoint but as such, the writer has presented the survey only as a viewpoint and wishes to so quality his statements".

In an effort to reduce these reports to hard facts, the Department of Indian Affairs and Northern Development did an economic feasibility study on the establishment

of a tannery in Aklavik. As a result of this study conclusions were drawn that an economic tannery would be brought into existence in Aklavik under the following conditions:

- "1. The manager will accept Aklavik as a place to live and bring up a family.
2. A strong trappers' organization will exist producing prime pelts.
3. Sixteen tons of pelts will be available in the Northwest Territories and can be marketed.
4. Development costs of \$121,100 would be written off.
5. Cash expenditures of \$210,000 would be made and would be written off to development."

In an effort to establish once and for all the economic feasibility of a tannery operation in the Northwest Territories, the Federal Department of Industry, Trade and Commerce was approached in 1971 to undertake such a study. Attached is a copy of the report prepared by their representative, and the following is a summary of all available data and information which has been compiled in the reports prepared to date. In addition, data has been collected by the staff of the Department of Industry and Development to apply to the criteria or standards set out in the Industry, Trade and Commerce report.

Flow of Furs

The normal flow of furs to the user is as follows:

- (a) The trapper or his agent ships his furs to the fur auctions in the South.
- (b) The manufacturer purchases his furs at the fur auction and ships them to a tanner or fur dresser of his own choice where they are treated under contract.
- (c) The tanner returns the furs to the manufacturer who incorporates them into the article to be manufactured.

This pattern is well established and it was considered that only a nationally known fur dresser with a well established clientele would be able to change the flow of furs so that the manufacturer would buy treated furs from a fur dresser as opposed to the raw ones at the fur auctions.

Specialization

The fur industry in the remainder of Canada, with which any plant established in the Territories must compete, has become established and certain types of furs are treated at certain plants.

Economic Viability

It was established that to have an economically sound operation in the South a volume of between 7,000 and 8,000 fur units was required per day. It was only with such a volume that the overhead costs of a fur treatment plant could be brought down to a reasonable level.

Criteria for a Viable Northern Fur Dressing Industry

In view of the foregoing, the following criteria is established:

- (a) Any fur dressing or tanning plant destined for the Northwest Territories must be designed to produce skins for domestic consumption only. (By domestic consumption is meant "to be used by local people or to be used in the northern fur garment industry")
- (b) To compete with southern plants, the plant to be established in the North must have a greater degree of versatility and be able to produce furs of varying types equal in quality to those being produced by "specialist" plants in the South. To do otherwise would force the fur garment plants to seek the standard of furs the customer demands from other sources (i.e. the South).
- (c) The volume of furs to be handled daily in a northern plant must be sufficient to spread the overhead charges per skin on a basis comparable to the overhead costs in the South.

Examination of Data on Fur Industry in the North

(For purposes of this paper, discussion will be based on 1971 data)

Production

Total furs taken in year - 202,623

Domestic Consumption

Requirement for furs in N.W.T.

Fur Garment Shops	44,975	
Others	<u>5,410</u>	50,385
Of Total Requirement - furs purchased in South because of Consumer Demands		13,367
Northern furs used in production		37,018

Assuming entire domestic requirement dressed in North, volume of plant would be 200 fur units per day. (Even dressing all skins caught in North would give volume of only 800 skins per day)

Therefore, if operating and overhead expenses were comparable to southern costs (power, water, heat, accommodation, freight, salaries) these costs per fur unit in the North would be 35 to 40 times the cost per fur unit produced in a southern plant with a volume of 7,000 to 8,000 units per day. Since the expenses listed can be expected to cost considerably more in the North than in the South, even this ratio (35 to 40) is weighted in favour of a northern tannery.

Employment

It may be suggested that the plant operation could be compressed in time (i.e. operated during a shorter period at a greater degree of activity). If this were done (say, compress activity into 6 months) it is most unlikely that any degree of continuity of employment and, coincidentally, expertise could be maintained. It would be most difficult to retain a competent manager on this basis. A constant training program would be required with all the risks involved in endeavouring to run an efficient production operation at the same time.

Conclusion

It is considered that it would be economically unsound to establish an industrial tannery in the Northwest Territories for the following reasons:

- (a) The domestic consumption of furs in the Territories is not sufficiently great to warrant the expense involved nor could a plant designed to handle only domestic consumption compete successfully with southern plants.

- (b) There is no reason to expect that non-domestically used furs would ever be routed through a northern plant for treatment and therefore the volume of furs to be treated would not materially exceed those given above.

Recommendation

We recommend that no further consideration be given to or efforts expended on the establishment of an industrial tannery in the Northwest Territories at this time. Should any of the major conditions change in the future, the matter may then be re-opened.

If not, then assurance that an additional market exists outside the territory that can be profitably serviced.

3. Finance
4. Technology
5. Transportation
6. Personnel and training facilities
7. Building and Machinery
8. Utility Services - Heat, light, power, water and adequate sewage treatment facilities.
9. Raw Furs
10. Chemicals and Materials

ALTERNATIVE OWNERSHIP OPTIONS

Ignoring the economic feasibility aspects for the moment, it is necessary to consider the options of ownership and fiscal participation.

1. Total ownership by the Government of the Northwest Territories.
2. Partnership by the Government of the Northwest Territories and a local Co-Op.
3. Joint ownership by the Government of the Northwest Territories, a local Co-Op and private interests. (No majority shareholders).
4. Outright ownership by private interests.
5. Private ownership (majority interest) and a local Co-Op, (minority interest).
6. Private ownership (majority interest) and joint local Co-Op and the Government of the Northwest Territories minority interest.
7. Local Co-Op ownership or majority interest with Government minority interest.

The criteria to be considered in determining the optimum size are as follows:

The Feasibility of Establishing a Tannery in the Northwest Territories

INTRODUCTION

This interim report is the result of a survey undertaken in July 1971 by L.J. Henderson of the Leather and Footwear Division, Apparel and Textiles Branch of the Department of Industry, Trade and Commerce.

The survey was initiated by E.A. Ballantyne, Director, Department of Industry and Development, Government of the Northwest Territories. The terms of reference required "a feasibility study to determine if an economically viable tannery could be established in the Northwest Territories".

Mr. Henderson visited Yellowknife, Inuvik, Aklavik and Tuktoyaktuk. He interviewed Messrs. G.W. Graham, John T. Sears of Yellowknife, Lucien Bernier, J. Heron of Inuvik and F. Greenland of Aklavik. He studied the following reports:

- The Greifenender Report January 1968
- The A.M. Cohen Report October 1968
- G.A. Jones Report
- I.D. Cunningham Report
- J.D. Gillespie Report November 1966
- Hansen Report April 1968
- Crassweller Report

and has since received current information outlining transportation costs to and from the Arctic and the annual fur requirements of the facilities at Aklavik and Tuktoyaktuk.

OBJECTIVES

Obviously, the basic question is to determine the economic feasibility of establishing a tannery. There is no technical problem to establishing such a facility.

FACTORS

The factors to be considered in determining the economic feasibility are as follows:

1. Management - both the ability of the person to manage and the residual authority to manage without interference.
2. Markets - It must be clearly established that a local market exists of a size and nature that would ensure continuous profitable production by type and volume.

Notes

1. Of the 38,000 muskrats, 8,000 skins are from the south because the customers demand this type and quality.
2. Seals (beaters) - this type is from Labrador and the St. Lawrence. The customers demand this type and quality.
3. Seals (jars and rings) - bought from Paulatuk - used for boots, mitts and souvenirs only.
4. Timber wolves - local price too high and not enough to supply this quantity.
5. Wolverines - not available locally.
6. Black bears (cubs) - not permitted to shoot them in the Northwest Territories.
7. White foxes - local product better quality and price.
8. Lynx - local product acceptable.
9. Red foxes - local product acceptable.
10. Moosehides and deerhides - requirements 2,000 sq. ft. at 1.00/ft.

2. Availability of raw furs

Based on this analysis, the local skins used in 1970 would be:

Muskrat	30,000
Seal (jars & rings)	800
White fox	300
Lynx	100
Red fox	100

The balance would be bought at auctions in the south and transported north for dressing.

Cost breakdown per fur

These figures are based on actual costs supplied by Mr. Lucien Bernier for the Aklavik facility for January to December 1970. These figures are broken down per skin.

Basic Criteria

1. Markets - considering programmed work loading and product mix.
2. Availability of raw furs - type and quality as required.
3. Availability of raw materials - chemicals, sawdust, oils, etc.
4. Operating capital.
5. Transportation costs and resulting inventories (if located in the far north with limited navigation season).
6. Relationship of factory overhead, materials and direct labour, of facility compared to existing method and cost of purchase and transportation of furs when required.

1. Markets

The existing market for dressed furs in the Aklavik garment plant based on actual figures supplied by Mr. Lucien Bernier on July 30, 1971 for January to December 1970 are 50% of the list below. He advised that the same quantities be used for Tuktoyaktuk so they have been doubled. The total requirements are as follows:

	<u>Number of Skins</u>	<u>Total Cost</u>
1. Muskrat	38,000	\$99,000
2. Seal (beaters)	1,200	37,800
3. Seal (jars and rings)	800	19,200
4. Timber wolf	300	17,600
5. Wolverine	60	6,000
6. Black bear (cubs)	100	4,500
7. White fox	300	8,300
8. Lynx	100	3,800
9. Red Fox	100	1,900

SYMBOLS:		C	D	F	T
Type	Point of Origin	Cost per Skin	Dressing Cost	Freight Cost to Inuvik	Total Cost per Skin
Muskrat	Local raw	2.00	0.35	0.15	2.50
Muskrat	Outside dressed	2.58	0.35	0.07	3.00
Beater seal	Outside dressed	C & D	30.50	1.00	31.50
Jar & ring seal	Local raw	18.00	5.00	1.00	24.00
Wolf(timber) Raw		50.00	6.00	2.00	58.00
Wolf(timber) Dressed		C & D	0.59	1.00	60.00
Wolverine		C & D	98.00	2.00	100.00
Black bear (cubs)		30.00	12.00	3.00	45.00
White fox		23.30	3.30	1.00	27.60
Lynx		30.00	7.00	1.00	38.00
Red fox		15.00	3.00	1.00	19.00

From this breakdown we can now determine the fixed charges for fur dressing and freight of furs used in 1970.

	<u>Dressing Cost</u>	<u>\$</u>	<u>Freight Costs</u>	<u>\$</u>
Muskrat(local)	30,000 x 0.35 =	10,500	30,000 x 0.15 =	4,500
Muskrat(Outside)	8,000 x 0.35 =	2,800	8,000 x 0.07 =	560
Beater seal	1,200 x 5.00 =	7,000	1,200 x 1.00 =	1,200
Jar & Ring seal	800 x 5.00 =	4,000	800 x 1.00 =	800
Wolf(timber)	300 x 6.00 =	1,800	300 x 2.00 =	600
Wolverine	60 x 6.00 =	360	60 x 2.00 =	120
Black bear(cubs)	100 x 12.00 =	1,200	100 x 3.00 =	300
White fox	300 x 3.30 =	990	300 x 1.00 =	300
Lynx	100 x 7.00 =	700	100 x 1.00 =	100
Red fox	100 x 3.00 =	300	100 x 1.00 =	100
TOTAL:		29, 650		8,580

Total actual cost for fur dressing in 1970 = \$29,650

Total actual cost for freight in 1970 = 8,580

Having established the actual fur dressing charges for 1970 as \$29,650, it is necessary to consider the total number of skins processed over this period.

It totals 40,960 of which 38,000 were muskrat. This over a 50 week year would average 820 skins per week or 164 skins per day. This would require a Manager and three skilled operators producing a quality product comparable to the furs presently being dressed in Winnipeg, Toronto, Montreal and Quebec City. The skilled operators in Toronto average \$10,000 per annum. A competent manager with the technological and engineering skills might be hired for \$15,000 - \$18,000. Assuming local personnel were trained to a corresponding level of skills and could be employed at \$5,000 per year each with no absenteeism, the salary and wage bill alone, would be \$30,000.

The \$8,580 freight charges would not be eliminated. The furs itemized previously would still be freighted in from fur auctions. Freight charges for chemicals and supplies would more than offset the remaining savings.

It logically follows that even a minimal operation to supply the existing market would not be economically feasible, assuming the quality of the furs processed were of comparable quality to the furs presently being bought. Added to this, of course, would be the cost of the building, machinery, overhead - heat, lights, power, sewage, etc., plus interest charges on financing.

CONCLUSIONS

1. For the reasons outlined above, it would not be economically feasible to establish a tannery in the Northwest Territories with ownership options 1, 2, 3, 7.
2. If a tannery, under the direct control of the Government of the Northwest Territories were established, and assuming during the formative period, the existing garment facilities at Aklavik and Tuktoyaktuk were obliged to use furs of questionable quality, it would likely contribute to the downfall of the existing units.
3. If under the ownership options 4, 5, 6, it was possible for the Government of the Northwest Territories to interest a private investor with a proven record of success in this particular field, to establish a tannery in the Territories, there is every reason to believe it could become economically feasible. Primarily for two

reasons - a) professional management; b) markets. It could, by initiating economies of scale, supply the local demand, divert present production from an existing tannery to the north where economically feasible. Also with existing sales connections, expand its market.

RECOMMENDATIONS

1. I am presently negotiating with a successful tanner who is considering the possibility of establishing a tannery in the Territories.
2. The outcome of these negotiations will depend on what assistance might be forthcoming from the Government of the Northwest Territories. It must be understood that assistance from DREE would be available to them to locate in a wide choice of suitable locations.
3. It is necessary that the Government of the Northwest Territories establish some policy of assisting Northern personnel (possibly 6 to 8) to be brought to Toronto for training for some months and suitably housed.
4. The Government of the Northwest Territories might give consideration to building a plant of 15,000 to 20,000 sq. ft., with sewage, light, heat and power (50 HP) and a cold storage unit with capacity to store furs based on a production of 2,000 units per day, at a location to be determined by the Government and the interested party. Terms of purchase or rental would be negotiated by the two parties.
5. Consideration might be given to a policy of freight subsidy to offset any serious disadvantage in competing with southern competitors. There might be some offsetting freight advantages to buying and selling furs in the north that could offset the disadvantages to some degree.
6. That assistance, might be offered the principal or principals in visiting possible sites in Hay River, Yelloknife or Inuvik.

L. J. Henderson

SUPPLEMENTARY REPORT

I am presently negotiating with Mr. Victor Topper of Reliable Fur in Toronto. They process 7,000 - 8,000 units per day in their existing plant.

We are considering the following:

- new facility to process initially 850 units per day;
- Employ one Supervisor and fourteen operators;
- Plant space - 15,000 - 20,000 sq. ft.;
- Power requirements - 50 H.P.;
- Investment in new machinery; \$60,000;
- Freight requirements approximately 2 tons/week;
- Operating capital requirements - \$250,000;
- Initial transportation charges for machinery and installation charges, approximately \$20,000.

These negotiations will be resolved ultimately by the Government of the Northwest Territories personnel. The outcome will be influenced to a great extent by the assistance offered by the Government compared to the assistance offered by DREE and the comparative advantages of locating elsewhere.

I will report later on my next meeting to be held with Mr. Topper in Toronto on December 7, 1971.

L. J. Henderson.

NOTE: These negotiations were discontinued due to the large subsidy that would be required. It was felt that a large subsidy would not be justified to provide for such a small number of man-years of employment.