# KETCHIKAN AREA IMPACT

About a year ago the logging and fishing industries on which the economy of the Ketchikan area is based were experiencing difficulties. The depressed housing markets in Japan and the United States brought about a lessening demand on the logging industry. The Environmental Protection Administration was demanding that the Ketchikan Pulp Mill meet strict requirements. Due to the high cost involved in meeting these requirements, KPC was forced to remotely consider closing the pulp mill. The poor fishing season only added to this tenuous economic picture. On almost the last day of 1975, just as the economic outlook for Ketchikan area began to look brighter due to the up-swing in the national economy and general Alaskan optimism, a decision was handed down that set the tone for things to come in 1976.

On December 29, 1975, a decision was handed down by District Judge James A. von der Heydt in Anchorage on the Zieske V. Butz suit. The ruling cited the Monongahela decision, agreed with it, and ordered a halt to a portion of a 50-year, 8.2–billion-board-foot timber sale in the Tongass National Forest to Ketchikan Pulp Co. The Monongahela ruling referred to in the decision called for strict application of the provisions of the 1897 Organic Act. These provisions provide that the Forest Service may sell only dead, physiologically mature or large trees, that timber to be sold must be both marked and designated, and that each tree sold must be cut and removed.

The decision of Judge James A. von der Heydt could effectively curtail KPC operations since approximately 60% of the volume of timber resources that KPC uses come from the sale now enjoined as a result of the court decision. Ketchikan Pulp Company processes an average of 350 million board feet annually, half at the pulp mill and half at their saw mills.

Construction of the pulp mill in the early 1950's took 2 years and cost about $54 million. Since then, numerous projects to install additional equipment and facilities have brought the cost of constructing the mill to $80 million. A primary effluent treatment facility, finished in 1973, was one of these projects. However, the recent concern about preserving the status of the environment has brought about more stringent requirements and enforcement of pollution control standards. In November, 1974, KPC agreed to EPA requirements that the pulp mill install a second-stage activated sludge water treatment plant to change the effluent composition. However three months later, KPC reversed its decision and officially requested a special exemption from pollution control standards which would cost more than $30 million to meet. The company claimed the excessive cost would cause the mill to close since an amount of $41 would be added to the cost of each ton of pulp produced to cover the cost of the treatment plant. This increase of 20 percent in the cost of the pulp would raise the price above competitive pricing thereby making the pulp unsellable. A public hearing was scheduled on May 11 in Ketchikan at the request of KPC to demonstrate and explain how the effluent limitations in the EPA permit issued to the mill would cause the mill to cease operations.

On Tuesday, May 4, a week prior to the scheduled hearing, KPC officials announced that the Ward Cove Mill will close on or before July 1, 1977. The decision was reached by the Board of Directors on May 3 and was based on the cost of $32 million for a secondary waste water treatment plant and the fluctuating pulp market. Included in the announcement was the statement that "plans would be developed for continuing certain sawmilling operations." Some logging would be done to supply the sawmills and also to meet long-term Forest Service contracts. This major decision will have a drastic and long-term effect on the Ketchikan area and on Southeast Alaska.

Assuming the EPA grants a waiver of the July 1, 1976 deadline for the start of construction on the secondary wastewater treatment plant due to anticipated closure, the mill will probably effect a gradual close down. This would lessen the impact on the Ketchikan area. The surplus supply of labor would be able to adjust by seeking employment in the same area in different occupations or by seeking employment in other areas of the state.

Approximately 1,150 workers will be directly affected by the pulp mill closure–this includes the pulp mill employees and loggers. Almost all of this direct unemployment will occur in the Ketchikan and Prince of Wales areas.

Not only is there a direct unemployment impact that will occur as the mill closes down, but there definitely will be an indirect unemployment impact. Indirect unemployment refers to the people not connected with the mill, who become unemployed as a result of a lessening demand for the services and the products of their particular occupation. A large percentage of the wages and salaries paid to workers at the mill are spent in the Ketchikan area for housing, food, clothes, entertainment, utilities, medical and dental services, and recreation. The money that is spent in Ketchikan is then used in part to pay the salaries of the employees of these local businesses. These people in turn spend a percentage of their income in Ketchikan resulting in some of the same dollars completing another cycle in the Ketchikan economy. The number of times this cycle is completed in one year and the percentage of money that remain in the cycle is unknown. However, with the closure of the pulp mill, one of the major sources of revenue to the Ketchikan area to support this cycle will be eliminated.

Measuring the indirect unemployment impact can be done via several different methodologies. The most direct methodology, the application of an employment multiplier, introduces the least number of variables and is therefore used in this analysis. For the Ketchikan area, a multiplier of 2.5 is reasonable due to the large part the pulp mill plays as the base of the Ketchikan economy. The application of the 2.5 multiplier on the 1,150 directly unemployed workers at the mill gives us an estimated potential total of 2,900 that could be unemployed due to mill closure.

The 2,900 figure will not be reached in a short span of time after the mill closes. Instead, the indirect impact will occur over one to three years. The rate at which the impact occurs and its size will depend upon the adjustments the Ketchikan area population makes to the loss of the base of their economy.

One approach to the problem of unemployment is to leave the Ketchikan area and seek employment elsewhere. If all the 2,900 potential unemployed people were to leave, the population of the area would decrease by approximately 7,250 people. This is through the application of a 2.5 population factor since each employee supports himself and approximately 1.5 other individuals. In terms of the population of the Prince of Wales–Ketchikan area, this amounts to 47 percent of the population that could leave. However, this represents the most drastic case. A more realistic estimate would be 75 percent of the 7,250 figure which is 5,440 people or 35 percent of the area's population.

Early indications are that some Ketchikan retailers have already begun to feel an economic impact resulting from the announced planned closure by July 1, 1977.

The projection computed above will vary with the action that Ketchikan residents will take in developing new bases for the area's economy if the mill continues with its planned closure. Numerous alternatives are available: expansion and greater development of the tourism industry, construction of additional fish hatcheries in the area to rebuild the fishing industry, development of the mining industry, and seeking additional international markets for the products of the sawmills which will remain in operation after closure of the pulp mill. The unemployment impact and resulting decreases in population will be inversely porportional to the extent that these alternatives can be developed.

## ALASKA'S LABOR MARKET IN MARCH

**Employment – Unemployment:** Unemployment rose slightly in March to 11.3 percent over April's level of 11.2 percent. This was the result of job seekers entering the labor market at a faster rate than jobs could be made available by industry.

**Mining:** Following the normal seasonal trend of this industry, employment in mining rose by 5 percent during the month of March. Most of the increase was in gas and oil extraction, along with a small increase in employment in coal mining. Employment in this industry has increased 10 percent over the same period one year ago.

**Construction:** Again as in April, remobilization of construction on the trans-Alaska oil pipeline was the leader in new employment. Employment on the pipeline is expected to reach approximately the same level of activity that was experienced in 1975. Overall employment in the industry rose 22 percent between April and March, which is typical for this time of year.