

The Economic Review

November 2001



Newfoundland & Labrador



GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR

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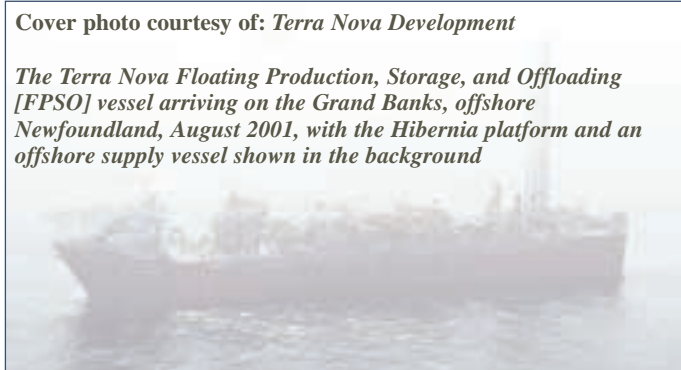
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www.economics.gov.nf.ca/review2001

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Cover photo courtesy of: *Terra Nova Development*

The Terra Nova Floating Production, Storage, and Offloading [FPSO] vessel arriving on the Grand Banks, offshore Newfoundland, August 2001, with the Hibernia platform and an offshore supply vessel shown in the background

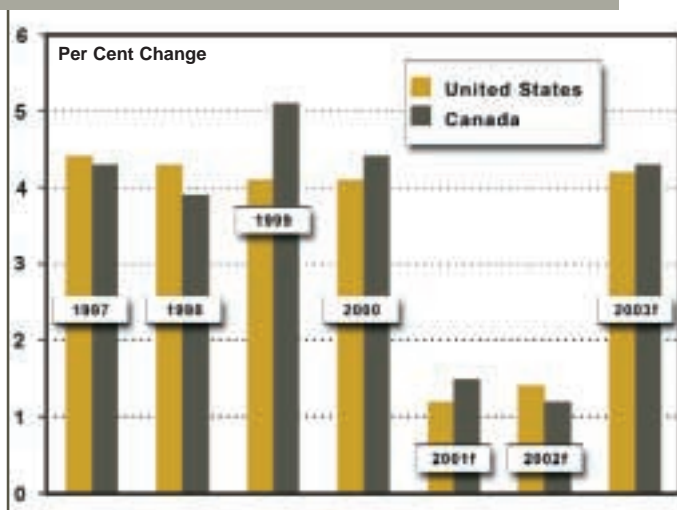


United States

Real economic growth in the United States is expected to slow to 1.2% in 2001, following growth of about 4.0% annually from 1997 to 2000. This slowdown is primarily due to weaknesses in the manufacturing and IT sectors and a correction in equity markets made worse by the September 11 terrorist attacks. The US airline system and financial markets, for example, were shut down during the week of the attack and activity in the tourism industry slowed considerably. The US economy contracted by 0.4% in the third quarter and most economic forecasters now anticipate a recession in the last two quarters of this year. In response to the economic slowdown, the US Federal Reserve has reduced the federal funds target rate this year by 4.0 percentage points to 2.0%, its lowest level since the 1960s.

US economic growth is expected to be marginal in the first two quarters of 2002 and average 1.4% for the year. Growth will be aided by low interest rates, higher public sector expenditures, personal income tax reductions, and increased construction activity. However, consumer spending, which accounts for over 60% of the US economy, is not expected to provide a short term stimulus to recovery—consumer confidence levels are at an eight year low.

US and Canadian real GDP growth will be weak in 2001 and 2002



Source: Conference Board of Canada, October 2001

Growth in Real GDP (%)

	2000	2001f	2002f
World	4.0	1.4	2.0
Canada	4.4	1.5	1.2
United States	4.1	1.2	1.4
Japan	1.5	-1.2	-0.7
European Union	3.5	1.7	2.0
Newfoundland*	5.6	1.2	4.5

f: forecast. Source: Various, available upon request.

*2000 - Statistics Canada; 2001 - Economics and Statistics

Branch, Department of Finance; 2002 - Private Sector Average

Canada

Real economic growth in Canada is expected to be 1.5% in 2001. Like the US, growth will be weak relative to the 1997-2000 period. Economic forecasts are mixed with respect to a recession during the last two quarters. While at this time most forecasters believe the economy will contract in the last quarter, they are uncertain about economic performance in the third quarter. This uncertainty is reflected in a depreciating Canadian currency which fell from 66.83 cents against the US dollar at the start of the year to 62.57 cents on November 8. The Bank of Canada has been moving to avert a recession by lowering interest rates. Thus far in 2001, the Bank has lowered its key overnight lending rate by 3.0 percentage points to 2.75%.

Canadian employment is expected to grow by about 1.0% in 2001, compared to 2.6% in 2000. The unemployment rate should average 7.2%, up from 6.8% last year. Real disposable income is expected to grow by 2.6%, thanks to strong wage gains, low inflation, and personal income tax reductions.

Canada is expected to post real economic growth of 1.2% in 2002. Growth is expected to be weak in the first half but strengthen in the third and fourth quarters.

Which web sites are used by economic analysts for the latest information on the Canadian and global economies?

Visit: www.economics.gov.nf.ca/mnLinks.htm

Selected Economic Indicators

(annual % change unless otherwise indicated)

	2000	2001f
Gross Domestic Product	13.8	1.5
real	5.6	1.2
Consumer Price Index	3.0	1.6
Personal Income	4.6	3.9
real	1.6	2.3
Personal Disposable Income	4.6	4.5
real	1.5	2.8
Retail Sales	7.1	6.5
real	3.3	5.0
Housing Starts	6.4	8.7
Employment	-0.1	3.2
Labour Force	-0.4	2.8
Unemployment Rate (%)	16.7	16.4
Population	-0.6	-0.6

f: forecast, Department of Finance, October 2001
Source: Department of Finance; Statistics Canada

2001 Performance

Economic performance in 2001 has generally been positive. Employment should reach a record high of about 211,000 and the unemployment rate should drop to 16.4%, the lowest since 1989. Consumer confidence remains high. Retail trade in the first eight months was up by over 8%, driven by strong employment growth, wage increases, tax cuts, and low interest rates. Lower than projected energy prices have kept inflation in check with the year-to-date CPI up by 1.7%, below the Budget forecast of 2.2%. Housing starts are expected to approach 1,600, the best performance since 1997.

Real GDP is expected to come in less than the Budget forecast due to weaker than expected production of iron ore, newsprint, fish products and crude oil. For most commodities poor market conditions have been compounded by the September 11 terrorist attacks. This is expected to negatively impact export-oriented industries such as the fishery, newsprint, mining, and information technologies for the remainder of 2001 and the first half of 2002. Crude oil production is expected to be less than forecast at Budget time due to lower than expected output at Terra Nova. Capital investment this year is expected to

For regularly updated forecasts visit our web site.

GDP: www.economics.gov.nf.ca/frcstGDP.asp

Employment: www.economics.gov.nf.ca/frcstEmp.asp

Selected Indicators: www.economics.gov.nf.ca/frcstSel.asp

decline by 3.5% due, in large part, to the winding up of the Terra Nova development phase and the completion of several major health care facilities. Investment, however, should remain above \$3 billion for the third straight year. Preliminary population estimates indicate a decline of 0.6% in 2001 due to continuing net out-migration. The Province's population in July 2001 was 533,761.

2002 Outlook

Private sector forecasters are expecting real GDP growth on average to be 4.5% in 2002, the fourth strong year since 1997. Growth in 2002 will be concentrated in the oil industry. The expectations behind this include higher oil production; the startup of White Rose development; and higher exploration activity. Consumer confidence and spending are expected to remain high, driven by major project developments, employment growth, and wage gains. Stronger US and Canadian growth in the second half of next year should allow recovery to begin in export-oriented industries.

Major Project Developments in 2002 and Beyond

White Rose (Offshore oil)

Pending approval, construction should begin in 2002. See page 4.

Voisey's Bay (Mining)

An agreement among major stakeholders could see construction begin as early as 2002. See page 12.

Labrador Power (Hydroelectricity and aluminum)

Government, Newfoundland and Labrador Hydro, and Alcoa are undertaking a joint feasibility review for development of the Lower Churchill Hydro Project and aluminum processing capacity. The results of the feasibility review are expected in November 2001.

Hebron-Ben Nevis (Offshore oil)

A Development Application is expected in 2002. See page 4.

Employment

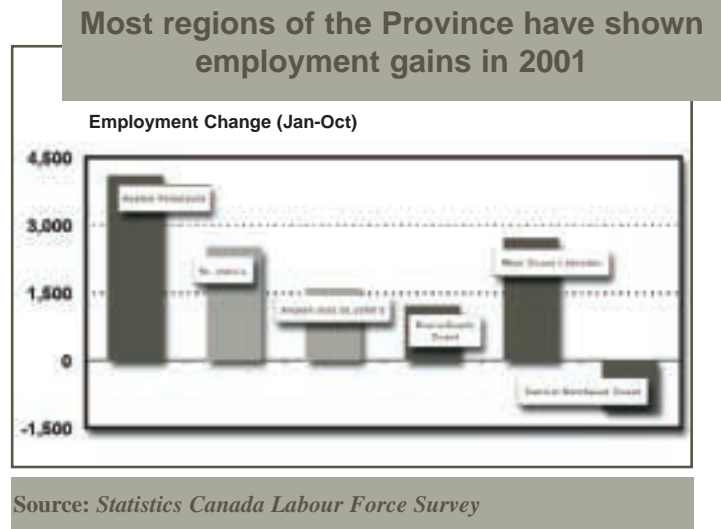
Employment in 2001 is expected to reach a record 211,000. This will represent growth of over 3% from 2000, and 1.7% above the previous record employment level of 207,400 set in 1990.

Growth has been boosted by gains in both the Goods and Services sectors. In the first ten months of 2001, Goods sector employment was up by 3.2%, mainly due to gains in manufacturing and utilities which have more than offset lower fish harvesting employment. Services sector employment was up by 3.3% and should reach a record 164,000 for the year. In this sector, significant gains are taking place in wholesale and retail trade; transportation and warehousing services; professional, scientific and technical services; and management and related services.

Growth in customer call centres has been a leading factor in employment gains in management and related services. Employment at these centres doubled in 2000 and should grow by 25% this year to 3,800. In the last 12 months, four new centres have opened in the Province, all in rural areas.

Unemployment Rate

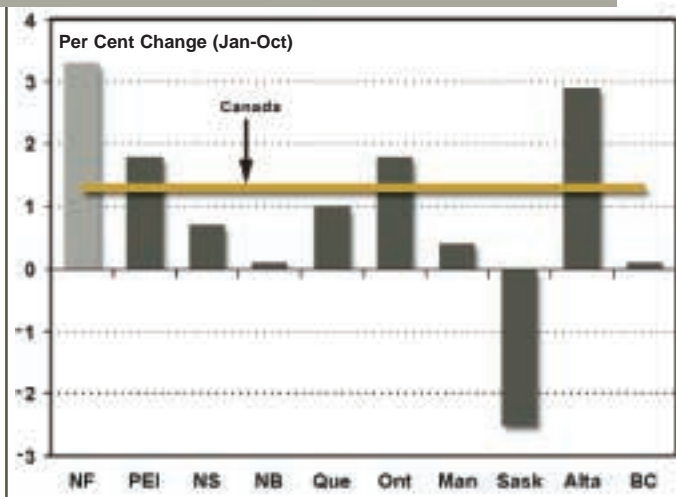
The unemployment rate for the first ten months of 2001 declined by 0.5 percentage points from the same period in



2000. The rate in 2001 is expected to be 16.4%, the lowest since 1989 when it averaged 15.5%.

The unemployment rate would have declined more had it not been for strong growth in the labour force. An improving economy over the past few years and strong employment growth this year have fuelled expectations and consumer confidence. This, in turn, resulted in a situation where stronger employment growth encouraged more people to enter the job market. Labour force growth in 2001 is expected to be 2.8%.

Provincial employment growth has been the strongest among all provinces in 2001



Source: Statistics Canada Labour Force Survey

Labour Force Dynamics

Similar to national trends, the provincial labour force is adapting to changing labour markets. Factors affecting workers include: strong growth in the Services sector; increased information and other technologies; the changing nature of work (e.g., more people working part-time); the need for higher educational attainment; and, government policy and legislative changes (e.g., EI reform).

These factors are reflected in the changing composition of the labour force. This year, about 55% of the employed will have completed post-secondary studies compared to 45% in 1990. Part-time employment now accounts for about 14% of total employment compared to 12% in the mid-1980s. Finally, growth in the Services sector, which tends to be female dominated, has resulted in the female share of employment rising from 44% of total employment in 1990 to 47% this year.

Offshore Production

Hibernia production in 2001 is expected to be about 53 million barrels, on par with 2000. The value of production is expected to be about \$2 billion compared to \$2.2 billion in 2000. Production is expected to approach 60 million barrels in 2002.

Terra Nova production is now expected to begin late in the fourth quarter. Production is expected to be lower than the Budget forecast of 2 million barrels. The floating production, storage and offloading (FPSO) vessel arrived at the Terra Nova field on August 4. Project owners are permitted to produce 100,600 barrels a day (over 36 million annually) but have requested the Canada-Newfoundland Offshore Petroleum Board to increase the limit to 150,000 barrels. The Board has deferred its decision pending detailed production information in 2002.

Planned Developments

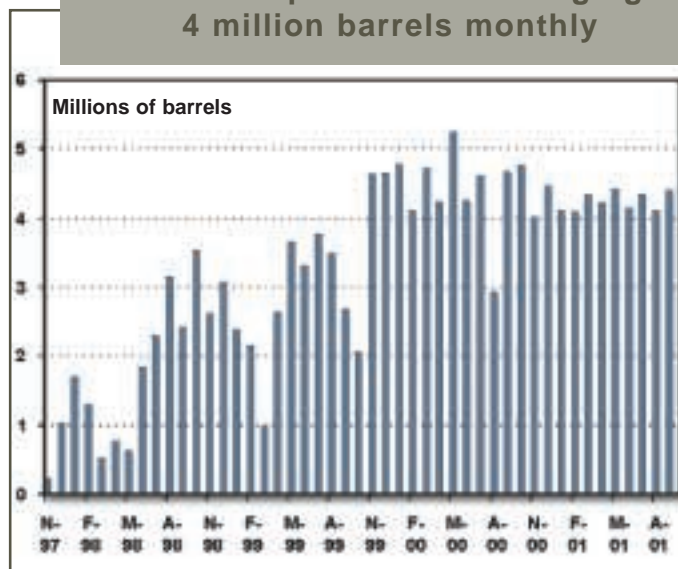
Preparations for White Rose are continuing. Government is expected to make a decision on the Development Application by year end. A decision by the owners to proceed with the project is expected shortly thereafter. Initial production, using a FPSO vessel, is expected to be around 92,000 barrels per day (34 million barrels annually). First production is expected by 2004.

Project evaluation work has commenced for the Hebron-Ben Nevis field which is estimated to contain over 400 million barrels of oil. Activity in 2001 included detailed field viability analysis and assessment of development



Photo courtesy of: Terra Nova Development

Hibernia production averaging 4 million barrels monthly



Source: Canada-Newfoundland Offshore Petroleum Board

options. Project owners indicate that a Development Application could be filed by mid-2002.

On a smaller scale, the onshore Garden Hill project was released from the Province's environmental assessment process in October 2001. Pending government approval of the project owner's development plan, production could begin in 2002.

Exploration

Offshore exploration in 2001 focused on seismic data collection in the Jeanne d'Arc Basin and in deeper water areas (e.g., the Flemish Pass). Drilling activity is expected in the Flemish Pass and other deep water areas next year. Industry is increasingly interested in new frontier exploration. In 2000, eight of ten offshore exploration licences were issued outside the Jeanne d'Arc Basin, and ten of 14 parcels bid this year are outside this basin. The last phase of the settlement process for the South Coast boundary dispute with Nova Scotia commenced in November 2001. A resolution of this dispute is expected next year and should open this area for exploration.

Onshore, exploration operations were conducted on several wells on the West Coast. An additional well (in the Harry's River area near Corner Brook) may be spudded by year end.

Terra Nova FPSO preparing to sail away to the Grand Banks

Marine Technologies

The marine technology industry in the Province is maturing, aided by oil and gas development and fisheries diversification. About 100 local firms are engaged in marine technologies, employing 1,000 people and generating revenues of \$45 million annually. Services provided by these firms include hydrographic services, remote sensing, marine communications, marine geomatics, electronic charts and mapping, defence surveillance, ice management, aquaculture, and environmental technologies. Three of these companies are profiled below.

Nautical Data International Inc. (NDI) is the exclusive provider of federal-certified digital navigation charts for Canadian territorial waters. These charts allow users to view hazards both below and above water and are viewed as one of the most significant advances in marine navigation since the introduction of radar. Building on its success in Canada, NDI is exporting its services to the US, Europe, and South America. The Company received a provincial Export Award in 1995 and its president was named Atlantic Canada's Emerging Entrepreneur of the Year in 1996. NDI currently employs about 25 people.

Research and Development

Development of local marine technology applications stems from strong research and development (R&D) capacity.

R&D institutes include, among others, C-CORE, the Canadian Centre for Fisheries Innovation, the Canadian Centre for Marine Communications, the Institute for Marine Dynamics, the Centre for Sustainable Aquatic Resources (see page 10), and the Oceans Science Centre.

More recently, AquaNet was established under the Canadian Centre of Excellence research program to undertake aquaculture research. R&D at this institute will focus on issues such as biotechnology, environmental sustainability, and species diversification.



Photo courtesy of: C-CORE

Geotechnical engineering at C-CORE has gained considerable expertise in investigating gravity-dependent phenomena using reduced scale physical modelling in its centrifuge facility

International Communications and Navigation Ltd. (ICAN) has developed Automatic Identification System (AIS) solutions for the marine market. ICAN has received a contract from US-based Lockheed Martin Overseas Corp. to provide AIS solutions for pilotage use and vessel operators globally. AIS delivers vessel identification, position, speed, course and other information from ship-to-ship and ship-to-shore; provides collision avoidance capability; and augments vessel traffic management systems. By 2002, the International Maritime Organization (IMO) will require all new SOLAS ships (i.e., almost all commercial ships engaged in international service) to use AIS. The remaining ships of this category will have the carriage of AIS phased in yearly until 2008. Most marine users not regulated by the IMO (e.g., work barges, and fishing and military vessels) are also expected to carry AIS. ICAN employs 20 people at present.

Rutter Technologies Inc. has developed and is marketing a Voyage Data Recorder (VDR), the marine equivalent to an aircraft's black box. The VDR is one of the most advanced technologies of its kind, and is now used by most cruise ship lines. As of 2002, the IMO will require mandatory use of VDR systems on passenger ships. Rutter Technologies employs approximately 24 people and is a graduate of Memorial University's Genesis Centre which assists expanding local companies to commercialize and market IT products and services.

Image courtesy of: ICAN
AIS products by ICAN

Performance in 2001

Highlights for the tourism industry this year include increased cruise ship and convention activity, and the Marconi centennial celebrations. Non-resident visitation is expected to be down from the record 426,250 set in 2000 as anticipated declines in auto and air visitors more than offset gains in cruise ship visitation. The decrease in visitors travelling by auto is believed to be linked to high fuel costs and the replacement of the fast ferry (*Max Mols*) by a slower, conventional ferry service. The fast ferry may have attracted more spontaneous vacationers from the Maritimes in 2000. While air visitation to the end of August had increased over last year this traffic is now being impacted by the September 11 terrorist attacks and the aftermath effects on the airline industry.

The events of September 11 resulted in the Province hosting 13,000 unscheduled air visitors. This occurred because of the closure of North American airspace and the diversion to Newfoundland and Labrador of Trans Atlantic flights en route from Europe. Although not included in the official tourism data, most visitors did engage in activities such as shopping, dining and sightseeing. Heightened awareness and positive word of mouth from these visitors could potentially translate into future tourism benefits.

A record 69 port calls were made by cruise ships this year resulting in almost 24,400 passenger visits. Estimated spending associated with the visits was \$2.9 million. This



Photo courtesy of: Economic Development Corporation, Corner Brook/Ron O'Connell



Photo courtesy of: Wanda Barrett

In 1904, the first Marconi wireless station in Newfoundland was built at Cape Race. In 1912, it was the only land-based wireless station to pick-up distress calls from the doomed Titanic.

year marked the second year of home-porting with two companies offering cruises operating out of the Province (one from St. Anthony and the other from St. John's).

Outlook for 2002

The North American tourism industry is expected to face several challenges in 2002 given weak economic outlooks for Canada and the US as well as ongoing restructuring in the airline industry. At the same time, the events of September 11 have shaken the confidence of some travellers and are posing new challenges for marketers.

In this province, businesses dependent on US clients may be vulnerable. However, most non-resident visitors are Canadians originating from Ontario and the Maritimes and this could help the Province weather the coming challenges. Inquiries for information remain strong.

Cruise ship activity is expected to grow in 2002. St. John's will host the Atlantic Canada Cruise Association's annual Symposium in June. This convention will attract about 200 delegates (e.g., cruise industry executives, media, and public and private sector partners) from Canada and the United States and will provide significant exposure to local attractions.

Cruise ships docked at Corner Brook

Film and Video

Film production in this province totalled \$38 million over the 1997 to 2000 period compared with \$14 million over the previous seven years.

So far this year, almost \$14 million has been spent on production activity. The largest portion of spending (90%) came from “feature films” such as *The Red Door* (starring Kiefer Sutherland) and *The Shipping News* (starring Kevin Spacey and Julianne Moore). These films have large budgets and generate strong demand for local goods and services.

Ongoing activities targetted at maximizing benefits and ensuring a sustainable industry include: a joint stakeholder strategic planning exercise; an assessment of the economic benefits of recent productions; an assessment of the human resource development requirements of the industry; and, the possible establishment of a sound/film studio.



Photo courtesy of: Miramax

Actors Kevin Spacey and Julianne Moore on the set of *The Shipping News* filmed in the Trinity area

Film Activity 2001

Documentary/Docu-drama

Confidential Tracks
White Thunder
Mummers and Masks

Television

Steeple Chasing

Feature

The Shipping News
The Red Door

Photo courtesy of: Susan Shillingford
The Steeple Chasing series examines church architecture

Covers only films receiving assistance from the Newfoundland and Labrador Film Development Corporation

Music and Sound Recording

Industry estimates indicate that the Province’s music and sound recording industry accounts for up to 0.5% of GDP (including direct and spin-off effects). Recording activity in the music industry has increased steadily, reaching 68 recordings by local artists in 1999, up from 53 four years earlier. This growth reflects an increase in the number of local studios and greater at-home recording capability; a heightened professional approach by artists; and the widespread success of recording artists such as Great Big Sea. Newfoundland traditional and celtic music is the most popular genre, accounting for one-third of recording activity in 1999. Other popular genres include country, gospel and pop/rock.

The local music industry will receive national and international exposure next Spring when St. John’s hosts the 2002 Canadian Juno Awards. This event has previously been held outside Ontario only twice (when it was held in Vancouver). The Junos will bring hundreds of visitors, including more than 500 artists and industry people. A three day music festival, featuring talent from Atlantic Canada, will precede the awards.

What were the cultural highlights for Newfoundland & Labrador in previous years? Look up archived editions of *The Economy* and *The Economic Review* on:

www.economics.gov.nf.ca/mnArchives.htm

Retail Trade

Need information on retail sales and new motor vehicle sales? Visit:
Retail sales: www.economics.gov.nf.ca/indRetail.asp
Car sales: www.economics.gov.nf.ca/indCar.asp

Consumer spending is a significant contributor to the local economy, accounting for over 40% of GDP. Expenditures on goods and services in the Province generate income and employment for local producers and distributors. Consumer spending is influenced by changes in disposable income, interest rates, and consumer confidence.

Retail Trade

Retail trade, or the sale of merchandise for personal consumption, accounts for over 50% of consumer spending. The value of retail sales has grown in nominal terms (not adjusted for inflation) by over 7% in three of the past four years, and is expected to grow by 6.5% in 2001 to \$4.8 billion. Even after adjusting for inflation, retail sales grew by at least 3.3% in each year since 1996 and are expected to grow by 5.0% in 2001. These growth rates are consistent with national trends.

The largest components of retail sales are motor vehicles (26% of total value in 2000); supermarkets and grocery stores (25%); general merchandise stores, such as Wal-Mart (14%); and gasoline service stations (9%). All other components such as household furnishings, clothing, and drug stores, account for a combined 26% of total retail trade.

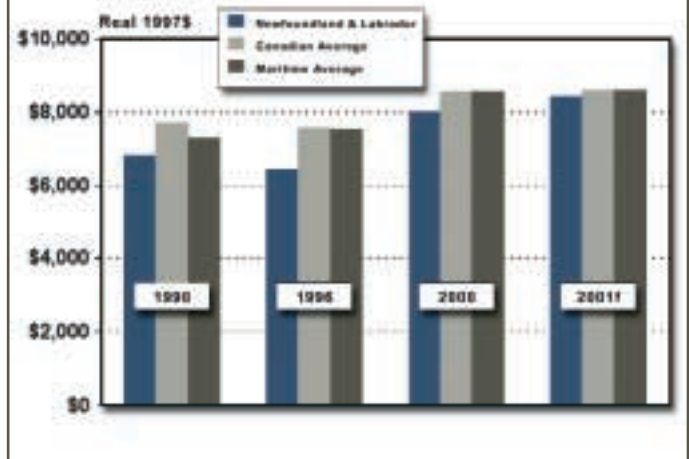
Real retail trade per capita has grown nationally and regionally over the past several years. This is due, in large part, to high



Photo courtesy of: *The Telegram*

Retail construction on Stavanger Drive, St. John's

Province's real retail sales per capita approaching Canadian and Maritime averages



Source: *Conference Board of Canada; Economics and Statistics Branch, Department of Finance*

consumer confidence, income growth and low interest rates. The gap between real per capita sales in this province and other jurisdictions has also narrowed, reflecting, in part, relative gains in real personal income.

New Motor Vehicle Sales

Growth in big ticket items like new motor vehicle sales is generally associated with strong consumer confidence. The number of vehicles sold increased by almost 50% over the past five years. In 1996, there were 16,199 units sold compared to 23,859 in 2000. Through the first eight months in 2001, vehicle sales have grown by about 2% compared to the same period in 2000. (Nationally, sales were down by 1.4%.)

On a household basis, the number of new vehicle sales since 1996 has increased by over 40%. In 1996, there were 8.7 new vehicles sold or leased per 100 households, which rose substantially to 12.3 per 100 households in 2000.

Residential

Housing investment is expected to reach \$536.7 million in 2001. This consists of new housing (i.e., starts) and renovations. Most housing investment is targeted toward renovations, repairs and conversions (e.g., condominiums). This portion of the housing industry accounts for about 70% of total housing investment in the Province.

Housing starts through the first three quarters of 2001 totalled 1,323. This is 18% higher compared to the same period last year. Urban starts, which generally account for about two-thirds of total starts, grew by 6.6% and starts in rural regions grew by 42%. For the year, starts are expected to grow by 8.7% as gains moderate in the fourth quarter. If realized, this would be the best year in new home construction since 1997.

Non-residential

Private sector, non-residential construction spending is expected to be on par with 2000. Industries showing increased spending include retail trade, mining, and information and cultural services. These gains, however,



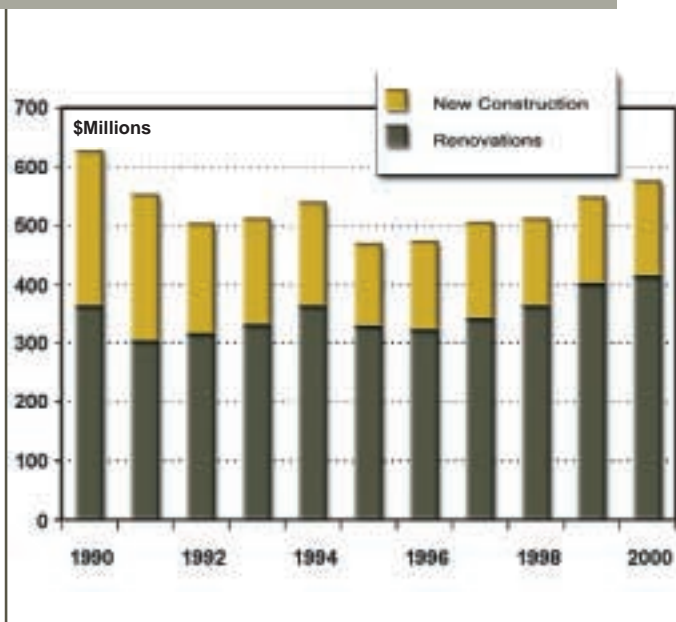
Photo courtesy of: Anthony Janes/City of Mount Pearl

Construction of the Kent Home Improvement Warehouse in Mount Pearl

were offset by lower Terra Nova investment and reduced spending in accommodations and food services industries.

Public sector construction activity is expected to increase by \$17 million in 2001. Transportation and public utility infrastructure spending will increase. This will more than offset the winding down of several large health care projects such as the new Janeway children's hospital and renovations at the Health Sciences Centre.

Renovations over 70% of residential construction



Source: CMHC; Economics and Statistics Branch, Department of Finance

Retail Trade Investment

Reflecting the growing consumption patterns of recent years, investment in retail trade is expected to more than double to over \$36 million in 2001. Relative to 1997, investment has increased by 44%. These increases reflect higher consumer and business confidence and stem from strong sales growth and generally strong economic conditions.

Over the past several years, retail trade investment has been increasingly targeted to new development areas such as Stavanger Drive (St. John's), Lewin Parkway (Corner Brook) and Old Placentia Road (Mount Pearl). These areas are characterized by a large number of small to mid size stores clustered around larger (big box) stores. They differ from traditional mall settings in that they offer a larger selection and variety of products than normally found in malls (e.g., office supplies, building materials).

2001 Performance

Fish landings are expected to be about 260,000 tonnes in 2001, down 3% from 268,000 tonnes in 2000. This decline is primarily due to lower shrimp and cod landings. However, increases are being recorded in pelagics and flounder. Landed value is projected to decline to less than \$500 million from \$581 million last year due to both lower landings and weaker prices. This, in turn, is negatively impacting the value of seafood manufacturing shipments which are down by 8.3% to date.

Crab and Shrimp

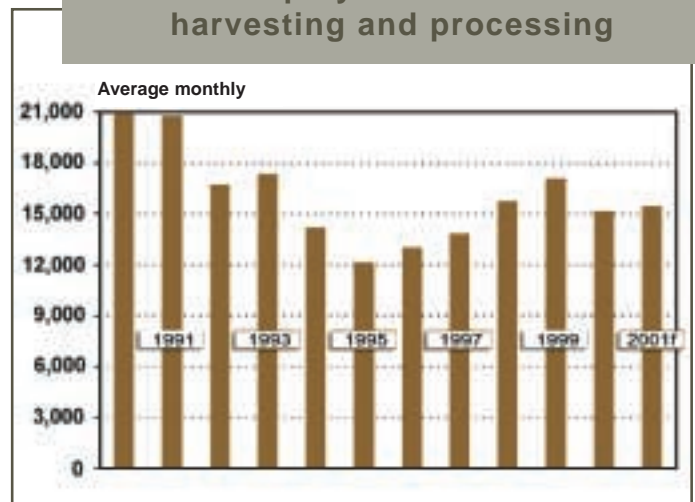
Overall, fisheries performance has improved in recent years due to diversification from groundfish to shellfish. Crab and shrimp are expected to account for about 50% of landed volume and 75% of landed value in 2001. These two fisheries combined employ, at peak, about 10,000 fishers and 5,000 plant workers.

Crab landings in 2001 were on par with 2000 at approximately 56,000 tonnes. The landed value was about \$215 million, almost \$50 million lower than 2000. This decline was due to reduced prices stemming from lower demand and increased supply from other areas such as Alaska.

Shrimp landings are expected to decline to 66,500 tonnes in 2001 from 77,000 tonnes in 2000. The landed value of shrimp is also expected to decline to about \$130 million from \$168 million. Like crab, the shrimp fishery has been impacted by weak market conditions and lower prices. This further undermined the market viability of local



Employment in fish harvesting and processing



Source: Statistics Canada Labour Force Survey

shrimp which is subject to a 20% tariff on product entering the European market. These factors resulted in the closure of the inshore shrimp fishery from early July to late September and forced a joint industry-government structural review of this fishery. This review is expected to examine and seek ways to improve efficiencies, cost effectiveness, and marketing strategies.

Aquaculture

The aquaculture industry employs about 500 people and is expected to produce a record 5,375 tonnes of product in 2001, with an export value of \$24 million. The main species produced include blue mussels, Atlantic salmon, steelhead trout, and cod grow-out. Progress is being made in the development of this sector. Recent private sector investments are focusing on human resources training, and product and market development. Previously, most expenditures were aimed at infrastructure development and working capital.

The Marine Institute's Centre for Sustainable Aquatic Resources focuses on research in harvesting technology, coastal zone management, ecosystem management and applied research. The Centre's work with FPI on seabed friendly trawls recently won the US National Fisheries Institute Award for responsible fishing. The Centre is currently working on projects with companies from Ireland and Iceland and the University of New Hampshire.

Manufacturing

The value of manufacturing shipments during the first eight months of 2001 was \$1.48 billion, representing a decline of 1.2% from the same period last year. This decline was mainly due to a drop in the value of seafood production which fell by 8.3%. In the context of ongoing economic uncertainty, annual shipment value is expected to be down relative to 2000. Nevertheless, 2001 is still expected to be the second strongest year on record.

Secondary Fish Processing

Secondary processing is the production of value-added, customized, and consumer-ready products. This activity generally requires significant capital investment in machinery and equipment, continuous and steady access to raw material, and effective marketing strategies. About 12 local companies are engaged in secondary fish processing with an estimated production value of \$60 million. Three of these companies are profiled below.

Fishery Products International (FPI), at its Burin facility, produces value-added products such as rolled and stuffed sole, shrimp entrées, and breaded pollock. These products are marketed primarily to food-service and retail customers across North America. FPI in Burin employs about 160 people.



Photo courtesy of: Department of Fisheries and Aquaculture



Photo courtesy of: Department of Fisheries and Aquaculture

Frozen salmon with a hollandaise sauce wrapped in pastry, produced by New Found Foods Inc. at Portugal Cove

Wood-Pick Enterprises Limited, located at Wareham, Bonavista Bay, specializes in non-traditional, value-added seafood products. Wood-Pick produces smoked salmon for Canadian markets, sea urchin roe for the Japanese market, and exports to several other international markets. Currently, the Company is working on a consumer-ready sea cucumber product. In 1996, Wood-Pick was awarded the Newfoundland and Labrador Export Award. The Company employs about 40 people at peak season.

P. Janes & Sons Limited, located at Hant's Harbour, Trinity Bay, was founded in 1929 to process salt fish. In the 1970s, the Company pioneered the development of secondary processing of high quality appetizers such as crab-au-gratin, breaded fish sticks, and fish cakes. Awarded the first provincial Export Award in 1983, today P. Janes & Sons employs approximately 640 people at three plants, and markets its products internationally.

Frozen breaded squid rings, produced by Chianti Food Processors Inc. at St. Anthony

Iron Ore

Iron ore production this year is expected to be about 17.5 million tonnes, representing a decline of about 18% from 2000. The decline is due to weak market conditions mainly in the second half of 2001. Shipment value is expected to decrease to \$764 million, a decline of about 13% from 2000.

Markets are expected to remain weak throughout the first half of 2002. The two iron ore producers, Rio Tinto (IOCC) and Wabush Mines, have responded by postponing expansion plans and announcing production downtime. Rio Tinto has delayed the planned 2002 completion of its refurbished pellet plant at Sept Iles, Quebec (which processes ore mined at Labrador City) until market conditions improve. Wabush Mines closed on a temporary basis on October 1 and is scheduled to reopen on November 19. Wabush Mines has also announced long term layoff plans to take effect by year end (29 permanent positions).

Developing Properties

Several companies are test milling ore or preparing for construction, including Richmond Mines (Hammerdown, gold), Buchans Barite (barite), and Thundermin Resources/Queenston Mining (Duck Pond, copper and zinc). Additionally, the dimension stone processing facility at Argentia has started production, and a second facility at Hopedale is expected to begin production in early 2002.



Photo courtesy of: Department of Mines and Energy

Anorthosite quarrying at Ten Mile Bay, near Nain, by Torngait Ujaganniavingt Corp.

Voisey's Bay Fact Sheet

1994	Initial site discovery
1995-96	Inco purchases property
1996	Inco states intention to build smelter at Argentia
1998	Mine/mill environmental assessment review completed
1999	Inco proposes to build hydrometallurgical processing facility at Argentia
2000	Talks with Province suspended
2001	Talks with Province re-opened

- ❑ Total proven, indicated and inferred reserves of 141 million tonnes
- ❑ Total capital investment of \$3 billion over 30 years
- ❑ Construction investment of \$1.35 billion for the mines and mill in Labrador; a \$200 million R&D program for a pilot hydrometallurgical processing facility; and \$750 million for a commercial processing facility
- ❑ Ongoing investment during the production phase will total about \$700 million
- ❑ Construction employment could average 700 annually; during the operations stage, total employment could range between 800 and 1,200

Voisey's Bay

Negotiations between the Province and Inco on the development of the Voisey's Bay nickel, copper and cobalt deposit are continuing. The Project, as currently envisaged, would include an open pit and underground mine, and a processing facility within the Province. Inco intends to build a pilot hydrometallurgical processing facility that, if proven successful, will be followed by a commercial facility.

Related talks with aboriginal groups are also continuing. Inco is negotiating Impact and Benefits Agreements with the Labrador Inuit Association and Innu Nation. The provincial and federal governments are also negotiating an Environmental Management Agreement and provisions that pertain to Voisey's Bay in the respective land claims agreements for both aboriginal groups.

Newsprint

Newsprint shipments are expected to approximate 775,000 tonnes in 2001, down by 4% from last year. This decline is due to weaker markets (resulting in some production downtime), and a two-month mechanical breakdown (April and May) of the No. 7 machine at Grand Falls-Windsor. In an historical context, however, production in 2001 will be the second strongest year on record. Total employment, including mill and logging operations, is about 3,000.

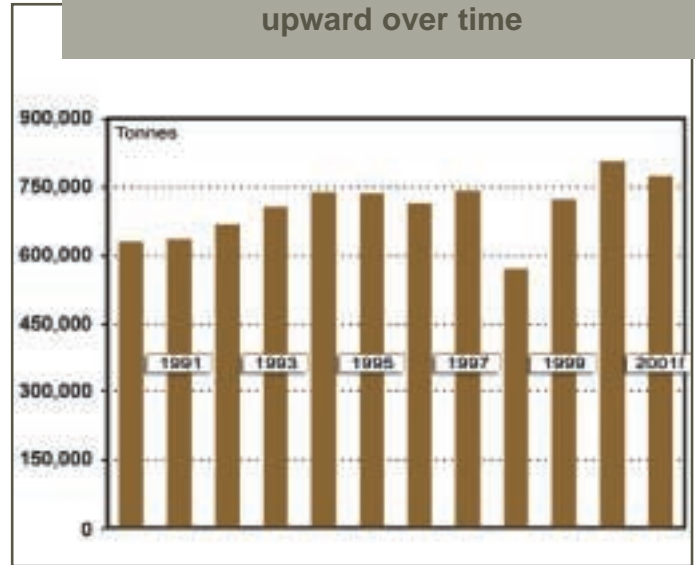
Newsprint prices were strong during the first six months of 2001, peaking at US\$625/tonne. Weaker markets, however, in the second half resulted in price declines. Currently, newsprint is trading at US\$540/tonne, and is expected to remain in this range through the first three quarters of 2002. The value of newsprint shipments this year is expected to increase marginally to about \$690 million.

In addition, Corner Brook Pulp and Paper Ltd. and Abitibi-Consolidated have signed agreements with Newfoundland and Labrador Hydro to increase their power generation capacities and sell their output to the utility.

Lumber

Lumber production in 2001 is expected to be on par with 2000 at about 125 million board feet. Production gains this year were limited by weakness in key export markets and uncertainty about export tariffs into the US following the expiration of the Canada-US Softwood Lumber Agreement in March 2001. Producers in Atlantic Canada are subject to a 12.6% tariff compared to 32% for other provinces.

Newsprint shipments trend upward over time



Source: Department of Forestry and Agrifoods; Economics and Statistics Branch, Department of Finance

Agrifoods


Farm cash receipts for the first six months of 2001 totalled \$36.2 million. This is relatively stable with the same period last year. The Department of Forestry and Agrifoods expects the value of production from agriculture and related industries to approach \$500 million.

The dairy industry, in particular, is expected to grow significantly over the next several years. Local producers recently obtained a quota to produce industrial milk for use in yogurt, cheese and related products. This new quota could allow, over time, total production to more than double and 500 new jobs to be created.



Photo courtesy of: Bishop's Falls Development Corporation
Abitibi-Consolidated's power generating facility at Bishop's Falls

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