



**GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR**

**2003-04 Annual Performance Report
Department of
Natural Resources**

Honourable Edward J. Byrne, Minister

www.gov.nl.ca/nr



In accordance with government's commitment to accountability, I hereby submit the 2003-04 annual performance report for the Department of Natural Resources. This report addresses the Department's activities and outcomes from April 1, 2003 to March 31, 2004.

**Edward J. Byrne
Minister
Natural Resources**

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Departmental Overview

The Department of Natural Resources (DNR) encompasses five (5) Branches, namely, the Forestry Services, the Agrifoods, the Mines, the Industrial Benefits and the Energy. The Department was formed early in 2004, by amalgamating the former Departments of Forest Resources and Agrifoods and Mines and Energy.

The Department's vision is that, through its leadership, Newfoundlanders and Labradorians will realize full potential and benefits from its forest, agrifoods, mineral and energy resources.

The mandates of the individual Branches are as follows:

The mandate of the Forestry Services Branch is: "To manage, conserve, enhance and use the forest ecosystems of Newfoundland and Labrador using adaptive management to ensure its sustainability, and productivity with the appropriate balance of values desired by society."

The mandate of the Agrifoods Branch is: "To contribute to the betterment of society through economic and rural development throughout Newfoundland and Labrador by promoting the continued development, expansion and diversification of competitive and sustainable primary and value-added agrifoods business."

The Mines Branch is, "responsible for the assessment, promotion, development and management of the province's geology, mineral resources and mineral potential in a manner that maximizes the contribution of this sector to the economic well-being of the

province. The objective of the Branch is to attain a high level of sustained investment in mineral exploration and investment and to ensure responsible management of the province's mineral resources."

The Energy Branch is responsible for promoting and facilitating the effective and efficient management of the province's electricity and petroleum resources from assessment through to development and production. Branch activities support the maximization of provincial benefits from energy resource production as well as the Ministerial accountability functions for the Newfoundland and Labrador Hydro (Hydro) Group of Companies and the Canada-Newfoundland Offshore Petroleum Board (C-NOPB).

Large scale resource development projects in the mining, petroleum and energy sectors often provide significant business and technology transfer opportunities for companies operating within Newfoundland and Labrador. The goal of Industrial Benefits is to maximize the benefits to the local economy from the development of these major projects. Focus is placed on securing a major share of other value-added activities. Strategic positioning, benefits commitments negotiation and monitoring, strategy development and implementation, and the identification, enhancement and international promotion of industrial capabilities are essential industrial benefits activities.

The Department's forestry programs are delivered through three regional offices located in Gander, Corner Brook and Labrador. The Forestry Services headquarters is located in Corner Brook. In addition, the

province is subdivided into 24 forest management districts - 18 on the Island and six in Labrador.

Agrifoods programs are delivered through eight regional offices located in St. John's, Carbonear, Clarenville, Gander, Bishop Falls, Pynn's Brook, McKays and Happy Valley-Goose Bay. The headquarters is in Corner Brook, while the executive offices are located in both St. John's and Corner Brook.

The Mines, Energy and Industrial Benefits Branches are primarily located in St. John's, with the exception of five mines' positions located in Pasadena, Grand Falls-Winsor, Happy Valley-Goose Bay and Wabush.

The total budget for the Department of Natural Resources in 2003-04 was \$70.3 million, while the actual expenditure in 2003-04 was \$72.1 million or 103% of the budgeted expenditure. A summary of budgets, expenditures and related revenue for the year ended March 31, 2004 is given in Appendix 1.

The following is a summary of activities carried out by each Branch in 2003-04.



Shared Commitments

Forestry Services

The Forestry Services Branch works closely with other provincial departments, governments, industry, and stakeholders in the implementation of its programs. Cooperation with stakeholders, such as loggers, processors and associations is essential to the success of our forest management programs. Programming, strategic planning, research and development and technology transfer must be done in consultation with stakeholders.

In the forestry sector, partnerships with the model forest, pulp and paper industry, aboriginal groups, federal government and stakeholders have advanced sustainable management of our forest resources by gathering and applying scientific information in the management of our resources. This has also raised awareness of the need for sustainable development of our forest resources.

Forestry Services also cooperates with other agencies in the enforcement of the Motorized Snowmobile and ATV Regulations, Fisheries Act, Migratory Bird Convention Act and Wild Animal/Plant Protection and the International Trade Act in addition to the enforcement of the Provincial Forestry Act, Wildlife Act and Endangered Species Act.

Agrifoods

Collaboration amongst stakeholders continues to be an important element for success in the agrifoods industry in Newfoundland and Labrador. Government and industry have continued to work together to achieve success

in specific areas such as research and development.

Silage corn production in the province exemplifies this success. In 2003, approximately 400 hectares (1000 acres) of silage corn were grown in Newfoundland and Labrador. This is an increase of 80 hectares (200 acres) in comparison to the previous year. Silage corn is now a part of dairy and beef producers crop rotation practices, and they are experiencing the nutritional benefits when feeding their animals. The cranberry project is another area of success with 2003 being the second year of a commercial crop being harvested.

Through cooperative efforts Government and Industry are facing challenges and moving the industry forward.

Mines, Energy and Industrial Benefits

Mines, Energy and Industrial Benefits worked on various issues that impacted resource development including regulatory review, legislative development and environmental assessment with several federal government departments and agencies that have complementary mandates. These include Natural Resources Canada (NRCan), the Geological Survey of Canada, Industry Canada, Environment Canada, Fisheries and Oceans, and the Canadian Environmental Assessment Agency.

The Department and NRCan share responsibility for the Canada-Newfoundland Offshore Petroleum Board (C-NOPB) which is a joint offshore management board. The C-NOPB administers provisions of the parallel federal and provincial legislation dealing with

the offshore resource development and management, commonly referred to as the Atlantic Accord Acts.

Newfoundland and Labrador Hydro (Hydro) is a provincial crown corporation accountable to the Minister of Natural Resources. Hydro is responsible for the generation and transmission of electricity throughout the province, and for some distribution services.

Throughout 2003-04, the Department maintained a high level of contact with individuals, companies and associations involved in our mineral, electrical and petroleum resource sectors. Producers such as Wabush Mines, Iron Ore Company of Canada, Petro-Canada, Hibernia Management and Development Corporation and Husky Energy Inc. were but a few of the companies involved in the province's natural resource sector, along with 450 individual prospectors and 150 junior exploration companies.

These companies and individuals also have a voice through various industry associations. The Canadian Electricity Association, Newfoundland and Labrador Chamber of Mineral Resources, Newfoundland Ocean Industries Association (NOIA), the Prospectors and Developers Association of Canada (PDAC), the Mining Association of Canada (MAC), and the Canadian Association of Petroleum Producers (CAPP) were in constant contact with the Department in 2003-04 to ensure that the concerns of their members were known, understood and addressed. Also, the Department was a key participant in events, conferences, and trade shows, and once again celebrated mining week in Newfoundland and Labrador.

We, also, worked with educational institutions

such as the College of the North Atlantic, Memorial University and the Fisheries and Marine Institute of Memorial University. These institutions have developed educational and training programs targeting the needs of the province's growing mining and petroleum sectors.

Through cooperative efforts, government and industry are facing challenges and moving the resource industries forward. The Department recognizes the significant role that these and other stakeholders provided in reaching goals and milestones achieved in 2003-04 and would like to express appreciation for their support.



Bull Arm Fabrication Facility

Highlights

Forestry Services

- A ceremony was held at the Provincial Tree Nursery in Wooddale during 2003-04 to mark the planting of the province's 150 millionth tree seedling. This equates to 75,000 hectares (185,000 acres) of plantations or approximately seven million cubic meters of timber at rotation age. This milestone demonstrates government's commitment to sustainable forest management in the province. Investing in the maintenance and enhancement of a healthy and vibrant forest ecosystem, through long-term silviculture programs, is essential to the management of this resource.
- Eight new state-of-the art greenhouses were constructed at the Wooddale Provincial Tree Nursery during the 2003-04 fiscal year. The new greenhouses will see the number of tree seedlings produced annually increase from the current level of 7.5 million trees to approximately 10 million trees. In addition, the new greenhouses will provide space for an expanded agrifoods research and development program.
- Forestry Services deployed two 10-man forest fire crews to assist with the devastating forest fire situation which occurred in British Columbia during the 2003 fire season. One crew was partnered with a crew from Nova Scotia and primarily deployed as an initial attack crew. The second crew was partnered with crews from Nova Scotia and Prince Edward Island. These crews were deployed

to an area near Kootney National Park where they were designated as a sustained action crew.

- The Newfoundland and Labrador Conservation Officer's Association hosted the annual conference of the North American Wildlife Enforcement Officers Association (NAWOA) in St. John's during the summer of 2003. NAWOA is an 8000-member strong association of environmental law enforcement personnel. It is comprised of Parks Canada wardens, Canadian Wildlife Service officers and all provincial governments' natural resource enforcement officials plus all their United States federal and state counterparts. Nine hundred and sixty-six (966) people attended the conference, making it the largest in Canadian history and the second largest since the event began in 1980.
- The Provincial Sustainable Forest Management Strategy was printed and released in 2003-04. This strategy defines how the province's forest will be managed to meet the economic, social and environmental needs of the citizens of the Province.

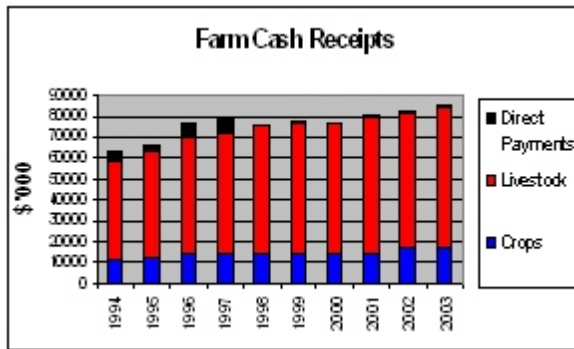
Agrifoods

The agrifoods industry in Newfoundland and Labrador is one of growth and opportunity.

- Primary production and secondary processing is valued at \$500 million and farm cash receipts have increased 2.4% in 2003 with a value of \$83.1 million. This was the third highest growth rate in the country behind Quebec (8.6%) and Nova Scotia (2.7%). Leading the growth in this

province were the vegetable and egg sectors which increased 15% and 10% respectively. Gains were also observed in floriculture and nursery (4%), sheep and lamb (17%) and chicken (4%) sectors. The cattle sector declined by 37% mainly due to the adverse impact of the discovery of BSE in Alberta.

- Farm cash receipts have grown over 31% from 1994 to 2003. Over the same period the floriculture and nursery sector has seen the fastest growth at 200 %!



- Agriculture’s primary and secondary sectors provide direct employment to over 4,000 Newfoundlanders and Labradorians. Agrifoods is a key area of opportunity for future economic growth, particularly in rural regions of the Province.



- Newfoundland and Labrador was the first province in Canada to sign an Agricultural Policy Framework (APF) agreement with the federal government in May 2003. The APF is a federal/provincial cost shared agreement (60/40) which provides funding under the following five elements: Business Risk Management, Environment, Food Safety & Quality, Science & Innovation, and Renewal. This is a five-year agreement which will provide approximately \$32 million in funding to the agrifoods industry in the province. In 2003, APF provided \$3,646,096 towards 127 projects in Newfoundland and Labrador.

- In 2003-04, the Provincial Agrifoods Assistance Program (PAAP) was established. This program provides financial assistance to eligible applicants involved in primary and secondary processing activities which will improve the economic viability of the agrifoods industry; promote commercialization; and enhance the competitive capability of the agrifoods industry. In 2003-04, PAAP provided \$619,227 towards 13 projects in the province.

Energy

Petroleum Sector

- Promotional efforts to attract future work to the state-of-the-art Bull Arm Site led to a successful lease arrangement with North Eastern Constructors Limited (NECL) on April 2, 2003. Over 130,000 person-hours of employment are anticipated, with a peak workforce of 150 people.
- On May 16, 2003, the C-NOPB announced its conditional decision to increase the

annual oil production rate for the Hibernia field from 180,000 barrels per day to 220,000 barrels per day.

- C-NOPB's Annual Report was released on July 16, 2003 highlighting the board's performance for 2001-02.
- As a result of new drilling, Husky Energy announced increased reserve estimates for the White Rose field in September 2003. This bodes well for that project and for the province's petroleum industry as a whole.
- In September of 2003, the Province released two geological studies relating to lands offered in the C-NOPB Call for Bids. The study on the Orphan Basin area concluded that, based on seismic data, the basin showed the potential to contain several giant fields.
- On December 13, 2003, the results of the 2003 Call for Bids in the Newfoundland offshore area was announced. The eight successful bid parcels of the 14 offered were located in the Orphan Basin, a deep-water area that is relatively unexplored. Bids for the eight parcels totaled a record \$673 million in work expenditure commitments, making it the most successful Call for Bids in the Province's history. The Strategic Environmental Assessment (SEA) for the Orphan Basin and the Northeast Newfoundland shelf was also released on this date.
- January 23, 2004: the C-NOPB and the Canada-Nova Scotia Offshore Petroleum Board (C-NSOPB) released the Strategic Environmental Assessment (SEA) for the Laurentian Sub-Basin, as a building block to opening this area for exploration and development.
- The C-NOPB announced details of the 2004 Call for Bids in the Newfoundland offshore area on March 23, 2004. Five

land parcels located in the Jeanne d'Arc Basin were offered in this land sale.

Legislation and Regulatory Changes

- On June 16, 2003, federal regulations establishing the offshore boundary between Newfoundland and Labrador and Nova Scotia in the Gulf of St. Lawrence were gazetted, officially awarding ownership of the potentially resource-rich Laurentian Sub-Basin to this Province.
- July 11, 2003: Royalty Regulations were introduced under the Petroleum and Natural Gas Act to provide a fiscally stable and globally competitive royalty regime for the offshore petroleum industry.

Electricity

- On April 11, 2003 the Electricity Policy Review consultation report was released marking another stage in this process.
- Government gave Newfoundland and Labrador Hydro approval in principle for the establishment of a demonstration wind power project and directed the corporation to enter into negotiations to finalize a power purchase agreement on August 7, 2003.
- Newfoundland and Labrador Hydro (NLH) reached agreement on a new five-year contract with Hydro-Quebec (HQ) for the resale of the 130 MW recall block of power on March 16, 2004. The contract will realize \$230 million in provincial revenues over its term, providing NLH with the flexibility to sell the power outside the province or to use it in Labrador, when it is required to meet domestic needs.

Mining Industry

- Mining Week was declared in the Province on May 13, 2003. This nation-wide event recognizes the contribution of this sector to the economy and brings together industry stake holders .
- The official opening of the Voisey's Bay mini pilot plant on October 3, 2003 is a step towards the realization of a hydromet facility for Voisey's Bay concentrate in Argentina.
- On October 30, 2003 the 27th Annual Mines and Energy Review of Activities and Open House was held in conjunction

- with the 50th annual meeting of the Newfoundland Branch of the Canadian Institute of Mining, Metallurgy and Petroleum(CIM).

Mines and Energy Ministers' Conference

- The 60th annual Mines and Energy Ministers' Conference was held Sept. 28-Oct 1, 2003. This provided departmental officials an opportunity to gain a better understanding of industry concerns and interests that could affect current and future business opportunities in our province and to foster a stronger relationship with industry partners.



IOCC Mining Operations in Labrador

Lines of Business/Achievements

Forestry Services

Lines of Business

The Forestry Services Branch delivered its programs and services through two lines of business in 2003-04. The lines of business were: Forest sustainability health and industry services and Legislation and Compliance.

Strategic Issues



The strategic issues for the Forestry Services Branch identified in the 2001-02 to 2003-04 Plan were as follows:

- Sustainable forest ecosystem management that encompasses the economic, ecological and social values for the Province.
- Expiry of long-term timber licences beginning in 2002.
- Enhance utilization of wood supply on the Island.
- Assessment of gross merchantable volume inventory adjustments within the current five-year planning period.
- Enhanced tracking of provincial fibre consumption.
- Foreign market access for solid wood products from this province.
- Reconciling competition for the supply of fibre in the province.
- Technology transfer of non-conventional

harvesting systems.

- Improve socio-economic returns from the forest industry by adding value.
- Long-term strategy to facilitate the effective and effective delivery of the forest insect control program while ensuring the health of the forest ecosystems.
- Protection of the province's forestry and wildlife resources.
- Increased protection for the migratory bird and inland fish resources.
- To provide for forestry enforcement and protection on company timber licences.

Achievements

Legislation and Compliance

- In 2003-04, there were a total of 1504 charges laid in the form of Written Warnings Summary Offence Tickets and Court Informations under the Wildlife Act, Forestry Act, Federal Fisheries Act(Inland), All-Terrain Vehicle(ATV) Regulations and Migratory Bird Convention Act. This is comparable with 2002-03 in which there were a total of 1692 charges laid by the Forestry Services Branch under the various Acts.
- The Forestry Services Branch continued discussions with the Department of Fisheries and Oceans(DFO) pertaining to the provincial enforcement program.
- In 2003-04, there were a total of 71 charges laid under the ATV Regulations by the Forestry Services Branch. There appears to be an increase in the number of ATV offences based on the number of complaints being received by the

department. One contributing factor may be the introduction of legislation to allow ATV use in unapproved areas for big game retrieval. Our enforcement staff are continuing to deal with ATV violations, focusing primarily on the illegal operation of ATVs in unapproved areas as well as assisting other Agencies with the enforcement of other ATV legislation.

Forest Sustainability Health and Industry Services

- During the 2003-04 fiscal year, 12,408.9 hectares were silviculturally treated. This included the planting of 8.9 million seedlings. Silviculture treatments included tree planting, thinning, commercial thinning, site preparation and vegetation management. This work resulted in 113% of the tree planting and 86% of the thinning annual requirements being completed in order to maintain the Province's Annual Allowable Cut levels.
- On going infestations of two insect pests (hemlock looper and balsam fir) continued in 2003 in various locations in insular Newfoundland. The Forestry Services Branch carried out an operational control program in 2003 against the hemlock looper using Mimic and b.t.k. A total of 61,635 hectares were treated with Mimic and b.t.k. from a proposed treatment area of approximately 100,000 hectares. The objectives of the Departmental Business Plan were addressed in 2003-04 with respect to the forest insect control program. The hemlock looper control program addressed the on-going outbreak of this insect by identifying valuable stands forecast to receive moderate and severe defoliation and carrying out treatment using approved insecticides which have minimal environmental impacts. Emphasis was placed on young forest stands particularly those which have received silviculture treatment. In terms of the balsam fir sawfly, the Canadian Forest Service, in cooperation with the department, continued work on the naturally occurring balsam fir sawfly virus to develop this as an operational control tool. With respect to improving the efficiency of the program, particularly the approval process, this is an on-going effort which has met with some success in the past and continues to be the focus of discussions at both the federal and provincial regulatory levels
- An enhanced wood tracking system to track provincial fibre consumption was implemented in August 2002. The new tracking system, known as the Load Slip System, required that a departmental load slip be issued for all timber being transported by road in the province with the exception of timber originating from pulp and paper company operations who issue their own approved load tags. During 2003, there were 40,000 departmental load slips issued to operators for transporting commercial timber which affected the movement of unreported timber. Some forest management districts had significant increases in reported commercial fuelwood and the resulting royalties. Also, there was a significant drop in the amount of private timber reported by purchasers since operators had to demonstrate ownership of timber before they were issued load slips to transport timber. Before the introduction of load slips, the true origin of timber was not

declared.

- Also, in conjunction with the load slip system, the department's computerized timber royalty accounting system, FORST, is being revised to accommodate the actual sources of timber harvest to accommodate the actual sources of timber harvest to ensure that the drain for each timber class and ownership is accounted for and credited to proper allowable cuts.
- Based on a 10-year average, the 2003 fire season was above average in terms of fire starts and below average in regard to total area burned. The total number of fires in 2003 was 191 compared to a 10-year average of 168 fires, while the total area burned in 2003 was 36,533.1 hectares and this compares with a 10-year average of 50,448.3 hectares.
- The department completed its new Provincial Sustainable Forest Management Strategy in 2003-04. The 20-year provincial strategy sets out a new vision and direction for managing our forest resources into the future and will allow the department to build on the significant progress made in the province since the previous 20-year forestry management plan was developed in 1996. The Provincial Sustainable Forest Management Strategy identifies four strategic directions that will form the basis of achieving sustainable forest management in Newfoundland and Labrador. The four directions are: ecologically-based forest management, economic considerations, social considerations and Labrador.
- In 2003-04, Forestry Services staff continued with its annual timber utilization

survey program by completing a total of 26 new surveys on recently completed harvest areas. District staff in districts 1,2,13 and 14 also assisted by completing an additional 23 surveys. In the case of the two pulp and paper companies, the department permitted their crews to survey their own limits provided that departmental procedures were followed and the crews were trained by departmental staff. An audit was conducted on the work performed and, while differences existed, for the most part, the data was acceptable. This work is resulting in improved utilization practices during harvesting operations.

- A total of \$3.5 million was committed to forest resource road construction in 2003-04. A total of 68.6 km of new construction was completed during the year, while a total of 35.2 km of re-construction was also carried out. In addition, 13 new bridges were installed and eight older bridges were repaired.

Agrifoods

Line of Business

The department's role in the agrifood industry is to promote the continued development, expansion and diversification of our primary and value-added agrifoods business. The Agrifoods Branch delivered its programs through the following line of business in 2003-04:

Agriculture and Agrifoods Production

Strategic Issues

The Agrifoods Branch worked towards progress in the following areas:

- Improving the competitiveness, sustainability and profitability of the agrifoods industry.
- Increasing the level of secondary food manufacturing in the province.
- Enhancing agriculture land productivity through land preservation and protection, land inventory mapping and farm land productivity improvement measures.
- Minimizing the impact of animal diseases on the agriculture economy and public health.
- Expanding the agriculture activity in Labrador.

Achievements

Land Resource Stewardship

- Detailed soil resource assessments were carried out in eight additional areas covering approximately 8,000 hectares (20,000 acres) to delineate land suitable for dairy industry expansion, vegetable production and other commodities.
- Approximately 2000 soil, plant and field samples were analyzed, and recommendations provided to farmers.
- The Agrifoods Branch GIS/Mapping project developed methodologies, programs and procedures and, in addition, initiated compilations of digital databases for land use, soils and other spatial data related to agrifoods. GPS training was

carried out for electronic data collection for the crop insurance program, land clearing measurements, an agriculture access roads inventory, on-farm mapping and the agricultural land-use inventory.

- As part of the Northern Agrifoods Development Strategy, soil resource assessments were carried out in the Labrador City-Wabush area, Happy Valley - Goose Bay and along the Southern Labrador Highway (Route 510).
- A total of 42.5 hectares (105 acres) of plowed-in tile drainage was installed on eight farms in the province to improve land for forage/hay, silage corn and strawberry production.
- The Peatland Drainage Program completed 13 hectares (32 acres) of new development for seven producers - five sites for sod production and two sites for forage/hay production. Maintenance work was also completed for sod, vegetable, dairy and forage/hay production.
- With the growing public concern for environmentally sound production, producers in the province are taking steps to ensure the sustainability of our land. Producers have welcomed environmental farm planning and are taking many steps in ensuring the risk that their farm poses to the environment, their community and this province is minimal. Environmental farm planning is entering its third year in the Province and shows no signs of slowing down. To date, more than 120 producers have completed their plans and have been updating them annually.

Production and Market Development

- The Agrifoods Branch participated in over 20 trade shows throughout the province including the Agrifoods and Garden Show (Corner Brook), Trinity-Conception Fall Fair (Harbour Grace), Humber Valley Home and Handicraft Exhibition (Deer Lake) and Farm Field Day (St. John's) in the promotion of the agrifoods industry.
- Product development work continues on small fruit, especially cranberries, in conjunction with the development of a nutraceutical processing plant in the province.
- This year saw an increase in farmers' markets being established in the province. There are currently 55 such markets and this is the fastest growing marketing venture in the province's agrifood sector today.
- Work continues in price tracking and price discovery reports that are prepared on a bi-weekly basis.
- In 2003, the province once again participated in Open Farm Day, an Atlantic Canada -Wide Event. This year, 22 farms participated with approximately 4,500 in attendance. The event was well received by both the public and the farmers.
- Farm food safety and food quality is very important to today's consumer. In 2003, the department began developing and initiating programs with and for staff, producers and processors.
- Work continues, in partnership with the Blueberry Development Corporation, for the development of four demonstration plots throughout the province. Land leveling and fertility trials have been completed on three of the plots this fiscal year.
- The Total Mixed Ration Project provides farms with the opportunity to feed livestock using a total mixed ration system and, in some cases, has included locally-grown corn silage. A complete ration provides required nourishment to meet the daily dairy cow requirements and to maintain proper rumen functioning.
- In the fall of 2003, approximately 13,000 Christmas wreaths, were made on the Northern Peninsula and delivered to the New England Market. This enterprise is expected to increase in 2004 while providing increased employment in rural Newfoundland.
- Diversification has been a key area for the agrifoods industry over the last number of years and 2003 proved to be no different. Research and development, in partnership with industry, on a variety of projects has found tremendous success including the following areas:
 - (1) Silage Corn Production - Government and industry have collaborated in efforts to produce silage corn in the province. In 2003, approximately 400 hectares (1,000 acres) of silage corn was grown in the Province. In 2003, the Samco X-Tend planting system which utilizes a plastic covering was introduced from Ireland. Approximately 93 hectares (229 acres) of silage corn was grown under

plastic. Dairy and beef producers are experiencing the nutritional benefits of the product when feeding their animals. As a result, silage corn is now part of their crop rotation practices.

- (2) The Cranberry Project had a successful growing season with a second commercial crop being harvested in 2003.
- (3) The Sea Buckthorn project continues to work towards commercialization.
- (4) A Small Fruit Variety Trials Project is working towards the development of a lignonberry (partridge berries) into a commercial phase whereby plants are being propagated to be placed on farms in 2004 and 2005. Two varieties have shown tremendous success that will be used in this venture.
- (5) A Research Facility located at the Wooddale Tree Nursery was constructed and opened in the Spring of 2003. This facility will have dedicated greenhouses facilities to propagate and increase plant species such as cranberries, sea buckthorn and lignonberries.

Agriculture Business Development

- In 2003-04, the Agricultural Policy Framework (APF) Agreement provided \$3,646,096 towards 127 projects in the province. In 2003, APF replaced the Federal-Provincial Safety Nets Agreement. APF is a 5-year federal-provincial cost shared agreement for the development of the agrifoods industry in the province. The agreement is valued at approximately \$32.5 million. The agreement will enhance opportunities for the agrifoods industry in

the province by providing assistance in five areas: 1. Business Risk Management, 2. Environment, 3. Food Safety and Food Quality, 4. Science and Innovation and 5. Renewal. The objective of the agreement is to create a stronger and more commercially successful agrifood sector.

- The Canada - Newfoundland and Labrador Crop Insurance Program is a comprehensive all-risk insurance that provides compensation to vegetable growers who suffer crop loss through uncontrollable natural perils. The Canada-Newfoundland and Labrador Crop Insurance Program provided coverage on 223 hectares (552 acres) of vegetables in 2003-04. During the fiscal year, \$61,111 was paid out in indemnity claims. This program enhances risk management programming to producers in this province.
- The Net Income Stabilization Account (NISA) program finished on December 31, 2003. Producers have the option to either close out their accounts or transfer their monies to the new Canadian Agricultural Income Stabilization (CAIS) program which began in 2003. The CAIS program incorporates the stabilization features of the former NISA and the disaster features of the former Canadian Farm Income Protection (CFIP) program. It is designed to help producers protect their farming operations from both small and large drops in income. The CAIS program is a whole-farm program available to eligible farmers regardless of the commodities they produce. For the 2003 year, 59 producers from Newfoundland and Labrador applied for benefits under the CAIS program.

- There are currently 13 farms within Labrador producing a variety of products including vegetables, forage, fruit, fur and pork. The Department of Natural Resources and the Department of Labrador and Aboriginal Affairs, in conjunction with other stakeholders, developed the Northern Agrifoods Development Strategy which identifies specific actions that will guide the long-term development of the industry in Labrador. The Agrifoods Branch has been a key player in moving forward on the following strategic actions:
 1. Soil Surveys
 2. Agricultural business profiles
 3. Agricultural land development
 4. Potato production trials in Labrador
 5. Workshops, travel and exchange projects
 6. Promotion of agri-tourism activities.

Animal Health

- Professional veterinary services are provided to serve the routine and emergency needs of our livestock and poultry industry.
- The animal health division's laboratory provided services for livestock owners, regulatory agencies and the general public. As well, it provides reference service for affiliated groups such as wildlife agencies, public health, private veterinarians, and researchers. In the last year, sample numbers grew dramatically with the added work of the rabies eradication program (over 4,000 samples collected and tested), the expanding West Nile virus testing, and the ongoing work for the identification of

tick species in this province and their ability to spread Lyme Disease. Total laboratory submissions from all sources continue to increase every year.

- In December 2002, rabies was diagnosed in a red fox in St. Paul's on the Northern Peninsula. This was the first case of rabies reported on the island-portion of the province since 1989. Over the 2002-03 and 2003-04 fiscal years, \$2.5 million was dedicated to the eradication of this disease from the island. The eradication program was a major effort for the department. It was managed as a cooperative effort with animal health, public health, conservation and wildlife authorities; and included both provincial and federal agencies. The initiative included a public education program, vaccination of domestic animals, collecting and testing wild foxes, lynx and coyotes and the vaccination of wild foxes. Over this time period, 21 cases of rabies were confirmed out of approximately 4,000 animals tested. Over 600,000 vaccine baits were dropped by helicopter in affected areas to immunize the wild fox populations. On March 31, 2004, the program was completed under budget and announced as a success
- Cooperative research continues with Memorial University, federal and provincial health authorities, parks and wildlife agencies to establish the risks of a new disease entry into the province, either as a result of the arrival and spread of new diseases onto the North American continent (West Nile virus) or through the movement of established diseases across North America due to climate changes (Lyme Disease).

- The milk and meat quality regulations and analytical programs within the Agrifoods Branch are, in most cases, required by law and are necessary to ensure minimal food safety standards in this Province. The environmental sampling program with the egg industry is a voluntary program established under national guidelines for the identification and elimination of Salmonella enteritis, a serious human health threat, from the egg industry.
- Support has been provided for the development and implementation of national, industry-led food safety programs. The most advanced industries are the dairy, egg and broiler industries.
- The animal health division also has the legislative responsibilities to respond to complaints of cruelty to farm animals. As well, the Division supports and monitors the activities of the Newfoundland Pony Society in its role to protect and promote the Newfoundland Pony under the Heritage Animals Act.

Mines, Energy and Industrial Benefits

Lines of business

Five lines of business were carried out in 2003-2004: resource assessment, resource development, resource management, project benefits optimization, and policy and executive support.

Strategic Issues

1. Increasing Exploration Investment in Newfoundland and Labrador

Exploration is one of the key activities that leads to economic growth and development in the province. Some of the activities undertaken in 2003-04 to encourage new exploration investment in Newfoundland and Labrador were:

- Efforts to promote the province's oil and gas resources were enhanced through active participation at national and international conferences and events such as the 2003 Offshore Technology Conference in Houston, Texas, the Global Petroleum Show in Calgary, the North American Prospect Exposition in Houston, and Offshore Northern Seas in Aberdeen, Scotland.
- Online access to geoscience-resource data significantly increased in 2003-04, as well as an upgrading of the user-friendliness of the department's web site.
- The department commissioned a consultant study on the Orphan Basin and carried out an internal study of the Flemish Pass Basin. Both reports were published to help promote interest in land offered in the C-NOPB's 2003 Call for Bids parcels in those areas.
- 14 geological reports and/or maps were released to the public to support and stimulate mineral exploration and resulted in increased industry staking.
- The Prospectors and Industry Assistance Program continued to receive \$2.23 million in funding. To the end of March 2004, it had funded 472 Prospector Assistance Program (PAP) grants, 127 Junior Company Exploration Assistance Program (JCEAP)

grants, and 22 Dimension Stone Incentive Program (DSIP) grants. Project expenditures since 1999 have totalled almost \$20 million with private sector expenditures exceeding \$11.5 million of this amount.

- The Mines Branch commissioned a study on the impact of mineral exploration activity on the province. This report demonstrated that the exploration sector generates a significant amount of economic activity throughout the province. In 2000, the exploration sector injected \$27.3 million into the provincial economy. This consisted of \$3 million being spent on small claims (those with less than \$100,000 in expenditures) and \$24.3 million being spent on large claims (those with expenditures exceeding \$100,000). This level of expenditure has had economic impacts throughout the province.
- In addition, the petroleum sector spent another \$101.2 million on offshore exploration activities in 2003. Since the first well was drilled in 1966, exploration expenditures alone account for about \$4.5 billion by which some 2.1 billion barrels of oil, 9.6 trillion cubic feet of natural gas and 436 million barrels of natural gas liquids have been discovered.
- The department commissioned a study to evaluate the Mineral Incentive Program. The study showed that more than 75% of participants in both programs would have either not carried out their exploration activity or would have done so at a significantly lower level had the program not been in place. Furthermore, in excess of 80% of participants stated that both

programs are an important factor in sustaining and increasing exploration activity in the Province.

- The department made a number of improvements in the implementation and administration of the *Mining Act* following comments made in the 2003 Auditor General's report. These improvements have resulted in increased compliance and an improved information management system.
- The department continued to refine resource estimates, to publish technical reports and to focus its promotional efforts. The first image data acquisition process in 20 years was conducted in offshore Labrador to encourage petroleum companies to reexamine the potential of that area.
- Production at Hibernia continued to outstrip expectations with further increases in allowable daily production.
- The Province continued to work with stakeholders to streamline the offshore regulatory regime. Regulatory efficiencies will improve the province's competitive positioning and promote this province as a good investment destination for business.
- The Newfoundland and Labrador/Nova Scotia offshore boundary was implemented through the gazetting of federal regulations. This paved the way for the final conversion of old federal exploration licences which will set the stage for new exploration in the potentially petroleum-rich Laurentian Sub-Basin.
- Release of bedrock geology maps west of Voisey's Bay led to significant land position by exploration companies.

- Geochemical releases on the Island led to staking in a couple of areas.
- A new discovery of ancient fossils discovered on the Bonavista Peninsula was deemed to be of international importance. The site is protected under the Province's Historic Resources Act.

2. Optimizing Benefits from Resource Development

The mining and energy sectors represent important and increasing proportions of total outputs from the province's economy. The total value of output from the mining and energy sectors in 2003 was \$3.2 billion, for a total contribution to Provincial Gross Domestic Product (GDP) of almost 24% (3% from mining, 17.8 % from oil and gas extraction and 2.9 % from electricity). The growth of these sectors over the past several years is impressive and new benefits continue to accrue to the people of the province.

Major resource development projects are highly capital intensive and, oftentimes, create significant opportunity for provincial benefits. The engineering, fabrication, construction, service and supply communities all have tremendous opportunity to benefit from multibillion dollar mega-projects. Our expectations to achieve these benefits must be balanced with industry's need for stable regulatory and legislative regimes relative to cost competitiveness.

- A monitor was appointed to ensure that the VBNC was fulfilling its commitment to its adjacency principle at the Voisey's Bay site in Labrador: that qualified Aboriginals, Labradorians and Newfoundlanders get first

opportunity for jobs and benefits in the Voisey's Bay project.

- Work on the Voisey's Bay Project resulted in the expenditure of \$247 million between April 2003 and March 2004; of this amount, \$190.1 million (77%) was spent on goods and commercial services in Newfoundland and Labrador. Employment averaged 1,186 persons; 882 of these were located in this province. In this year, 140 contracts were awarded, indicating the significant benefits from this development.
- Benefits continued to accrue from the White Rose Project. There were 2,900 people employed by the project as of March 31, 2004. Of this figure, 1,890 people were residents of Newfoundland and Labrador. Total project expenditures from February 2002 to March 2004 were approximately \$1.12 billion (30% NL).
- In 2003-04, petroleum royalties totalled \$126.9 million (including statutory royalties).
- Other resource taxes, mainly from the mining industry, contributed a further \$14 million to government revenue.
- Dividends and other payouts (e.g., rentals, royalties and guarantee fees) to government from NLH totalled \$57.2 million in 2003.
- Rising world oil prices continued to have a significant positive impact on production values, resulting in higher revenues to the Province.

3. Promoting and Enhancing Mineral and Energy Resource Assessment, Development

and Management

Both the mineral and energy sectors are global in nature. The province's business, regulatory and political environments must be internationally competitive. We must continually send the message that we are open for business, while ensuring that the people of the province receive full and fair benefits from the development of their resources. The department took several key steps in 2003-04 to improve our investment climate, including:

- The development of natural gas will play a very integral role in the future economic development in this province.
- The Province continued to work with the federal government to meet its climate change commitment while minimizing the potentially damaging impacts of proposed federal actions on our industries.
- Extensive departmental efforts continued in cooperation with industry, regulators and other stakeholders to increase regulatory efficiency and effectiveness.

Opportunities and Challenges

Forestry Services Branch

Softwood Lumber Dispute with U.S.

In 2001-02, the United States launched two investigations against Canadian softwood lumber related to countervailing duty and anti-dumping. Currently softwood lumber exports to the U.S. from this province are subject to an anti-dumping tariff of 8.1%. Provinces outside Atlantic Canada are subject to an additional 13.2% countervailing duty. The Province has

been working with the other Atlantic Provinces within the framework of the Maritime Lumber Bureau (MLB) to reduce or eliminate these tariffs. Government recognizes the impact the softwood lumber is having on our lumber industry in the province. We have been working hard with other provinces and the MLB to try to resolve the matter and we have succeeded in being exempted from the countervailing duty. Discussions with other provinces, the federal government and U.S. trade representatives are on-going and the Province is taking an active role in these talks to protect the interests of the Province.

Sustainable Forest Management

To properly manage a forest, all resource values that may be influenced by forest management actions need to be identified. The Canadian Council of Forest Ministers (CCFM) have endorsed science-based criteria and indicators to help identify values and measure progress in sustainable forest management (SFM). The department has adopted the CCFM criteria and has established provincial values, goals and indicators to measure progress towards SFM. Measuring the indicators of this criteria will be a real challenge as it will require further technical capabilities and funding. Data collection will occur mainly through the department's Forest Inventory Program. As well, a new National Forest Inventory (NFI) program will be used to collect indicator information for the Province.

Finding a Balance

The social environment within the province that managers must operate within today differs dramatically from the environment that

existed a decade ago. Forest management practices are increasingly coming under public scrutiny. Citizens of Newfoundland and Labrador are demanding that a broad range of social, economic and ecological values be considered in forest management. To incorporate, the range of values, the department has adopted a planning team approach to forest management where local citizens and organizations participate at the district level. This new approach to forest management has generated many planning challenges for the Forestry Services Branch in finding a balance between users.

Agrifoods Branch

Agribusinesses in Newfoundland and Labrador continue to evolve with the marketplace. Producers have captured opportunities in the areas of diversification, secondary processing and value-added activities. This has resulted in a thriving industry which continues to see an increase in farm cash receipts annually.

With current opportunities including the expansion of the fur industry in the province and the dairy industry's potential to double in size over the next 12 years with the allocation of over 31 million litres of industrial milk, the



agrifoods industry continues to play an important role in the province's economy.

The Agricultural Policy Framework will bring over \$32.5 million into the agrifood industry of Newfoundland and Labrador within the next five years. This is a great opportunity to further strengthen agribusinesses in this province and in turn increase employment in this sector in many rural areas of the province.

Mines, Energy and Industrial Benefits

Increasing Exploration

The Department of Natural Resources' goal is to encourage exploratory work by increasing regulatory efficiency and effectiveness to the maximum extent possible and ensuring that the province is a good place to invest. New exploration will lead to new discoveries and new developments that will benefit the people of Newfoundland and Labrador.

The challenges for the department are:

- To ensure that our investment climate is competitive with other jurisdictions without sacrificing our commitment to safety, benefits and the environment.
- To participate in the Canadian Geoscience Mapping Strategies (CGMS) to increase and improve the provincial database, thereby attracting more exploration investment.
- To continue field work in remote and rural areas within the resources available to the Geological Survey.
- To meet the high client demand for online and traditional geological products, new research work, and expert consultation.

Lower Churchill River Project

Development of the Lower Churchill River is a priority with 2,000 Megawatts of clean, renewable energy. This clean power could provide significant benefits to the people of Newfoundland and Labrador. The challenges associated with this opportunity include overcoming the distance to market, the \$4 billion investment required to fund the project and finding a long-term investor who will help finance the project.

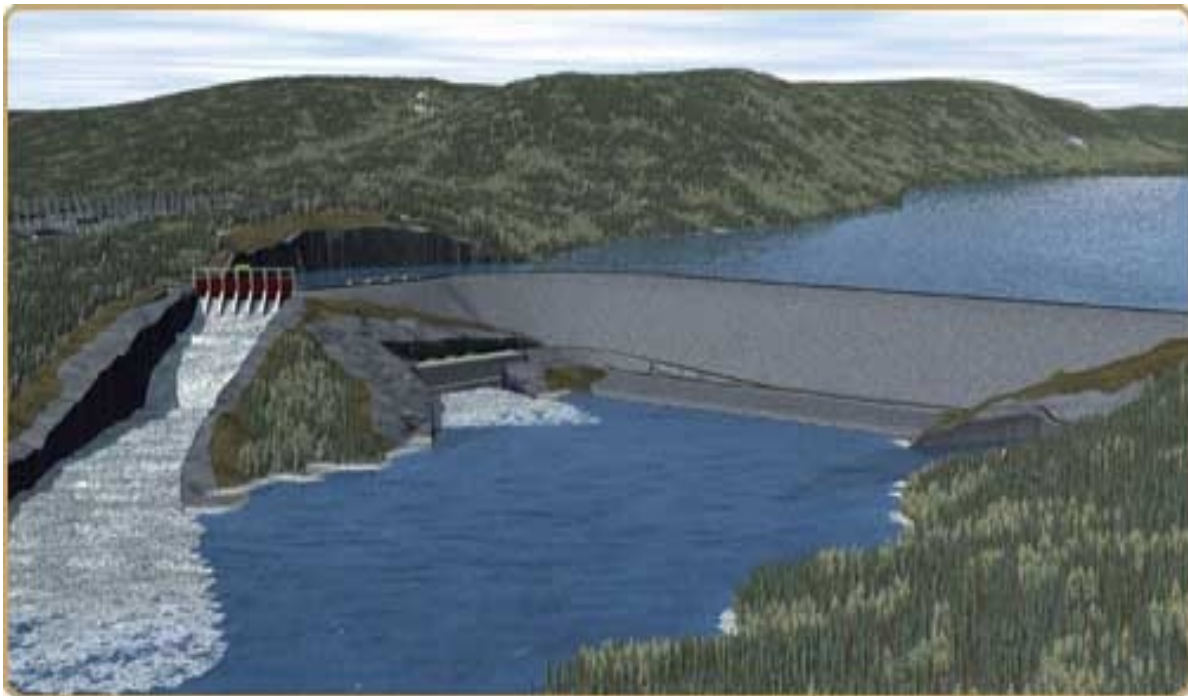
Natural Gas Development

Our offshore natural gas resources, also, present a tremendous opportunity for the province. To date about 9.6 trillion cubic feet (tcf) of recoverable natural gas and 436 million barrels (mmbbls) of natural gas liquids

(NGLs) have been discovered in the offshore area of Newfoundland and Labrador.

The challenges associated with getting this natural gas to market include development of transportation options and the timeliness of innovative solutions. Everyone must work together to develop this resource for the benefit of the industry and indeed, the people of this province.

We have to promote greater exploration to find new discoveries, we have to work with all stakeholders in pursuing technology-based solutions, and we have to ensure that our fiscal and regulatory regimes promote the development of this resource in the best interest of the Province.



Artist's rendition of proposed Gull Island Hydro Development (Newfoundland and Labrador Hydro).

Appendix 1
Department of Natural Resources

Statement of Expenditure and Related Revenue
Summary for the Year Ended March 31, 2004 (unaudited)

Department of Natural Resources			
Statement of Expenditure and Related Revenue			
For the year ended March 31, 2004 (unaudited)			
		Actual \$	Original \$
EXECUTIVE AND SUPPORT SERVICES			
1.1.01	Minister's Office	603,859	793,900
1.2.01	Executive Support	1,852,577	1,477,700
1.2.02	Administrative Support	3,004,979	2,912,200
	Less: Revenue	0	(10,000)
1.2.03	Major Projects benefit Office	544,433	564,800
	Less: Revenue	(232,348)	(183,500)
1.2.04	Capital Admin. Support		0
	Total Executive and Support Services	5,773,500	5,555,100
FOREST MANAGEMENT			
	Forest Management		
2.1.01	Administration and Program Planning	5,707,260	5,608,000
	Less: Revenue	(424,544)	(355,000)
2.1.02	Operation and Implementation	10,244,085	10,161,300
2.1.03	Silviculture Development	7,301,850	7,305,700
	Less: Revenue	(2,811)	(5,000)
2.1.04	Resource Roads Construction (capital)	3,498,685	3,800,000
	Forest Protection		
2.2.01	Insect Control	6,177,332	6,505,600
	Less: Revenue	(4,198,155)	(2,800,000)
2.2.02	Fire Suppression and Communications	4,755,719	2,849,600
	Less: Revenue	(260,156)	0
	Total Forest Management	32,799,265	33,070,200
AGRIFOODS DEVELOPMENT			
	Soil and Land Management		
3.1.01	Administration and Support Services	1,091,054	1,142,200
	Less: Revenue	(7,927)	(33,000)
3.1.02	Limestone Sales	229,432	284,500
	Less: Revenue	(88,310)	(140,000)
3.1.03	Land Development	484,687	200,000
	Production and Marketing		
3.2.01	Administration and Support Services	1,711,096	1,778,000
	Less: Revenue	(2,280)	(20,000)
3.2.02	Marketing Board	79,650	81,300
3.2.03	Capital - Financial Assist. To Industry	4,500,000	0
	Agriculture Business Development		
3.3.01	Administration	358,121	327,300
3.3.02	Crop and Livestock Insurance	310,087	331,000
	Less: Revenue	(163,266)	(151,000)
3.3.04	Agriculture Safety Nets	1,653,321	1,700,600
	Less: Revenue	(1,548,924)	(1,260,000)
3.3.05	Canadian Farm Income Program	27,262	300,000
3.3.06	Agriculture Policy Framework	2,755,052	6,500,000
	Less: Revenue	0	(3,900,000)
3.3.07	BSE Recovery Program	33,369	0
	Animal Health		
3.4.01	Administration and Support Services	3,442,609	3,535,200
	Less: Revenue	(536,038)	(530,000)
	Extension Services		
3.5.01	Administration and Support Services	1,254,152	1,342,300
	Less: Revenue	(46,733)	(44,700)
	Total Agrifoods Development	15,536,414	11,443,700
MINERAL RESOURCE MANAGEMENT			
4.1.01	Geological Survey	3,727,290	3,571,200
	Less: Revenue	(12,749)	(34,000)

4.1.02	Mineral Lands	1,239,420	1,111,500
	Less: Revenue	0	(5,000)
4.1.03	Mineral Development	6,348,744	9,572,400
	Total Mineral Resource Management	11,302,705	14,216,100
ENERGY RESOURCES MANAGEMENT			
5.1.01	Policy and Strategic Planning	723,172	724,000
5.1.02	Petroleum Resource Development	746,156	908,000
	Less: Revenue	0	0
5.1.03	CNOBP	3,320,000	3,320,000
	Less: Revenue	(1,423,586)	(1,660,000)
5.1.04	Petroleum Projects Monitoring	1,179,253	1,210,700
	Less: Revenue	(15,000)	(15,000)
5.1.05	Electricity Industry Development	383,059	482,900
	Total Energy Resources Management	4,913,054	4,970,600
INDUSTRIAL BENEFITS MANAGEMENT			
6.1.01	Industrial Benefits	969,158	885,800
6.1.02	R&D, Offshore Development Fund	905,006	830,000
	Less: Revenue	(70,708)	(622,500)
	Total Industrial Benefits Management	1,803,456	1,093,300
	TOTAL DEPT	72,128,394	70,349,000