

## NATIONAL CONTEXT

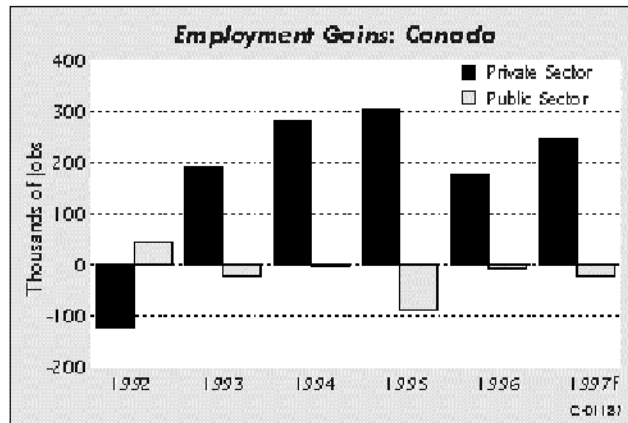
The Canadian economy experienced further structural changes in 1996 as businesses reorganized to meet market changes brought on by increased global competition and technological advances. Governments continued dealing with their deficit problems through spending reductions and public sector layoffs. The end result was a slow growing economy with employment gains in the private sector being offset somewhat by losses in the public sector:

There were, however, several positive developments last year which have created a very favourable economic climate for 1997. Inflation moved back to the 1-2 percent range, remaining low for the fifth consecutive year. The current account (what we pay out to foreigners less what we receive from them) moved very close to being balanced as a rapidly expanding merchandise trade balance nearly offset chronic deficits on services trade and net investment income. As well, public sector borrowing continued to decrease and the issue of Quebec separation was no longer at the forefront of financial market concerns.

### Interest Rates

All of the above factors increased financial market confidence in the Canadian economy last year and put upward pressure on the dollar. With the dollar no longer needing high interest rates to support it, the Bank of Canada gained more monetary flexibility and was better able to respond to domestic fundamentals (i.e., low inflation, declining government borrowing, and significant excess capacity) which had warranted significant monetary easing for sometime. As a result short-term interest rates fell dramatically.

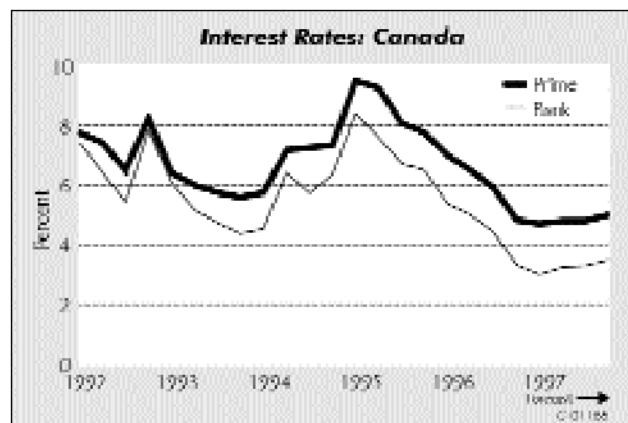
Since 1992 employment gains have been disappointing, especially when compared to past economic recoveries. In 1997 employment growth



is expected to improve relative to 1996 as significant job creation in the private sector more than offsets further public sector contraction. An abundance of people ready to join the labour market as employment prospects improve means the unemployment rate will probably decline slowly.

### National Outlook

Stronger employment and personal income growth together with low interest rates and pent-up consumer demand should accelerate the domestic side of the economy in 1997. Interest rates are expected to remain low, especially relative to recent years, as low inflation, falling government deficits, and a current account surplus all help maintain and/or increase financial market confidence in Canada. These factors are also expected to put upward pressure on the dollar for the next couple of years. Increased consumer spending and further growth in housing and business investment



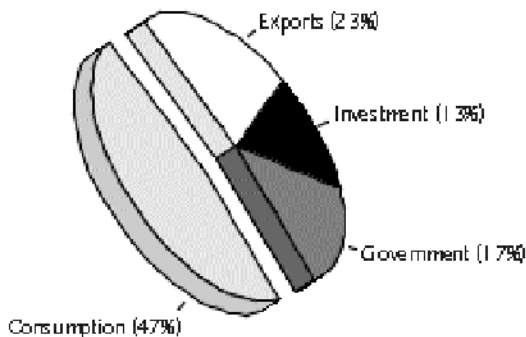
## Spending: Fuel of the Economy

The economy is fuelled by the spending of four key groups as illustrated below. Anything that affects the ability of or incentive for these groups to spend will affect economic activity. Consumers buy the largest share of economic output, some 47 percent, followed a distant second by foreign buyers at 23 percent. Governments are also significant players, purchasing some 17 percent and investment accounts for the remaining 13 percent. These shares of economic output, in order of relative importance, are comparable to the national level, however, the size of individual shares differs. For example, *exports* command a smaller share of total expenditures in Newfoundland while the share of *government* is larger.

Consumer spending on certain types of commodities (e.g., automobiles, furniture, appliances, clothing and footwear, restaurants, hotels) is strongly influenced by general economic conditions

and consumer confidence. Changes in the size of the population, level of employment, or total income have the propensity to affect economic output because of the influence they exert on the level and mix of *consumption* expenditures.

### Expenditures on Economic Output Newfoundland and Labrador, 1996



Note: Imports are subtracted prior to calculating expenditure shares.

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Spending on *exports* is influenced by demand conditions and the Province's competitive position in markets outside the Province, and in some cases by supply conditions within the Province. For example, the recovery of fish stocks and improved landings or the opening of a new mine have the potential to boost the value of *export* sales, and hence economic activity.

*Government* current expenditures on goods and services also make a significant contribution to the economy. The Provincial Government accounts for the majority of this spending. Its spending ability in recent years has been impaired by reduced Federal transfers and changing domestic economic and demographic circumstances. Changes in Federal and municipal government spending also affect economic activity.

Investment spending (on physical capital) consists of residential investment (new housing and renovations), non-residential structures (e.g., Hibernia GBS), machinery and equipment (e.g., computers, fibre optic cable), and government investment (e.g., roads, schools and other public infrastructure). The majority of investment spending is business related. Investment is influenced by many factors such as business opportunities, interest rates, taxes, government spending and assistance to business. ♦

should result in healthy and balanced GDP growth of roughly 3.0 percent.

A competitive export sector together with a stable economic expansion in the G-7 countries and further reductions in tariffs under the World Trade Organization and NAFTA should ensure continued but more moderate growth in exports. ♦

## PROVINCIAL OVERVIEW

The Provincial economy has had to contend with the same economic challenges that the national and other provincial economies have dealt with in recent years and, in addition, has been exposed to other extraordinary shocks. First and foremost, the economic adjustments that stem from the various groundfish closures which occurred since July 1992 have been, and continue to be, pervasive. The recent winding down of Hibernia construction has dealt a blow to investment and employment. As well, changes to Unemployment Insurance (now EI) and lower transfers from the federal government, while common to all provinces, have affected this Province disproportionately because of its high dependence on these monies. Furthermore, low birth rates and record levels of out-migration have reduced population for three years in a row — Newfoundland was the only province in Canada to experience a decline in population last year.

Last year, real Provincial Gross Domestic Product fell by an estimated 2.1 percent due to weakness on the domestic front as consumption, spending by governments on goods and services and non-residential investment all declined.

Employment fell by 3.9 percent in 1996, due primarily to public sector restraint and lower Hibernia employment. The labour force also declined reflecting lower participation rates and labour force population (population 15 years



and over). Overall, the unemployment rate rose to 19.4 percent, up from 18.3 percent in the previous year.

Labour income declined by almost one percent last year, reflective of lower employment. As well, UI/EI income fell by one percent and TAGS attrition reduced total payments under this program. In total, personal income is estimated to have declined by 1.7 percent.

### Consumption

Consumer spending, as evidenced by retail sales, was curtailed by lower employment and incomes — the value of retail trade fell by 1.2 percent last year (2.5 percent in real terms). Lower employment in key service industries suggests that consumer spending on services also fell last year.

### Government

Commitments by the federal and provincial governments to achieve long-term fiscal stability resulted in lower expenditures and capital investment.

### Investment

Investment on the Hibernia project declined by nearly 50 percent, thus reducing non-residential investment. Favourable interest rates encouraged stronger investment in housing, however, this did not offset investment declines in other areas.

### Exports

Similar to performance nationally, the key strength in the economy last year lay in the export sector which served to partially offset declines on the domestic side. Exports of mineral and fish products were the driving forces behind export growth. The value of mineral shipments grew by an estimated 6.1 percent led by gains in iron ore and gold. The total volume of fish landed grew by nearly 30 percent; shellfish continued to drive the fishing industry with strong showings recorded for the crab, shrimp, clam and scallop fisheries. However, soft newsprint markets constrained export growth in this industry. Overall, real exports are estimated to have grown by 5.5 percent. ♦

### FISHERY

The Province's fishing industry continues to deal with the challenges marked by five years of groundfish closures. Some participants have focussed their efforts on mainstays like crab and other shellfish while others have pursued species not previously thought to be marketable or present in commercially viable numbers. This approach of seeking out alternative sources of raw material has allowed some processors to continue operating.

#### FISHING INDUSTRY PERFORMANCE NEWFOUNDLAND AND LABRADOR

	1995	1996	% Change
<b>FISH LANDINGS</b>			
Tonnes	131,600	170,300	29.4
\$ Millions	330	240	-27.3
<b>EMPLOYMENT</b> (person years)			
Harvesting	9,300	10,100	8.6
Processing	3,700	4,500	21.6

Source: Statistics Canada, Labour Force Survey; and  
Department of Fisheries and Aquaculture.

Many fishery workers impacted by groundfish closures continue to qualify for and receive income support through The Atlantic Groundfish Strategy (TAGS), however, a significant number of industry participants also continue to find employment both inside and outside the fishery. Measures have also been taken by government, and more are being contemplated, to address overcapacity in the industry and to create an environment suitable for long-term sustainable growth.

### Industry Performance

Several fisheries were responsible for the overall growth in landings last year. The return of capelin for the first time since 1993 led to landings of over 32,000 tonnes. Higher turbot and redfish catches provided a boost to groundfish landings and production. Shellfish continued to lead the industry as crab landings totalled 37,500 tonnes, the highest ever, and strong showings were recorded for the shrimp, clam and scallop fisheries. A drop in crab prices to fishers last year, however, led to the decline in the total value of landings. Improved market conditions for turbot, redfish, capelin, shrimp and scallop products, offset declines in crab, and resulted in the overall export value of seafood products reaching \$532 million last year, up slightly more than five percent over 1995 levels. A successful seal harvest last year also contributed to this increase with an estimated production value of \$20 million.

### Aquaculture

The Provincial aquaculture industry continued to exhibit growth last year as the number of aquaculture licences issued increased to 210 from 158 in 1995. Production grew by about 17 percent to 1,500 tonnes, with an associated value of \$8-9 million, comprised mainly of steelhead trout, salmon and mussels. Considerable growth potential exists in the Province's aquaculture industry. The

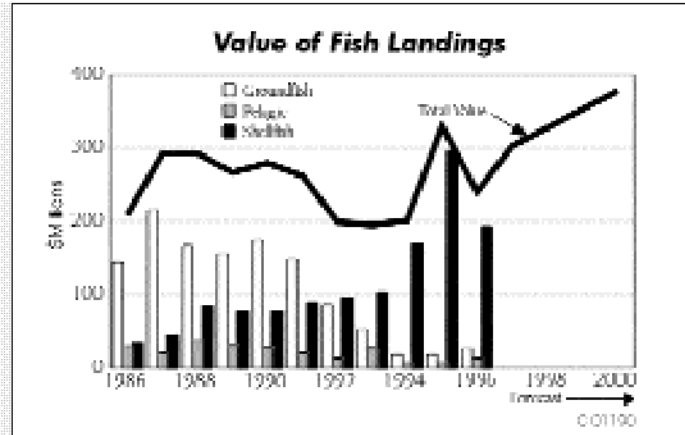
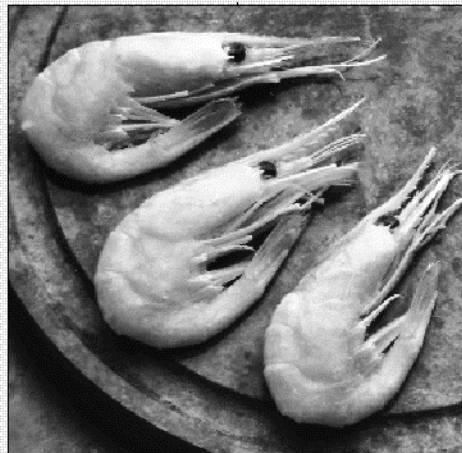
## FISHERY DIVERSIFICATION

Considerable changes have taken place in the Province's fishing industry over the past ten years substantially altering the face of the industry. What was once a groundfish dominated industry has, through necessity and ingenuity, directed its efforts towards creating new wealth through previously underutilized species, new resource opportunities and aquaculture. Although this has not offset the reduction in traditional fisheries from an employment perspective, it does offer considerable potential to expand the industry and create new opportunities for growth.

A catalyst to the diversification of the industry has been the exponential growth of shellfish fisheries, in particular crab. Crab populations have increased dramatically since the collapse of groundfish, which are a major predator. Market demand for crab has been relatively strong; two years ago crab prices to fishers reached \$2.50 per pound pushing the total value of landings to an all time high of \$330 million. In 1997, prices are likely to show some decline from last year's levels. Crab landings reached 37,500 tonnes last year, the highest ever recorded.

Shrimp is another species which has flourished since the groundfish closures. The landed value of shrimp in 1996 was \$56.9 million, a 17.5 per cent increase from the previous year. Recent scientific findings on the stock are extremely promising and it is expected that the quota for shrimp off Labrador and the northeast coast of the Island will be increased significantly this year. As well, the Provincial government is currently experimenting with the development of both an inshore shrimp pot fishery and a near shore beam trawl fishery.

In addition to crab and shrimp, new commercial fisheries for offshore surf clams, Icelandic scallops on the Grand Banks and skate have also resulted from successful Government – industry partnering. The landed value of these fisheries has increased from approximately \$3.7 million in 1990 to over \$28 million in 1996. Exploratory work carried out on these species continues to identify new locations with commercial quantities present.



Heightened demand for fish products in lucrative Japanese and other Asian markets has further raised the viability of future developments in the fishery. Among the many new fisheries identified as having considerable market potential are sea urchin, seals, and other crab species such as Atlantic king, porcupine, rock and toad. Sea urchin is one example of a species that is abundant in the Province and in very high demand in Japan. This species is found throughout the Province with main commercial fisheries in several areas. The fishing season runs from October to April with the urchins mainly collected by divers. In 1996, the production value of sea urchins was approximately \$2.0 million. Sea urchin prices in 1997 have hit \$1.20 per pound and it is estimated that in the near future (3-5 years) this fishery will be worth \$3-5 million and employ 300-400 workers.

The Newfoundland and Labrador fishery appears set to experience a period of renewed growth as illustrated in the accompanying diagram. The landed value of fish by the year 2000 for instance is expected to reach approximately \$375 million, due in large part to the ongoing diversification efforts of the industry and a limited recovery and reopening of cod fisheries along the south and west coasts of the Province. Shellfish fisheries such as crab, shrimp, clams and scallops will continue to play an important role in the expansion of the industry. New fisheries development opportunities together with further aquaculture industry growth will also boost future employment and incomes. ♦

Canada/Newfoundland Agreement on Economic Renewal will provide substantial resources (\$20 million) and support for the continued development of the industry. To date, 24 projects have been approved valued at close to \$3 million.

#### **TAGS Update**

Program parameters for TAGS were changed during 1996 to allow the program to stay within the \$1.9 billion budget. Larger than anticipated numbers of fishery workers accepted into the program initially generated a budget shortfall. Originally targeted to end May 1999, TAGS has now been revised with the probability of the program terminating in the second half of 1998. The licence and early retirement programs under TAGS are near completion. The Department of Fisheries and Oceans (DFO) retired 385 licences in the Province at a cost of \$45.3 million. The early retirement program accepted 812 fishers and plant workers with an expected cost of \$19 million.

#### **Outlook**

The Province's fishery is well positioned to reap the rewards of ongoing industry diversification efforts. Volume and value of fish landings are set to exceed last year's levels given the strong resource base for shrimp, crab, capelin, and seals. It is expected that 1997 will mark the commencement of a limited commercial test cod fishery on the south and west coasts of the Island, areas in which many people still rely on TAGS for a major source of their income. Other groundfish fisheries such as redfish and turbot are also expected to increase. Continued developmental efforts into such species as sea urchin, shrimp and other species of crab will foster further expansion of the industry. Restructuring measures within the processing sector, combined with improved resource management practices, will provide a framework for a more efficient and stable industry in the future. ♦

## **FORESTRY**

### **Newsprint**

Strong markets and high prices resulted in record production levels for the local newsprint industry in 1994 and 1995. The return to profitability during these years enabled one local mill to repay wage concessions and allowed all mills to undertake considerable capital investment. It also provided a cushion for the mills against falling world prices and reduced consumption during 1996. Producers worldwide restricted production last year in an effort to halt the sharp decline in prices precipitated by supply and demand imbalances. Newsprint prices appear to have stabilized at around the US\$500/tonne mark over the last several months, and there may be some upside potential for the remainder of 1997.

As part of the effort to restrict worldwide supply, newsprint shipments from the Province were curtailed by about three percent in 1996. Employment at the mills was relatively stable as the reduction to 714,000 tonnes was achieved through the use of downtime. Lower shipments, falling prices and the appreciation of the Canadian dollar were reflected in the value of shipments which fell from \$674 million in 1995 to \$628 million last year. Although both the value and volume of shipments declined last year, both remained relatively high by historical standards.

The volatility of newsprint prices and industry profitability over the last few years have increased competition in markets, and thus intensified producers' efforts to control costs, improve the quality of existing products, and diversify the range of products offered. These objectives are being achieved through a number of means including consolidations, mergers and takeovers, some of which have implications for Provincial newsprint mills.

Abitibi-Price Inc., which operates mills in Grand Falls and Stephenville, recently announced plans to merge with Stone-Consolidated Corporation. Both companies reported profits in 1996 and the new company created by the merger, Abitibi-Consolidated Inc., will be the largest newsprint producer in the world with the capacity to supply almost nine percent of global newsprint requirements. The Company reportedly plans to increase its market presence outside North America, targeting markets in South America, Europe and Asia where Provincial mills already have a strong presence. The merger is seen by most industry analysts as a positive step which will provide a strong basis for growth.

Kruger Inc., which owns and operates the newsprint mill in Corner Brook, recently announced its bid to acquire all outstanding common shares of Scott Paper Limited, a major producer of tissue and other consumer products. For Kruger, the move is a strategic one motivated by its desire to diversify its product base. Kruger hopes that the acquisition will be approved sometime in late May of this year.

**Lumber**

The Provincial lumber industry has used aggressive export marketing and investment to expand production. Aside from local sales, major markets for the industry include mainland Canada, the United States, United Kingdom and Japan. In the last couple of years, production averaged an estimated 68 million board feet, up substantially from the 1980s when it averaged 42 million. Increased emphasis is being placed on the development of value-added wood products (e.g., fencing, panels, upgraded lumber) which have been identified as an area with significant growth potential.

**Forest Management**

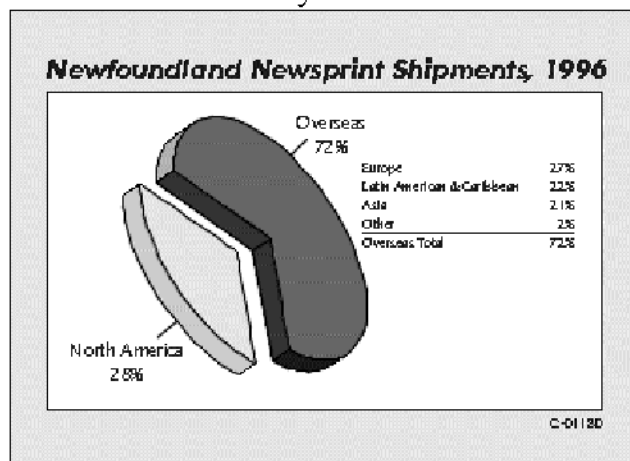
A recent review of the Province's timber supply indicates that on the Island, the forest's ability to provide raw material is being outpaced by



demand for the resource. The shortage stems from an imbalance in the age structure of the forest which is being addressed through strong forest management and protection measures including: ecosystem planning teams; more recycled fibre; greater fibre efficiency; better access to remote timber stands; silviculture work; importation of wood; and more. Labrador also offers a potential source of timber supply. The resource in this area could produce an estimated 480,000 cubic metres per year (beyond current production levels), which could help significantly with the short run supply problems on the Island. Development of this resource hinges, more than anything else, on the negotiation of a mutually satisfactory development regime with the native peoples of the region.

**Outlook**

Newsprint shipments from the Province are expected to rise in 1997 as world newsprint demand recovers. Recovery on the demand side



coupled with producer adjustments on the supply side is expected to lead to some upward movement in prices. Investment in the Provincial newsprint industry will continue in 1997 with mills committed to spending \$28 million in capital improvements. An additional investment of \$32 million is in the approval stage. Lumber production is expected to increase this year, as further export opportunities are developed. While the wood supply issue will continue to challenge stakeholders, the imbalance is expected to be resolved through the implementation of aggressive measures. The ultimate goal is to provide a sustainable wood supply without compromising the long-term health of the forest. ♦

## MINING

The mining industry recorded a strong performance in 1996: the value of mineral shipments rose; exploration and development drilling continued at high levels; and preparatory work on soon to be one of the world's largest nickel operations continued. Overall, the value of mineral shipments increased by 6.1 percent to \$935 million. Employment averaged about 3,365, or about 2.8 percent more than the previous year.

### Iron Ore Company of Canada

The largest mining operation in the Province, the Iron Ore Company of Canada (IOCC), shipped a combined total of 14.7 million tonnes of pellet and concentrate in 1996 and is expected to ship a further 16.5 million tonnes in 1997. IOCC plans to spend \$75 million on capital improvements in 1997 and 1998. One of the major components of this investment is the construction of a new flotation plant at Labrador City. This will enable the Company to produce product with lower levels of silica, a changing requirement in the market. Also, a new wet-grinding mill system, which was initiated

in 1996, is scheduled for completion in 1997.

### Wabush Mines

Wabush Mines, the second largest mineral producer in the Province, has an annual capacity of 6.1 million tonnes of iron ore concentrate. Shipments in 1996 were approximately 5.3 million tonnes and are expected to rise to 5.9 million tonnes this year. The Company is completing a feasibility study on a new manganese extraction plant. By reducing the level of manganese in the ore, the plant will produce a higher quality product which will meet changing market demand. The Company has also recently introduced a number of cost-cutting and productivity improvements to lower its unit costs.

### Gold Production

Several mines currently, or will in the coming year, produce gold in the Province. The largest gold mine, at Hope Brook, is expected to close sometime in the third quarter of 1997. Nevertheless, gold production in 1997 is expected to be higher compared to 1996 levels. Recent and/or expected gold producers include: Ming Minerals Inc. (October 1995); Raymo Processing Ltd. (June 1996); and Richmond Mines Inc. (March 1997).

### Exploration

Exploration expenditures hit record levels in 1996 as more than \$91 million was spent on exploratory and developmental drilling. In 1997, expenditures are expected to drop to about \$69 million, which is still high by historical standards.

### Outlook

The mining industry will play an even stronger role in the growth of the Provincial economy in the future. The value of mineral shipments and employment are set to increase for the fourth straight year in 1997 and exploration activities



## VOISEY'S BAY UPDATE

*Department of Mines and Energy*

Exploration at the Voisey's Bay site, located 36 km southwest of Nain, Labrador continues at a brisk pace. Since the discovery of the nickel, copper and cobalt deposit was announced on November 3, 1994, three major mining companies have had interest in the project. Teck Corporation purchased a 10.4 percent interest in Diamond Fields Resources (Diamond Fields then owned 100 percent of Voisey's Bay Nickel Company Ltd.). Inco Limited purchased 25 percent of Voisey's Bay Nickel Company Ltd. (VBNC) and approximately 7 percent of Diamond Fields Resources on June 28, 1995. On April 9, 1996 an offer by Inco to purchase the remaining shares of Diamond Fields Resources was accepted by Diamond Fields' Board of Directors. Inco completed the acquisition of Diamond Fields Resources Inc. on August 21, 1996.

### The Deposit

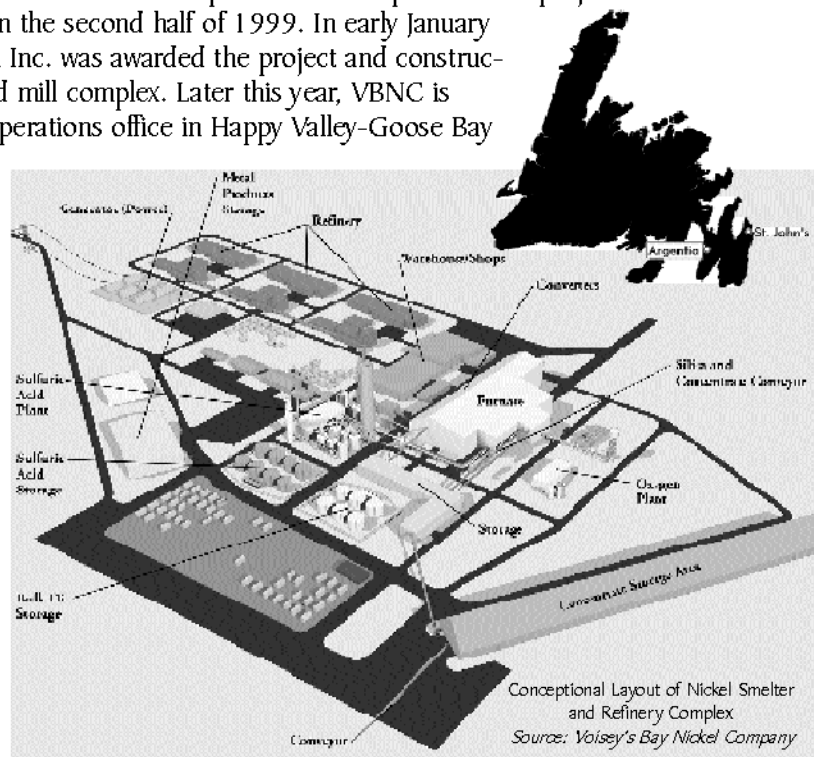
Drilling in the Eastern Deeps is still ongoing and VBNC has indicated resources of 50 million tonnes. This resource is in addition to the 32 million tonnes of nickel-laden ore identified initially in the Main Ovoid. As of October 21, 1996, total reserves at Voisey's Bay are estimated to be in the 150 million tonne range. On January 31, 1997, Inco announced another discovery in the vicinity. Estimates from this zone vary but, in terms of nickel content, are significantly higher compared to the mineralization in the Eastern Deeps.

### Development of the Mine and Mill

On September 26, 1996, a project description for the development of the mine and mill was submitted to the Federal government to initiate the environmental assessment process. It is hoped that the project will clear this process in 1998, allowing for production in the second half of 1999. In early January 1997, VBNC announced that SNC-Lavalin Inc. was awarded the project and construction management contract for the mine and mill complex. Later this year, VBNC is expected to establish a procurement and operations office in Happy Valley-Goose Bay to support on-going exploration activities in Labrador, and to co-ordinate logistics during the construction and operations phase of the mine/mill.

### Development of the Smelter and Refinery

The Company proposes to construct and operate a smelter/refinery complex at Argentia. Before construction can begin, environmental assessment and permitting of the proposed complex must be completed. The project was registered by VBNC for environmental review on January 22, 1997. If approvals are received in 1997, the Company hopes to have the smelter/refinery complex operational in the year 2000. The smelter/refinery complex will produce up to 270 million pounds of nickel and 7 million pounds of cobalt per year. In addition to the nickel and cobalt, about 20 percent of the total copper in the ore, or 36 million pounds of the copper per year, will also be produced as a by-product at Argentia. The proposed smelter/refinery complex at Argentia and the mine/mill project at Voisey's Bay are expected to generate more than 3,500 direct and indirect long-term jobs in the Province. ♦



will continue at a healthy level. The industry will benefit greatly from the recent addition of a number of new mining operations and developing properties. Of course, the largest and most important development project relates to the nickel deposit at Voisey's Bay. When up and running at full capacity, output from this operation will likely cause the value of mineral shipments to more than double from current levels. All of these factors point to a robust mining industry in the near future. ♦

### OIL AND GAS

Increased investor confidence in the Province's oil and gas sector spurred industry activity in 1996 and facilitated industry players proceeding with a number of new project developments and exploration activities. Previous estimates of production levels are no longer speculative but have become a near certainty. Indeed, by the year 2000 the Province may have two fields in production with combined production of 225,000 barrels of light crude oil per day.

#### Hibernia

Construction of the Hibernia project is virtually complete with only the Offshore Loading System and Pipelines to finish, which is scheduled for completion this summer. The Gravity Base Structure and the topsides have been mated and the next stage of the project will be the tow out to the field in June 1997. Expenditures for the project to the end of 1996 totalled \$5.2 billion with Newfoundland content estimated at 46 percent. Employment averaged 4,400 in 1996 compared to 5,500 in 1995. Provincial employment for 1997 will decline to approximately 1,200 person years and stabilize to a sustainable level of 600-700 by year end. Once in production, the estimated life span of the Hibernia field is approximately 20 years although new technologies could extend the life of the field.

#### Terra Nova

Petro-Canada and partners are proceeding with the development of the Terra Nova field. An agreement governing royalties, tax and benefits is now in place. A federal/provincial environmental assessment is proceeding and a Development Plan Application has been submitted to the Canada-Newfoundland Offshore Petroleum Board (CNOPB). The Grand Banks Alliance has been selected to undertake the design and construction of a floating monohull production unit.

Development drilling is scheduled for the second quarter of 1998 and construction of a production system will start in the third quarter of 1998; the target for first oil production is the end of 1999. Estimated capital and operating costs are \$4.2 billion and operations will provide about 400 - 500 long term jobs. The project will yield higher royalties for the Province than the Hibernia project due to lower project costs and a more favourable royalty regime. The Terra Nova field, discovered in 1984, is located

#### DISCOVERED RESOURCES

<b>GRAND BANKS</b>			
Hibernia	666	1,017	111
Terra Nova	406	269	14
Hibern	195	0	0
Whitrose	178	1,509	58
West Ben Nevis	25	0	0
Mara	23	0	0
Ben Nevis	19	229	30
North Ben Nevis	18	115	4
Springdale	14	236	0
Nautilus	13	0	0
King's Cove	10	0	0
South Tempest	8	0	0
East Rankin	7	0	0
Fortuna	6	0	0
South Mara	4	144	8
North Dana	0	470	11
Trava	0	30	1
<b>Total</b>	<b>1,592</b>	<b>4,019</b>	<b>237</b>

Source: Canada - Newfoundland Offshore Petroleum Board

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about 35 kilometres southeast of the Hibernia field with an estimated 400 million barrels of recoverable reserves and an estimated life span of 15-20 years.

### Exploration and Development

Exploration activities offshore are expected to increase as investors indicate renewed interest. Husky Oil has confirmed its interest in developing the Whiterose field and will proceed with some seismic work in 1997 and extended well testing in 1998 and 1999. If the results of this work are encouraging, a permanent production system could be in place by 2004 or earlier. The Whiterose field is estimated by Husky Oil to contain 250 million barrels of recoverable oil. Amoco will drill one well in 1997 as part of their \$90 million exploration expenditure bid made in 1995 against a land parcel near the Terra Nova field.

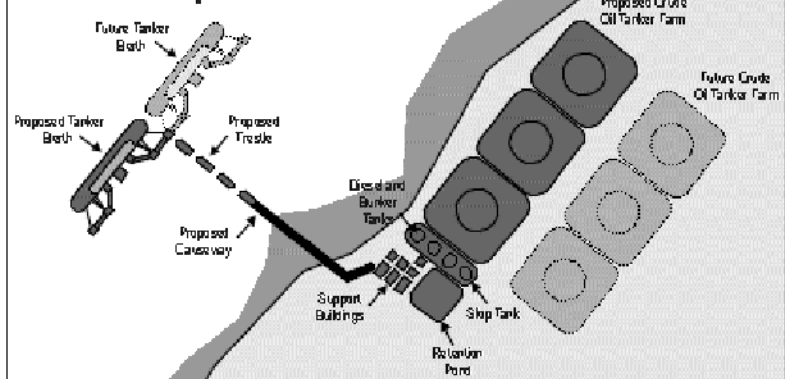
In the fall of 1996 the CNOPB issued a Call for Bids on eight parcels of offshore lands (four parcels are in waters close to Hibernia and four are on the West Coast) totalling 900,000 hectares. This was one of the largest offshore land offerings since the mid-1980's and the response was positive: bids were received for all parcels and significant work expenditure bids were committed on three parcels, the highest being approximately \$65 million which is the second largest expenditure commitment ever received for offshore exploration work. The largest bid received, as referenced earlier, was made by Amoco.

Exploration for West Coast oil reserves is occurring both onshore and offshore. Although moderate, onshore activities were at their highest level ever in the winter of 1996 and provided opportunities for local employment and the provision of goods and services. Four wells were drilled during 1995-96, of which one was an onshore well, two were drilled onshore-to-off-

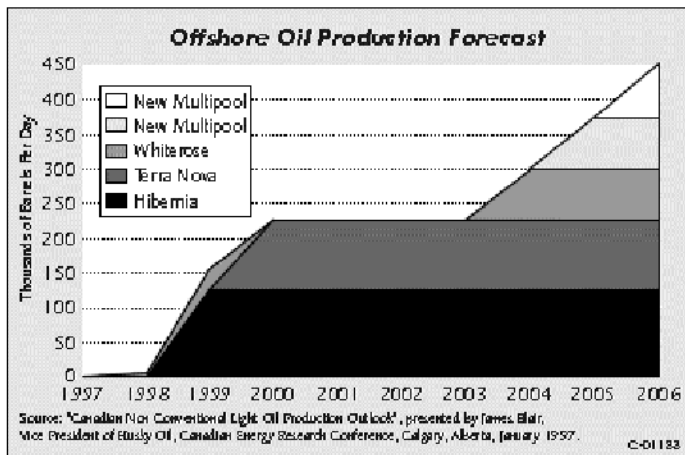
### Transshipment Facility

The construction of an oil Transshipment facility at Whiffin Head, Placentia Bay is a significant development for the Province's oil and gas sector. Crude oil from the Hibernia field will be carried by shuttle tankers from the field to the facility where it will be stored until final shipment to market via conventional tankers. The facility may also be used to store crude from the Terra Nova field, if required. This is significant in terms of developing a strong oil and gas industry in the Province. More importantly, by landing the crude in the Province, the allocation of corporate income taxes to the Province, rather than another destination, will be facilitated.

### Typical Schematic of a Crude Oil Transshipment Terminal



The Transshipment facility is being designed to support both the Hibernia and Terra Nova projects with storage capacity estimated at 2.0 million barrels which can be expanded to service future oil field developments. Construction will begin early in 1997 at a cost of approximately \$150-200 million. A peak of 300 jobs will be realized during the construction phase prior to completion of the facility in the fall of 1998. Approximately 30 full-time, year-round positions will support operations and another 100 people will be employed on the Hibernia shuttle tankers. ♦



shore and one was drilled offshore. The onshore well, Hunt/PanCanadian Port au Port #1, is confirmed as having encountered oil but details have not yet been released: the remaining wells were abandoned. Nevertheless, Hunt and its partners have demonstrated continued interest in the area by acquiring more land and carrying out further exploration.

#### Outlook

Advances in technology continue to increase the viability of East Coast drilling, notably smaller pockets of reserves, and reduce the overall financial risks. Husky Oil has predicted that, relative to market estimates for the cost of future light crude supplies, the development of

#### GENERIC ROYALTY REGIME

In June 1996 the Provincial Government announced the details of a generic royalty regime to be applied against all future offshore oil development projects (Hibernia and Terra Nova projects were negotiated under separate agreements). The regime has been well received by industry and is considered to make oil development opportunities in the Province's offshore competitive with other world exploration development opportunities. The regime takes into account the particular challenges, costs and risks associated with "frontier" exploration as well as the challenges presented in the North Atlantic. The structure of the regime is also sensitive to both the need for developers to realize profits on their investments and the Province's right to realize maximum gains from the development of its resources.

light crude oil from Newfoundland's east coast will become increasingly cost competitive. The Company has stated its belief that the development of Whitehorse could follow on the heels of Terra Nova and thereafter, additional fields could be identified. Combined, total production could be pushed upwards to 450,000 barrels per day by 2006 and beyond.

Optimism concerning the hydrocarbon potential on the Province's West Coast continues as four new exploration licences were issued for the area in 1996 with \$600,000 pledged in work expenditures. Inglewood Resources Inc. recently initiated a seismic program in the Deer Lake area as part of its farm-in agreement with Vinland Petroleum. Inglewood has indicated that it may drill up to two wells in this area. Canadian Frontier Resources Inc. recently completed its seismic work in the Glenburnie area. As well, Delpet Resources, as part of an agreement with Vinland Petroleum, will drill one hole north of Roddickton. ♦

#### AGRIFOODS

##### *Department of Forest Resources and Agrifoods*

The single biggest challenge facing the livestock industry last year was finding suitable and sustainable sources of feed to offset higher prices for imported product. Strong world demand for feed coupled with the removal of the federal Feed Freight Assistance Program pushed feed prices to record highs, which in turn put upward pressure on the price of farm products. Some farmers, in particular the dairy and beef industry, were able to avoid the full brunt of higher imported feed prices by growing more grain.

The production value of chicken, eggs and fluid milk, the bulk of output from the primary sector, rose by nine percent to an estimated \$53 million last year. This increase was due to a number



of factors including higher grain prices which led to an increase in product price. The estimated value of production of each of these commodities was higher last year, despite the fact that production volumes for some were either unchanged or down from 1995. The area planted for vegetables was about the same as the previous year, as declines in plantings of traditional vegetables (e.g., cabbage, turnip) were offset by non-traditional crops (e.g., cauliflower and parsnips).

Research is currently being conducted to examine new products and markets in agrifoods as well as reducing production input costs of selected commodities. For example, work continues on improving feed conversion efficiencies for dairy cattle and promoting production of local forages in an effort to reduce feed costs. The fruit industry also holds great potential. Applied research on varieties of partridgeberries is extremely encouraging and the Department has recently initiated work on examining the potential of growing and cultivating cranberries; a fruit many feel is well suited to the Province. In addition, the Province is investigating opportunities for new crops such as chicory.

### Outlook

Overall farm cash receipts in 1997 are expected to be on par with 1996. The increase in the price of feed for livestock witnessed last year is expected to cause supplies to increase thus exerting downward pressure on prices in 1997.

Because input prices, such as feed, are a key determinate in setting the prices of products regulated by marketing boards, it is expected that lower feed prices will translate into lower production value for some commodities, even if volumes remain steady. The industry has and continues to demonstrate a commitment to the pursuit of domestic and global market opportunities and ways to add value to indigenous products. ♦

## TOURISM

### *Department of Tourism, Culture and Recreation*

Identified as one of the main sectors holding considerable potential for future economic growth, the tourism industry in 1996 marked a year of intense preparation for the John Cabot 500th Anniversary Celebrations. New initiatives included the successful launch of the state-of-the-art Tourism Destination Management System (TDMS) and the creation — in partnership with the Nature Conservancy, Abitibi-Price and Noranda — of the King George IVth Ecological Reserve. This reserve, situated west of the Burgeo Highway, is one of the largest and most diverse undisturbed delta sites in the Province.

Tourism is a unique composite industry built upon the Province's rich natural, historic and cultural resources, and composed of an array of service industries including transportation, accommodations, food and beverage, travel services, recreation and entertainment.

### Industry Performance

Approximately 305,000 non-resident tourists generated \$164.2 million in expenditures last year. This represented a decline of 5.8 percent in visitations and \$4.25 million in expenditures over 1995 levels. This reduction in activity is comparable to a three percent decline in auto-

mobile visits and an eight percent drop in airline visitors reported in neighbouring Nova Scotia.

Other travel and tourism indicators registering declines in 1996 included visitation to Provincial chalets, historic sites and museums, traffic on scheduled airlines, visitors to national parks and the number of non-resident trout and salmon licences sold.

The Province, nevertheless, experienced significant growth in other areas, including increased traffic on charter airlines, visits to the world-renowned Cape St. Mary's Seabird Sanctuary and campground registrations within the system of Provincial Parks. Customs and Excise data indicated a 59 percent increase in international travellers (principally from Germany, France and Great Britain) over 1995 levels.

#### **The Tourism Destination Management System**

Last year marked the completion and inauguration of the Province's new central information and reservation system, the TDMS. This system, developed through a strategic partnership of the

Government of Newfoundland and Labrador and NewTel Communications, is expected to play a significant role in increasing tourism in the Province.

Newfoundland and Labrador is the third province in Canada to have such a system in place, preceded only by Ontario and Nova Scotia. Phase I, in which a computer-based central reservation system was linked to the Tourist Information System, has been completed, and the TDMS has become operational through a privately run call centre. The transition from a book-and-telephone system to a centralized, computer-based tourism information and reservation system has provided tourists with an efficient one-stop shopping service. Following the Province's first-ever tourism direct mail campaign late last year to promote the Cabot 500th Anniversary Celebrations, around 14,400 inquiries were registered through the system from December 1996 to January 1997, more than double the inquiries for the same period a year earlier. Subsequent phases are planned to expand the TDMS to include reservation capa-



bilities for attractions, events, restaurants, tours and more, as well as interactive multi-media features.

### **New Marketing Strategy and Outlook**

With its rich resources of nature, culture and heritage, Newfoundland and Labrador has long had the potential to become internationally known in certain niche markets as a destination of choice in the tourism industry. To realize its full potential as an export industry, the Province is focused in 1997 and beyond on attracting more non-resident visitors, especially in those market segments which represent prime opportunities for growth.

This special focus is guided largely by the recent *Newfoundland and Labrador Product Market Match Study*. This new tourism development strategy concentrates on a range of premium products and markets in which the Province is considered to have a unique, market-ready product offering and a comparative advantage. These products and markets are: sightseeing/touring; hunting (profiled in this sec-

tion); nature viewing; meetings, conventions and incentive travel; fishing (inland and marine); winter adventure; and culture.

Other programs designed to improve the Provincial tourism product which are well underway include the SuperHost program, occupational standards and certification programs and the Taste of Newfoundland and Labrador program which features and promotes the serving of high-quality local cuisine. Future emphasis will also be placed on human resource development in niche products to develop skills in customer service, guiding/interpretation and entrepreneurship and management.

### **The John Cabot 500th Anniversary Celebrations**

This year will mark the 500th anniversary of John Cabot's voyage in 1497 and the opening up of the Northwest Atlantic frontier to subsequent development and settlement based on the cod fishery. The 500th Anniversary Celebrations are expected to thrust the Province onto a new plateau of destination awareness and resident and non-resident visitation. The Province is

*On June 24, 1997 the 500th Anniversary of John Cabot's Voyage to North America will be commemorated when a modern-day replica of his ship the Matthew makes landfall at Bonavista, Newfoundland.*



### The Hunting Sector, A Profile

Newfoundland and Labrador provides some of the best hunting opportunities in the world. The Province has a well-established hunting product based on superb natural resources. Newfoundland has the highest density moose population in North America, trophy-sized black bears and the only population of Woodland Caribou that can be hunted on the continent. The George River Caribou Herd in Labrador has over 600,000 animals, making it one of the largest caribou herds in the world.

During the last five years, there has been over \$12 million invested in upgrading existing properties and in the construction of new facilities. Sales of non-resident big game licences on the Island have more than doubled, from 1,424 licences in 1990 to 3,102 licences in 1996. In addition to \$1 million in licence fees, the hunting industry contributes \$22 million annually to the Provincial economy.

In addition to working continuously to improve the services available to hunting enthusiasts, future product development efforts in this sector will focus on increasing the return to operators by also diversifying the range of services and experiences available to clientele. Niche operators are looking at innovative ways to develop new product offerings and extend their seasons. ♦

expecting significant incremental visitation and revenue generated by the celebrations in 1997. The celebrations planned for this year in the Province are unequalled elsewhere in Canada and are ranked among the best in the world for 1997.

The Opening Ceremonies for the Cabot Celebrations were held in January 1997. Through teleconferencing technology supplied by NewTel Enterprises, Bristol, England was

linked with the *Matthew's* 17 ports of call in Newfoundland and Labrador.

In 1997, Government, through an unprecedented direct mail campaign, issued a personal invitation to join the Celebrations to 400,000 resident households (in two campaigns) and 200,000 non-resident households (including 70,000 US households). The Cabot 500th Anniversary Celebrations have also highlighted the Province's potential in a number of areas.

Increased awareness of the Province as a site which can host large conventions, combined with first-class services and facilities and overall unique lure as a destination, has translated into over 40,000 delegates attending nearly 100 conventions which are anticipated for St. John's alone. This is significantly above the average number of conventions and delegates in previous years, and augers well for future conventions and meetings business. Over \$600,000 has been raised in major corporate sponsorships from Labatt Breweries, NewTel, Sobeys, Air Canada/Air Nova, CIBC, Marine Atlantic, Voisey's Bay Nickel Company and Petro Canada. This direct financial support of the Cabot 500 — in addition to substantial in-kind contributions — demonstrates the vital role of public/private partnerships in tourism marketing and development.

The celebrations have also garnered much international attention — the influential American Bus Association has named the Cabot 500 the top event in North America in 1997 and the Guild of British Travel Writers has recognized the celebrations through its Silver Otter Award. ♦





**CABOT 500TH ANNIVERSARY ANCHOR EVENTS**

The finalized calendar of the John Cabot 500th Anniversary Celebrations features six major anchor events, 50 regional events and over 200 local events. The John Cabot 500th Anniversary Anchor Events are:

**The *Matthew* Visit**, the most prominent of the Cabot 500 anchor events, features a 46-day journey by the *Matthew*, a modern-day replica of Cabot's ship, around Newfoundland and touching upon Red Bay, Labrador. The vessel will sail from Bristol, England and make landfall at Bonavista, Newfoundland on June 24, 1997 where it will be joined by a North American Flotilla of nearly 100 boats. Her Majesty Queen Elizabeth II and His Royal Highness Prince Philip, Duke of Edinburgh, will attend the landfall ceremony in Bonavista and also officially open the Ryan Premises, Canada's newest National Historic Site. The site offers a fascinating glimpse of a by-gone era and the international significance of the North Atlantic fishery.

**Cabot and His World Symposium**, focusing on the significance of the Cabot voyages; and **The Summit of the Sea**, a core conference and affiliated conferences on sustainable ocean development attracting over 3,000 policy makers world-wide.



The Trinity Popeant outdoor theatre festival

**The Year of the Arts 1997**, a year-long, Province-wide event comprising over 78 projects in all artistic disciplines.



The Quintessential Vocal Ensemble, featured performers of FESTIVAL 500.

**FESTIVAL 500 Sharing the Voices**, an international choral event attracting adult and youth choirs from such countries as Russia, Brazil, Portugal, the United Kingdom, Cuba, Canada and the United States.



**The Northern Lights Festival and Labrador Games** featuring unique sporting, cultural and community events in Happy Valley-Goose Bay (the site of the Games) and Labrador West (site of the Northern Lights Festival).



## OPERATION ONLINE TECHNOLOGY

There are 430 advanced technology firms in Newfoundland and Labrador, employing about 6,400 people and generating annual revenues of about \$470 million, making it a significant contributor to the Provincial economy. Within the advanced technology sector, Information Technology (IT) is the single largest segment of business activity.

### Sources of Growth

A number of factors have fuelled growth of the IT sector, including the establishment of the Internet and the creation of related spin-off opportunities, a demand for global telecommunications capabilities, and the enabling effect of IT products and services which offer efficiency gains for business.

### Partnering

Many firms have developed expertise on the strength of partnerships with academic research institutions, national and international firms, and other stakeholders. Generally, these firms have been very competitive and successful internationally and are able to provide products and services that are unique in the marketplace.

### Export Markets

According to a recent export readiness survey almost 20 provincial advanced technology firms reported export sales of their goods and services to more than 40 countries around the world, mainly to buyers in the European Union, United States, Southeast Asia, the South Pacific and the Caribbean.

### Core Competencies

It is interesting to note that the expertise of local firms and the province's overall "core competence" in the IT sector very much reflects the history and geography of Newfoundland and Labrador. For example, considerable expertise

has been developed in the area of cold ocean technologies, marine management, wireless communication, tele-medicine, distance education, digital navigation and geographic mapping.

### New Opportunities

There are emerging business opportunities in the areas of Internet development, new media production, health information systems, electronic commerce, tele-learning and telecommunications services. The Hibernia project has created numerous opportunities for local IT firms during construction, and will continue to provide benefits in the production phase. Future developments in the oil and gas industry, such as the Terra Nova project, will create significant new opportunities, as will the development of the world-renowned nickel-copper-cobalt discovery in Voisey's Bay, Labrador.

### Nurturers of Growth

Operation ONLINE Inc. (Opportunities for Newfoundland and Labrador in the New Economy) has been contracted by both levels of government to serve as a catalyst in the development of the provincial IT sector. To fuel Operation ONLINE's initiatives, the federal and provincial governments announced on November 25, 1996 an investment of \$10 million from the Canada/Newfoundland Agreement on Economic Renewal.

On March 1, 1997 Operation ONLINE Inc. undertook the first major initiative of its Action Plan to support firms in the development and commercialization of software and multimedia products to meet emerging market opportunities, with an emphasis on health, education, tourism and culture, and commerce. Other initiatives include a detailed marketing communications plan to guide provincial, national and international promotional activities, and human resource development and supplier development initiatives.

### NATI

The Newfoundland and Labrador Alliance of Technical Industries' (NATI) membership continues to grow as it plays a proactive role, working with governments, non-government organizations, other industry associations and individual firms, to develop and promote the advanced technology sector. Through partnering with government, education and training institutions, and other agencies, NATI helps its membership in a variety of ways. NATI has matured as an active and effective voice for businesses and organizations operating in IT and the technology sector at large, and is one of Operation ONLINE's primary implementation partners.

### CCMC

The Canadian Centre for Marine Communications (CCMC) supports Canadian industry in the technical and commercial development of IT-related marine products and services. The recent announcement of a funding extension at CCMC will allow the Centre to continue its work into the next century. CCMC is developing new initiatives in Marine Geomatics, aimed at advancing marine geomatics capabilities in the Province, and the Information Seaway, which will capitalize on international market opportunities in the provision of marine IT products and services.

### Seabright Corporation

The Seabright Corporation is the technology transfer and commercialization company of Memorial University. It recently opened the Genesis Centre, a support network to assist provincial knowledge-based businesses and entrepreneurs by providing access to the marketing, finance and management expertise of world-class mentors and consultants along with access to the multi-disciplinary expertise resident at Memorial University.

### Major Players

All of the larger IT companies in Newfoundland and Labrador recorded impressive growth and/or made important technological advances during 1996. The following are some examples.

### Newtel Communications

NewTel Communications, the primary subsidiary of NewTel Enterprises Limited, invested more than \$80 million during 1996 in the expansion and modernization of local, long distance and cellular communication networks, and the development of new services and information systems. NewTel launched a new \$1.3 million world class Call Centre in 1996, as part of the private-public sector partnership Network Newfoundland and Labrador. Also in 1996, NewTel switched on its second province-wide fibre-optic network, giving Newfoundland and Labrador the second highest penetration of fibre-optic technology in Canada. NewTel also recently launched the NewTel/Arts Council Cultural Innovation Fund to support initiatives by local artists in the development of new arts-related information technologies.



**NewTel Information Solutions Limited**

NewTel Information Solutions Limited (NIS), another NewTel Enterprises subsidiary, is the eighth largest computer services company in the country and the largest in Atlantic Canada. NIS was ranked number one by *Atlantic Progress* magazine in terms of revenue growth in Atlantic Canada (1996 sales of \$38.3 million, a 49.8 percent increase over the previous year). As part of its 1994 privatization arrangement, NIS entered into an Industrial Benefits Agreement (IBA) to outsource a percentage of work to smaller local IT firms. To date, it has outsourced more than \$3 million in contracts under the IBA.

**Cable Atlantic**

Cable Atlantic has grown in recent years from a cable TV service provider into a major communications company that is making technology breakthroughs of national significance. In a joint venture with AT&T Canada, Cable Atlantic won a bid to take over management of the NLnet service when it was privatized in 1996, making Cable Atlantic the largest Internet service provider in the Province. Late in 1996, Cable Atlantic launched a new cable modem-based (in addition to regular dial-up) Internet service that is one of the first of its kind and among the fastest in North America. Over the next four to five years, Cable Atlantic will invest roughly \$70 million in a two-way fibre-coax network that will serve 75,000 households in 13 service areas. It has also formed Fast Forward Technologies, a software company, to develop new technologies for the emerging Internet publishing and telework marketplaces. Fast Forward is one of Canada's top 25 up and coming IT companies, according to the *Financial Post* and Branham 200.

**Other Experienced Players**

Several other mature players in the provincial IT sector continued to grow and move into new markets during 1996, including NewEast

Wireless Telecom, Nautical Data International, Compusult, Seaborne Information Technologies Ltd. and Instrumar Ltd.

**New Entrants**

The IT industry is characterized by innovation, and this spirit of innovation is apparent in a number of exciting new companies, including AbbaCom Logic Corporation, Specialist Solutions Limited, ZEDD Technologies, IES Health Technologies, INNOVA Multimedia, Full Tilt Design, IDON East and Media Touch Technologies Ltd., among others. These firms are producing computer memory products, medical information databases, educational software, interactive CD-ROMs and even a software application that allows musicians in different locations to play music together on the Internet. Many of these firms are negotiating or have signed with national or international publishers and distributors and are marketing their products and services across Canada, the United States and Europe.

**Outlook**

In addition to the above examples, there are numerous other private, public and institutional initiatives and success stories that are contributing to growth in IT. Activity in this area has exhibited better-than-average growth and this is expected to continue in the future, generating new wealth and investment, providing spin-off benefits to other industries and employment opportunities. ♦

**MANUFACTURING**

The manufacturing industry continued to experience growth last year. Manufacturing shipments from the Province rose for the fourth consecutive year to approximately \$1.6 billion, up two percent from the previous year. Increased food product shipments were the main contributors to this growth, however, improvements were

also recorded for wood and non-metallic mineral product shipments. Employment in the manufacturing industry rose by 10 percent over the previous year to 14,300.

Manufacturing is dominated by three main groups: fish products, pulp and paper and petroleum products. However, other sectors have grown in recent years providing employment for an increasing number of people. Products in this category vary considerably and range from advanced technology products — satellite communications, medical technologies, environmental technologies — to more traditional products such as footwear and furniture.

Government has introduced a number of initiatives to foster increased manufacturing activity in the Province. Various tax incentives, such as a research and development tax credit for manufacturers, are available and the Province boasts the lowest provincial manufacturing and processing tax rate (five percent) within Canada. The Province's Regulatory Reform Program, designed to eliminate unnecessary regulations that may impede business development, has broken new ground in terms of reducing government bureaucracy. The EDGE Program, which provides tax holidays and other incentives to companies wishing to locate or expand their business in the Province, has also assisted in diversifying the manufacturing base and creating employment.

The harmonization of the provincial RST and the federal GST on April 1, 1997 is another initiative which is being viewed as a positive development for the future of the manufacturing industry. Under the new harmonized sales tax (HST), businesses will be provided with full input tax credits which will result in a lower cost of doing business and lower prices for consumers. Goods and services produced in the Province will become more competitive with

those produced elsewhere enabling businesses to better compete both internationally and domestically.

### Outlook

The manufacturing sector is expected to post gains again this year. An improved performance is anticipated in both the fishing and mining industries and newsprint demand is expected to improve. The non-resource sector, which accounts for a substantial portion of manufacturing production in the Province, is expected to continue its growth in 1997. Increasingly, the Province is considered to be an attractive place for manufacturing businesses and interest is expected to continue growing as businesses recognize the comparative benefits of locating in the Province. ♦

## CONSTRUCTION

Construction activity in the Province was somewhat lower last year. The major driver of the industry in recent years — the Hibernia project — began to wind down, negatively impacting the non-residential sector. On the other hand, a resurgence in housing starts gave the residential component a boost. Overall, construction employment averaged 9,800 compared to 10,700 in the previous year.

### Non-Residential

Hibernia continued to be an important contributor to the non-residential construction sector last year. Employment at Bull Arm, the project's single largest construction site, averaged 4,000 in 1996, compared with 4,800 in the previous year. Construction is virtually complete (see *Oil and Gas*) and the project will proceed into the production phase. Other non-residential construction was constrained by lower capital investment by both the public and private sectors.

Several major construction projects have been recently announced that will infuse considerable investment and employment into the Province in the coming years. Probably the most significant is the nickel smelter and refinery to be located at Argentia and the mine and mill at Voisey's Bay. Some other major projects that have been announced include: the Terra Nova oil project; the crude oil transshipment terminal at Whiffen Head; the redevelopment of hospital services in the St. John's area; and the relocation of the Davis Inlet Innu community to Sango Bay. For a more detailed overview of major construction activity in the Province, readers are directed to the major project inventory at the end of this report.

The Canada/Newfoundland Infrastructure Works Agreement has been an important contributor to non-residential construction in recent years. The Federal government, in the February 1997 Budget, extended the Agreement by one year until March 1998, adding another \$30.9 million to the \$147.1 million to be spent in the Province under the original program.

#### **Residential Activity**

The Provincial housing market performed better than anticipated last year, due in large part to very favourable mortgage interest rates. Both one and five year rates declined steadily in 1995 and 1996, reaching 5.20 and 6.95 percent respectively by the end of December, the lowest levels recorded since 1965. Overall, new home construction rose by 18.8 percent to 2,034 units, with much of the growth occurring in the St. John's area. Low mortgage rates also provided a boost to St. John's MLS® sales, which normally accounts for 90 percent of Provincial activity. Sales were up by nearly 22 percent to 1,915 units over the previous year with most activity covering the resale of existing units.

#### **Outlook**

Employment in the construction industry will be dampened again this year by the completion of Hibernia construction and an expected decline in housing starts. While the latest survey of investment intentions by Statistics Canada predicts capital investment in the Province will grow by 6.0 percent in 1997, construction employment is nevertheless expected to decline as a much larger share of spending is directed towards material and equipment purchases. ♦

## OUTLOOK FOR 1997

The Provincial economy will continue to see significant adjustments occur in 1997. Lower activity in the consumer and government sectors will reduce overall output by about 2.7 percent. However, investment is expected to remain strong and exports are forecast to record solid gains.

### Consumption

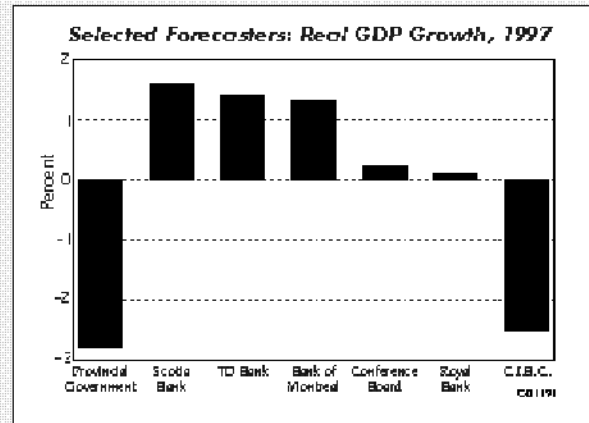
Consumers are expected to remain cautious in the wake of declining job opportunities and income erosion — retail sales are expected to decline by 2.3 percent this year. On a positive note, the harmonization of the RST and the GST will result in an overall reduction in prices. This will keep inflation, at 0.6 percent, well below the national average.

Employment is forecast to decline by 1.9 percent as annual employment related to Hibernia falls by about 3,200 and both levels of government continue to practice fiscal restraint. The loss of these relatively high paying jobs will result in labour income falling by 3.3 percent. Employment insurance payments are expected to increase somewhat this year, however, TAGS payments are expected to decline by about \$60 million. Overall, personal income is projected to fall by 2.3 percent.

### Investment

Gains are projected in investment this year. Increases in oil related investments are expected as the Hibernia project moves into production mode, construction of the transshipment facility commences, and work begins on the Terra Nova oil project. As well, expenditures related to the development of the Voisey's Bay mining project should start this year. Residential investment is expected to fall somewhat as housing starts decline to about 1,900 units.

## WHAT OTHER FORECASTERS ARE PREDICTING FOR THE PROVINCE



As indicated in the diagram, there exists a significant divergence among forecasters concerning Newfoundland's expected economic performance in 1997. Most private sector forecasters are calling for some growth in 1997. However, the Province maintains that the economy will contract because of the winding down of Hibernia construction and ongoing government restraint. This view is supported by the CIBC. The Province expects that as the year unfolds, some convergence of the forecasts will occur.

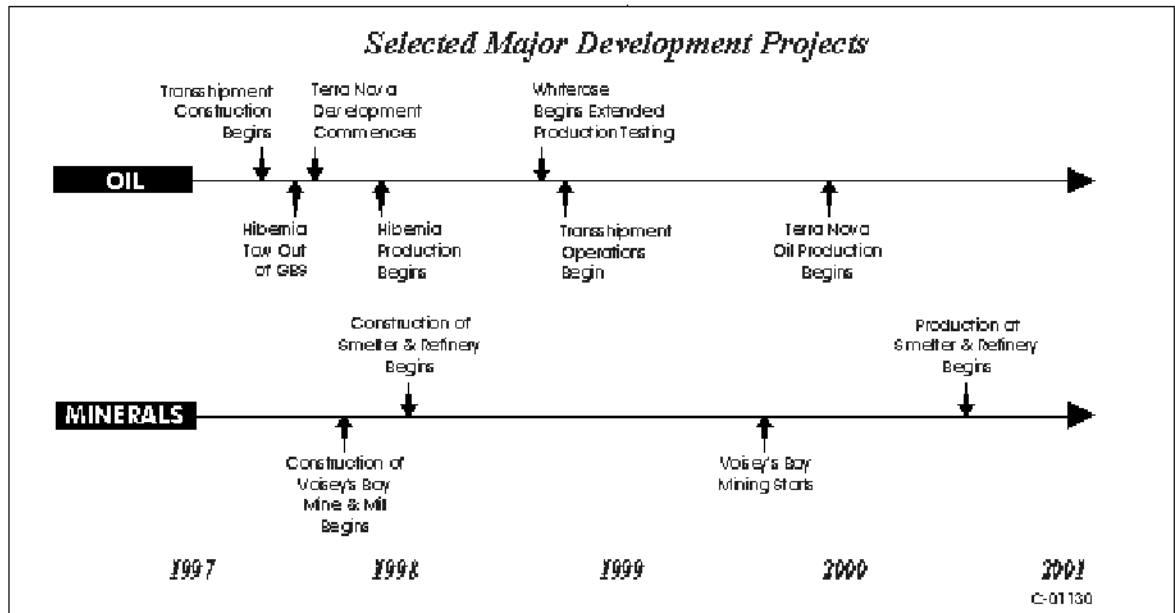
While there are significant differences in the growth rates expected, all forecasters reviewed agree that Newfoundland will experience growth in 1998. ♦

### Government

Commitments by the federal and provincial governments to achieve long-term fiscal stability will translate into reduced expenditures and this will lower the size of the public sector.

### Exports

Gains in the export sector will be broad-based this year but will continue to be led by the fish-



ing and mining industries. The mining industry is expected to increase output again this year, with shipments of both iron ore and gold recording substantial gains. Furthermore, the fishing industry will benefit from higher landings of shrimp, capelin, herring and seals as well as continued diversification efforts. The forestry and tourism industries will also contribute to export growth. Exports of newsprint are forecast to increase somewhat, benefitting from a strengthening of global demand. The tourism industry is expected to benefit substantially from the Cabot 500 celebrations this year, with a significant increase in the number of tourists anticipated. ♦

### 1998 AND BEYOND

Economic conditions in the Province were difficult last year and will continue to be so in 1997. The outlook for the future, however, is much improved. Provincial output is expected to record significant growth for a number of years, fuelled primarily by growth in exports and investment. The development of Terra Nova and Voisey's Bay will contribute substantially to investment over the short-term and the begin-

ning of oil production in the Province will be a tremendous boost to exports. Furthermore, the commencement of Voisey's Bay operations in 1999/2000 will provide a further impetus to export growth. In addition, the fishing industry should benefit from ongoing development efforts and fish stock recovery.

The improved economic environment will foster employment and personal income growth and subsequently consumption should increase. Governments should achieve their goals of restoring fiscal health, thus returning some stability to this significant component of the economy. Overall, the Newfoundland economy is expected to record strong growth in the near term (1998 - 2000). ♦



## *Major Projects in Newfoundland and Labrador*

Project	Capital Cost (\$millions)	Start/End Date	Comments (Location, Economic Zone)
<b>Commercial</b>			
Commercial Plaza	3.6	95/97	Consists of office space, restaurant, gas station, major grocery store and other shopping/personal amenities. (Paradise, Zone 19)
Hotel Renovation/ Refurbishment	1.2	96/97	Holiday Inn renovations and refurbishment. (Corner Brook, Zone 8)
Hotel Renovation/ Refurbishment	3.4	96/97	Holiday Inn renovations and refurbishment. (St. John's, Zone 19)
Office Renovation/Expansion	1.3	97	Federal Government building located in Donovan's Industrial Park. Will house Environment Canada's offices, workshop, laboratory and storage areas. Federal funds. (Mount Pearl, Zone 19)
Office Renovations	6.0	95/97	Cabot Place, Tower 2 renovations to accommodate Federal Government departments. Federal funds. (St. John's, Zone 19)
<b>Education Facilities</b>			
Arts & Science Building Renovations	1.0	96/97	Sir Wilfred Grenfell College – Work includes renovation of existing cafeteria and construction of additional storey. 50:50 Memorial University Opportunity Fund/Provincial funds. (Corner Brook, Zone 8)
Forest Centre	5.7	96/97	Will house Memorial University forestry program; staff of Canadian Forest Services; and offices of Western Newfoundland Model Forest. Economic Renewal Agreement, 80:20 Federal/Provincial funds. (Corner Brook, Zone 8)
School Construction/ Renovations	38.0	97/2000	Funding includes new schools in Hopedale, Rigolet and Nain. Provincial funds. (Various Locations)
University Centre	16.0	97/2000	Memorial University of Newfoundland. Centre will house university services for students, faculty and staff. 50:50 Memorial University of Newfoundland/Provincial funds. (St. John's, Zone 19)
<b>Electrical Utilities</b>			
Electrical Utility Capital Expenditures	35.3	97	Newfoundland and Labrador Hydro – upgrading of transmission lines and distribution systems, improvements to generating facilities and the purchase of equipment. The largest component is the installation of an integrated application suite of computer software. (Various Locations)
Electrical Utility Capital Expenditures	33.2	97	Newfoundland Power – includes upgrading of transmission and distribution systems. (Various Locations)
Southwest River Hydro-electric Facility	16.0	97/98	Includes construction of access road, concrete dam, spillway, penstock, powerhouse, switchyard and 1.5 km transmission line. Capacity: 7 MW. The project is being developed to supply power to Newfoundland and Labrador Hydro. (Southwest River, Zone 15)
Star Lake Hydro- electric Facility	57.0	97/98	Includes construction of a reservoir, dam, penstock, powerhouse and powerline. Capacity: 15 MW. The project is being developed to supply power to Newfoundland and Labrador Hydro. (45 km southwest of Buchans, Zone 12)

*Major Projects in Newfoundland and Labrador (cont'd.)*

Project	Capital Cost (\$millions)	Start/End Date	Comments (Location, Economic Zone)
<b>Environmental</b>			
Environmental Clean-up	15.0	97/98	This project will involve expenditures of up to \$81 million over 5-10 years. Federal funds. (Argentia, Zone 18)
Harbour Clean-up – Phase I	35.0	97/2007	Expenditures targeted toward the installation of underground piping, construction of pumping facilities, and construction of a treatment plant. Total project expenditures are estimated at \$150 million. Application for partial funding has been made to the Canada/Newfoundland Infrastructure Works Agreement. (St. John's, Zone 19)
<b>Forestry</b>			
Forest Resource Roads	1.5	97/98	Construction of forest resource roads on Crown land for use by commercial and domestic operators. Provincial funds. (Various Locations)
Paper Mill – Capital Expenditures	10.0	97	Corner Brook Pulp and Paper Limited – Various projects, another \$30 million is subject to approval. (Corner Brook, Zone 8)
Paper Mill – Capital Expenditures	8.7	97	Abitibi-Price Grand Falls Division – Various projects, largest being \$3.8 million for complete computer upgrade. Another \$2 million in expenditure is subject to approval. (Grand Falls-Windsor, Zone 12)
Paper Mill – Capital Expenditures	9.0	97	Abitibi-Price Stephenville Division – Various projects, largest being \$3.2 million, for complete computer upgrade. (Stephenville, Zone 9)
Particle Board Manufacturing Facility	6.8	97	Wood Products Industries – most expenditure in machinery and equipment. (Roddickton, Zone 6)
Sawmill and Planing Mill	1.5	96/97	Bloomfield Lumber Co. – construction of sawmill is complete; work will start on new planing mill in the spring. (Bloomfield, Zone 15)
<b>Health Care/Seniors' Facilities</b>			
Hospital	30.0	97/99	A new hospital to replace the Melville Hospital which currently provides health care service to Happy Valley-Goose Bay and Northern Labrador communities. 50:50 Provincial/Private (VBNC) funds. (Happy Valley-Goose Bay, Zone 3)
Hospital	7.8	97/99	A new hospital to replace the Cottage Hospital. Provincial funds. (Harbour Breton, Zone 13)
Hospital Expansion	4.5	97/98	Completion of exterior shell and planning funds for facility redevelopment, James Paton Memorial Hospital. Provincial funds. (Gander, Zone 14)
Redevelopment of Hospital Services	100.0	97/99	Funded through savings realized by consolidation of hospital services. (St. John's, Zone 19)
Seniors' Complex	4.0	96/99	Project includes the construction of condominiums and apartments as well as general use rooms for all project occupants. (Gander, Zone 14)
<b>Manufacturing</b>			
Clothing Manufacturing Facility	4.8	97	Establishment of a facility to manufacture knitted products, children's clothing and sportswear. Project is supported by various government sources up to 54% of funding. (Argentia, Zone 18)

*Major Projects in Newfoundland and Labrador (cont'd.)*

Project	Capital Cost (\$millions)	Start/End Date	Comments (Location, Economic Zone)
Film Developing Facility	1.8	96/NA	The project involves the operation of various portrait studios in K-Mart stores across the Country. The development and processing of all film from these locations will be done at the Company's lab in Corner Brook. Portion of funding provided by ACOA. (Corner Brook, Zone 8)
Iceberg Product Manufacturing Infrastructure	2.0	97	Iceberg Industries – harvesting and production of iceberg products such as packaged ice, iceberg water, iceberg beer, and iceberg vodka. (St. John's, Zone 19)
Sodium Hydrosulfite Plant	1.0	97	Hydro Technologies – construction of a plant to produce sodium hydro sulfite, a chemical used extensively in the bleaching and decolorizing process in the pulp and paper industry. (Pasadena, Zone 8)
Wood Treatment Plant	1.5	97	Wood Preservation Industries – upgrade of Newfoundland Hardwoods with new dry kiln, treating plant, fixation chamber and additional warehouse capacity. (Clareville, Zone 15)
<b>Mining</b>			
Antimony Mine	20.5	96/97	Roycefield Resources Ltd. – construction of road, underground mine and mill. The Company hopes to be in production this summer. (Beaver Brook, Zone 12)
Dimension Stone	2.8	97	Cabot Granite Fabrication Inc. – expansion of granite quarrying operation to include a slab and polishing plant. Supported in part by ACOA, SIID and Transitional Jobs Fund. (Mount Peyton, Zone 12)
Fluorspar Mine	25.0	97/98	Burin Minerals Inc. – mine and mill re-activation. Expected to spend \$15 million this year. Company hopes to be in operation in 1998. (St. Lawrence, Zone 16)
Gold Mine	10.0	97/98	The proponents, led by Raymo Processing Ltd., plan to construct and operate an open pit gold mine and mill. Subject to release from Environmental Assessment Process. (Baie Verte Peninsula, Zone 11)
Iron Ore Mine – Capital Expenditures	75.0	97/98	Iron Ore Company of Canada – major component is the construction of a new flotation plant at Labrador City. Investment will continue on a new wet-grinding mill system and also directed to the automatic train system between Labrador City and port. (Labrador City, Zone 2)
Nickel Mine and Mill, Smelter and Refinery Development	1,500.0	97/2000	Voisey's Bay Nickel Company Limited, a wholly-owned subsidiary of Inco Limited, plans to construct a nickel, copper, and cobalt mine and mill in Voisey's Bay. It also plans to build a smelter/refinery complex at Argentia to process mine output. (Argentia, Zone 18 – Voisey's Bay, Zone 1)
<b>Municipal Infrastructure</b>			
Canada/Newfoundland Infrastructure Works Agreement	178.0	94/99	Agreement part of a national initiative to stimulate economic growth through investment in local community infrastructure. Program extended by one year, providing an additional \$30.9 million in funding. 1/3 Federal funding with the remainder from Provincial, Municipal and other sources. (Various Locations)
Water/Sewer/ Road Upgrade	1.3	96/97	Provincial funds. (Nain, Zone 1)
Water System Improvements	1.2	96/97	Approximately \$1.0 million from Canada/Newfoundland Agreement for the Benefit of the Inuit Communities of Labrador, Federal/Provincial (2/3:1/3); remaining funding from the community. (Makkovik, Zone 1)

*Major Projects in Newfoundland and Labrador (cont'd.)*

Project	Capital Cost (\$millions)	Start/End Date	Comments (Location, Economic Zone)
<b>Oil &amp; Gas</b>			
Hibernia Offshore Oil Development	3,100.0	97/2015	Expenditures include the completion of production facility, shuttle tankers and development drilling. \$5.2 billion already spent on the project up to the end of 1996. The project is directed by Mobil Oil Canada Properties, Petro-Canada Hibernia Partnership, Chevron Canada Resources, Canada Hibernia Holding Corporation (Government of Canada) and Murphy Atlantic Offshore Oil. (Various Locations)
Terra Nova Offshore Oil Development	2,400.0	95/2012	Expenditures include the construction of a steel monohull production facility. Major components of the work include: drilling; installation of the Sub-Sea System; installation of the upper turret on the monohull; and installation, hook-up and commissioning of the topsides. Petro-Canada is the majority interest holder and operator. Other interest holders are Mobil Oil Canada Properties, Husky Oil Operations Ltd., Murphy Oil Company Ltd., Mosbacher Operating Ltd., and Norsk Hydro. (Various Locations)
Transshipment Terminal Facility	150.0-200.0	97/98	The terminal, consisting of several large storage tanks, a causeway and a fully equipped pier, will have storage capacity of 2.0 million barrels of oil. The terminal is being built by the Hibernia Consortium to accommodate oil from Hibernia and possibly oil from other fields such as Terra Nova. (Whiffen Head, Zone 15)
<b>Telecommunications</b>			
Telecommunications/ Information Technology Expenditures	70.0	95/99	Cable Atlantic is investing in a Hybrid-Fibre-Coaxial (HFC) network throughout the Company's service areas, namely St. John's, Gander, Grand Falls-Windsor and Corner Brook. (Various Locations)
Telecommunications/ Information Technology Expenditures	64.8	97	NewTel Enterprises – expenditures directed at the expansion and modernization of the local, long distance, cellular and digital paging telecommunications networks and introduction of new services and information systems. (Various Locations)
<b>Tourism &amp; Recreation</b>			
Development of National Historic Site	3.3	95/99	Principal 16th century Basque whaling port. Interpretation facilities, trails, and stabilization of archaeological resources. Construction of orientation centre largest project for 1997. Federal funds. (Red Bay, Zone 5)
Discovery Centre	5.0	96/99	Facility will have interpretative, education and scientific capabilities as well as accommodations for visiting researchers and lecturers. Federal funds. (Woody Point, Zone 7)
Golf Course Clubhouse	1.1	96/97	Facility to complement the Pippy Park golf course. Funded \$496,000 under the Infrastructure Works Agreement with the remaining funds from the private sector. (St. John's, Zone 19)
Multipurpose Civic Centre	32.0	97/99	Multipurpose Civic Centre designed for hockey, major shows, trade shows, etc. \$5 million contributed in Provincial funds (St. John's, Zone 19)
Recreation Complex	5.3	96/97	Two phases of the project have already been completed – skating rink and bowling alley. \$700,000 to be spent in the next fiscal year. Federal, Provincial and Municipal funds. (Channel-Port aux Basques, Zone 10)

## *Major Projects in Newfoundland and Labrador (cont'd.)*

Project	Capital Cost (\$millions)	Start/End Date	Comments (Location, Economic Zone)
Stadium	1.5	97	Facility for ice activities and other events. Funding sources include \$350,000 from the Argentia Management Authority, as well as Federal and Provincial funds. (Placentia, Zone 18)
Strategic Regional Diversification Agreement	11.2	94/98	Funding to date for various capital projects, the majority tourism related. Federal/Provincial cost-shared. (Various Locations)
Tourism Projects	13.6	96/2000	Tourism infrastructure development and enhancement at a number of sites. Major projects in 1997 include the construction of a Grenfell Interpretation Centre at St. Anthony; and development and interpretation of archaeological resources of the Colony of Avalon at Ferryland. Economic Renewal Agreement, 80:20 Federal/Provincial funds. (Various Locations)
<b>Transportation Infrastructure</b>			
Labrador Airport Programs Restoration	2.2	94/98	This project involves general restoration work including runway and electrical. Spending in 1996 totaled \$311,000 – forecasting \$800,000 to spent in the 1997/98 fiscal year. Federal funds. (Various Locations)
Newfoundland Transportation Initiative	648.1	88/2003	Expenditures designed to upgrade and improve the Province's transportation infrastructure. Projected expenditure for 1997/98 is \$54 million. Federal funds. (Various Locations)
Provincial Roads Improvement and Construction	17.0	97/98	A variety of projects undertaken to maintain roads, bridges and causeways of which \$14.0 million is cost shared 50:50 Federal/Provincial under the Atlantic Region Freight Transition Assistance Program. The remaining expenditures are Provincially funded. (Various Locations)
Road Upgrading and Paving	3.0	96/97	Spending in 1996 totalled \$1.0 million – \$2.0 million to be spent in the 1997/98 fiscal year. Federal funds. (Conne River Road, Zone 13)
Strategic Highway Improvement Program	20.0	94/98	Expenditures for highway improvement projects. Projected expenditure for 1997/98 is \$4.0 million. 50:50 Federal/Provincial funds. (Various Locations)
<b>Other Investment</b>			
Adult Community Living	50.0	96/2008	Karwood Estates – self-contained adult (40+) community including houses, apartments, recreational infrastructure, medical facilities and retail space. 73 acre development. (Paradise, Zone 19)
Newfoundland and Labrador Housing Corporation – Housing and Development	7.6	97/98	Ongoing residential and commercial land assemblies, renovations to the Corporation's rental portfolio, and other social housing expenditures. Most social housing expenditures are 75:25 Federal/Provincial funds. (Various Locations)
Royal Canadian Mounted Police – Capital Construction Expenditure	1.4	97/98	Nain – construction of new detachment consisting of cell block, office space and meeting rooms. Deer Lake – complete retrofit of detachment consisting of the same. Federal funds. (Nain, Deer Lake, Zones 1 and 8)
Relocation of Innu Community	82.1	97/2004	Relocation of Davis Inlet. Federal funds. (Sango Bay, Zone 1) ♦

**SELECTED ECONOMIC INDICATORS  
NEWFOUNDLAND AND LABRADOR: 1993 - 1997**

	1993	1994	1995	1996	1997 <sup>f</sup>
<b>GDP at market prices (\$m)</b>	9,501	9,839	10,449	10,188	9,740
% change	2.9	3.6	6.2	-2.5	-4.4
<b>GDP at market prices (86\$m)</b>	7,952	8,148	8,270	8,097	7,878
% change	1.6	2.5	1.5	-2.1	-2.7
<b>Personal Income (\$m)</b>	10,108	10,225	10,279	10,104	9,872
% change	1.1	1.2	0.5	-1.7	-2.3
% change - (86\$)	-0.5	-0.1	-0.9	-3.2	-2.9
<b>Retail Trade (\$m)</b>	3,328	3,409	3,478	3,437	3,357
% change	-0.9	2.4	2.0	-1.2	-2.3
% change - (86\$)	-2.5	1.8	1.2	-2.5	-2.9
<b>Capital Investment (\$m)</b>	2,485	2,906	2,829	2,315	2,453
% change	19.4	17.0	-2.7	-18.2	6.0
% change - (86\$)	19.2	12.6	-2.4	-16.4	7.0
<b>Labour Force (000's)</b>	241.8	244.5	241.5	235.5	234.1
% change	-0.5	1.1	-1.2	-2.5	-0.6
<b>Employment (000's)</b>	193.2	194.6	197.3	189.7	186.1
% change	-0.4	0.7	1.4	-3.9	-1.9
<b>Unemployment Rate (%)</b>					
Annual Average	20.1	20.4	18.3	19.4	20.5
<b>CPI (1986 = 100)</b>	124.1	125.7	127.5	129.5	130.3
% change	1.6	1.3	1.4	1.6	0.6
<b>Housing Starts</b>	2,405	2,243	1,712	2,034	1,906
% change	5.9	-6.7	-23.7	18.8	-6.3

Notes: f: forecast (Government of Newfoundland and Labrador), March 1997.

Source: Statistics Canada; Canada Mortgage and Housing Corporation; Economics and Statistics Branch, Department of Finance.

**MARCH 1997**

*The Economy* is an annual publication providing a review of economic performance in Newfoundland and Labrador and an economic outlook for the near term.

The Economics and Statistics Branch of the Department of Finance produces a number of publications providing an overview of economic and industry trends.

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