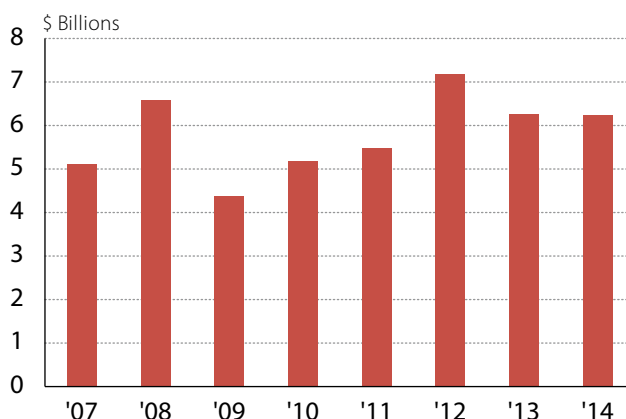


# Manufacturing

Newfoundland and Labrador's manufacturing industry contributed about \$919 million to nominal GDP in 2013, accounting for roughly 2.7% of total provincial GDP. In 2014, manufacturing employment was approximately 10,600 person years and represented almost 4.4% of total employment in the province. While there are many manufacturers in the province producing a wide variety of products, the majority of manufacturing output is concentrated in four areas: refined petroleum, food processing (primarily fish), fabricated metal manufacturing and newsprint.

The value of provincial manufacturing shipments decreased slightly in 2014, mainly due to a drop in the value of refined petroleum products manufactured at the province's only oil refinery in Come by Chance. In 2014, manufacturing shipments totalled around \$6.2 billion, representing a decrease of 0.5% compared to 2013 (see chart). Over the same period, the value of national manufacturing shipments grew 5.3%.

## Manufacturing Shipments



Source: Statistics Canada

Phase 1 of the construction of Vale Newfoundland and Labrador Ltd.'s nickel processing facility in Long Harbour was completed in October 2013, with the successful production of first nickel in July 2014. Development of Vale's nickel processing plant at Long Harbour is expected to progress with phase 2 construction continuing this year. This work will enable the plant to transition from processing imported nickel matte to processing Voisey's Bay concentrate by the end 2016.

The volume of refined petroleum produced at the North Atlantic refinery in Come by Chance fell 11.8% in 2014 relative to 2013 due to lower daily average production. According to Harvest Operations Corp., owner of the refinery for the majority of 2014, the lower production was a consequence of a power outage in January, an unplanned outage in the last week of March, and a planned three week outage for regular maintenance followed by an unplanned 10 day outage on the isomax unit. The daily value of sales from the refinery fell 10.5% last year compared to 2013. Furthermore, the value of sales decreased less than the volume of refined petroleum produced as the refinery gross margin increased from US\$1.07/barrel as of December 31, 2013 to US\$4.43/barrel a year later. Capital expenditures at the refinery for 2014 totalled US\$27.8 million, relating to various capital projects.

The ownership of the North Atlantic refinery changed late last year. The sale of NARL Refining, LP (including the North Atlantic refinery) to SilverRange Financial Partners LLC closed on November

13, 2014. This sale followed operating losses of US\$691.1 million in 2013 and US\$226.1 million last year. When the sale was announced in September 2014, the refinery employed 450 full-time and 35 part-time workers. According to SilverRange, the 115,000 barrel per day refinery in Come by Chance is strategically located along Atlantic crude oil shipping routes and provides access to petroleum markets in Europe and the U.S. Eastern seaboard. In addition, the company affirms that the refinery's clean-fuel technology enables it to produce low-sulphur, clean fuels, providing flexibility to refine crudes from many parts of the world. As a result, SilverRange has committed to investing capital and improving operations at the refinery to support continued operations, employment and economic benefits in the province. Specifically, it will reduce overall sulphur dioxide emissions at the refinery and undertake a capital investment program at the tank farm. Planned capital expenditures for 2015 are anticipated to total \$80 million.

Fish processing continues to play a significant role in Newfoundland and Labrador's manufacturing industry. The value of seafood product exports totalled almost \$883 million in 2014, representing an increase of 6.7% from 2013. This growth can be attributed to higher average market prices for some species (see *Fishery and Aquaculture* for details).

The value of fabricated metal manufacturing shipments totalled nearly \$545 million in 2014, representing an increase of 223% relative to 2013. This growth demonstrates that fabricated metal manufacturing is benefitting greatly from the development of various major projects in the province. Fabricated metal manufacturing shipments comprised 8.7% of the total value of provincial manufacturing shipments in 2014, compared to only 2.7% in 2013. In addition, fabricated metal manufacturing employment averaged around 1,700 in 2014 – up 32% from 2013.

The volume of newsprint shipped from Corner Brook Pulp and Paper Limited dropped slightly in 2014, decreasing 0.3% relative to 2013. However, the estimated value of shipments rose 6.4% on a year-over-year basis due to higher Canadian dollar prices (see *Forestry and Agrifoods* for details).

Employment in the manufacturing industry averaged approximately 10,600 in 2014 – down 9.4% from 2013. Specifically, fish processing employment declined by around 400 as a result of continuing consolidation in the industry. Manufacturing employment excluding fish processing fell by about 700 mainly due to a large decline in other food manufacturing. These losses more than offset the gains in fabricated metal manufacturing employment.

Labour income in the manufacturing industry increased 11.9% in 2014 relative to 2013. This growth is the result of wage gains and a change in the distribution of manufacturing employment towards higher paying jobs. Nationally, manufacturing labour income rose only 1.5% over the same time frame.

Considerable manufacturing work continues to be completed throughout Newfoundland and Labrador:

- The gravity based structure (GBS) construction for the Hebron project began at the Bull Arm construction site in October 2012, while topsides fabrication for the project began in 2013. As of December 31, 2014, over 4,700 individuals were employed at this site and construction and fabrication activities for the project will proceed for several years.

- Husky Energy substantially completed a graving dock at the former naval base in Argentia at the end of March 2015. This facility was intended to be used to fabricate a concrete wellhead platform for the West White Rose Project; however, Husky announced in December 2014 that it is deferring the final investment decision on the West White Rose project for a year and will also consider other options to a fixed concrete wellhead platform. Nevertheless, the site will have the potential to be used for future fabrication work and to complete emergency or refit work on offshore drilling rigs.
  
- In March 2014, Pennecon Energy started assembling two decks for the Hebron GBS at the Port Harmon industrial facility in Stephenville and this work was completed in February 2015. Pennecon started assembling three more decks for the Hebron GBS in early December 2014 and this work should be completed by mid-October 2015. The work at the Port Harmon industrial facility has created about 120 manufacturing positions, including support staff.
  
- Fabrication of a sub-sea manifold structure for Husky Energy's South White Rose extension was completed between January and August of 2014 by Talon Energy at an industrial fabrication facility in Port-aux-Basques. Talon also started flare boom fabrication work for the Hebron project at the same facility in June 2014 and they expect this work to last until July or August of 2015. In 2014, Talon received a \$500,000 repayable loan through the Atlantic Canada Opportunities Agency (ACOA) to assist with the cost of specialized equipment and provide working capital assistance. This support will help ensure continued fabrication work at the facility, which currently employs about 50 manufacturing positions.
  
- Fab-Tech Industries Inc. is located in Glovertown and has been in operation since 1980. They employ 13 full-time employees and operate year round in a 10,000 square foot production facility. Fab-Tech manufactures high quality metal fabrication products, including aluminum boats, processing equipment as well as production and harvesting barges. Their clients include recreation boaters, commercial fisher people, provincial and federal government departments, and private and publicly owned enterprises in a variety of industries. As of March 2015, Fab-Tech was in the process of fabricating 25 boats and an additional 35 boats should be completed by mid-July.
  
- Newfoundland and Labrador's advanced technology sector includes over 165 companies, employing almost 4,000 people—with estimated annual revenue of \$1.6 billion. Within this sector, aerospace and defense employs an estimated 1,500 workers in core companies, generating \$350 million in annual revenues, a three-fold increase since 2004.

# Looking Forward

The manufacturing industry in Newfoundland and Labrador like other parts of Canada has had its share of challenges in recent history. At the national level, the industry has experienced major market setbacks (like the 2008/09 recession); has been subject to volatile currency exchange rates; and has faced increasing competition from low-cost manufacturing countries like China. In this province, the industry has also endured the closure of two newsprint mills over the last decade—the Stephenville mill in 2005 and the Grand Falls-Windsor mill in 2009—reflecting a significant decline in global newsprint demand. As well, the fish processing sector has experienced considerable rationalization.

From 2004 to 2013, real GDP in the provincial manufacturing industry fell slightly (down 2.0%). However, this was considerably better than performance nationally: Canada's real GDP declined 11.9% and major manufacturing provinces like Ontario and Québec recorded declines of 21.6% and 12.2%, respectively. Manufacturing employment in Newfoundland and Labrador decreased 37.3% between 2004 and 2014, reflecting primarily the closure of the two newsprint mills and consolidation in the fish processing sector. By comparison, Canada's manufacturing employment decreased 25.5% between 2004 and 2014.

Looking forward, the successful sale of the Come By Chance oil refinery in 2014, coupled with planned higher output levels at the Long Harbour nickel processing facility, restructuring at Corner Brook Pulp and Paper, and rising prices in important fish markets, should support higher activity levels in this industry.





# Outlook 2015

## Manufacturing

- The value of provincial manufacturing shipments is expected to increase in 2015 as Vale Newfoundland and Labrador's nickel processing plant continues to ramp up production and other companies post modest gains.
- Development of Vale's nickel processing plant at Long Harbour is expected to progress with phase 2 construction continuing this year. This work will enable the plant to transition from processing imported nickel matte to processing Voisey's Bay concentrate by the end 2016.
- The recent depreciation of the Canadian dollar with respect to the U.S. dollar should benefit local manufacturers.
- Fabricated metal manufacturing will continue to benefit from developments in the oil industry.
- The volume and value of newsprint shipments are anticipated to increase slightly.
- NARL Refining, LP anticipates spending approximately \$80 million on capital expenditures at the North Atlantic refinery in 2015.

