



Sexton Lumber Ltd., Bloomfield. Courtesy: Neil Greening/Sexton Lumber Ltd.

Forestry and Agrifoods

Newsprint

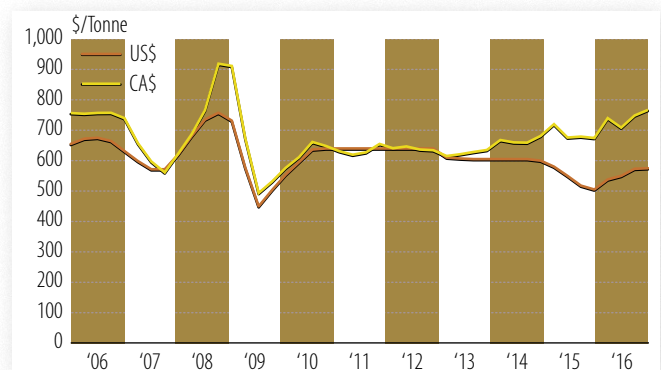
North American Industry

North American newsprint producers continued to struggle with difficult market conditions in 2016. Newsprint shipments declined by 8.1% over 2015. Shipments within North America and to oversea destinations were both down.

North American newsprint demand has declined for more than a decade, reflecting the growing popularity of digital media. Demand for newsprint dropped by two-thirds between 2000 and 2016. The industry has tried to limit the supply of newsprint in an effort to support higher prices, yet the market remains oversupplied due to the steady decline in demand. In spite of these market conditions, newsprint prices increased in 2016. The price of newsprint averaged US\$559/tonne in 2016, 3.9% higher than in 2015. Even with this improvement, prices, in U.S. dollars, remained below those recorded a couple of years ago (see chart). For Canadian producers, the

depreciation of the Canadian dollar has helped them retain their competitive position. In Canadian dollars, the average price of newsprint increased by 7.8% in 2016, hitting a seven year high.

North American Newsprint Prices



Source: TD Financial Group; Pulp and Paper Weekly; Bank of Canada; Department of Finance

Provincial Industry

The provincial newsprint industry has faced challenges similar to those of the overall North American industry, with the number of newsprint facilities reduced from three to one over the last decade. The remaining facility is owned by Corner Brook Pulp and Paper Limited (CBPPL), a subsidiary of Kruger Industrial. CBPPL employs close to 550 full-time and casual workers among the paper mill, power plants and forest operations.

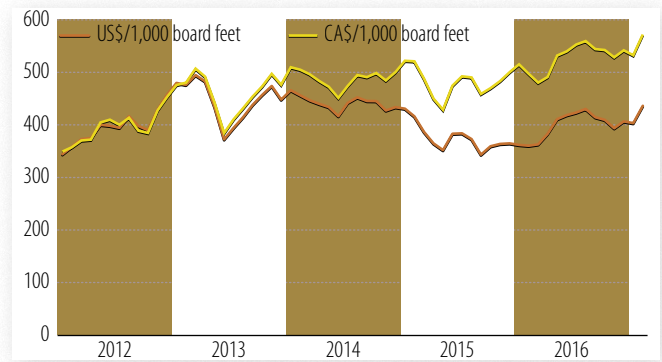
CBPPL has engaged in a long-term sustainability plan, facilitated by a 2014 loan agreement with the Provincial Government. Under the terms of the agreement, CBPPL has access to a fully repayable loan of up to \$110 million secured by a mortgage on the company's power assets and water rights, including the Deer Lake Power Plant and Watson's Brook Power Plant. The loan is being used by the company for debt restructuring and capital improvements at the Corner Brook facility and the Deer Lake Power Plant. Rebalancing the operation of the mill is important to the Corner Brook region and also has implications for the sawmill industry, which exchanges raw material with the paper mill for mutual benefit.

Provincial newsprint shipments in 2016 totalled 238,200 tonnes and the estimated value of shipments increased by 1.1%. Higher prices compensated for a small decline in the volume of shipments.

Lumber Production

Lumber prices increased from US\$361/thousand board feet in February 2016 to US\$437 in February 2017 (see chart). U.S. housing starts are an important determinant in the demand for lumber. U.S. housing starts increased by 5.6% in 2016 with single starts rising by 9.4% and multiples decreasing by 1.3%. The strong growth in single housing starts bodes well for lumber demand as a single housing unit consumes about three times as much lumber as a multiple housing unit.

Lumber Prices



Note: Price is for Kiln Dried Eastern Spruce-Pine-Fir # 1&2 2x4 R/L - Delivered Great Lakes

Source: Random Lengths Weekly Pricing; Department of Natural Resources; Bank of Canada; Department of Finance

Canadian lumber production totalled 29.0 billion board feet in 2016, up 5.7% compared to 2015. British Columbia accounted for nearly one half of this production. During this period, Canadian lumber exports increased by 13.5%—exports to the U.S. increased by 21.0% (78.5% of lumber exports) while exports to China decreased by 8.5% (12.7% of lumber exports).

Newfoundland and Labrador lumber production was an estimated 81 million board feet in 2016, up from 73 million board feet in 2015. This increase is attributed to improved saw log availability and new capital investments. These investments include Burton's Cove Logging and Lumber Ltd. in Hampden, which completed a major expansion several years ago to improve productivity and increase production. Expansion activities included the establishment of a new single line for lumber production, a mechanized system for sorting logs, and installation of a dry kiln. As well, Sexton Lumber Co. Ltd. in Bloomfield, the largest integrated sawmill in the province, expanded its operations in 2016 with the addition of a finger-jointing plant. The installation of this new capacity was completed in November 2016 at a cost of \$2.6 million—commercial production started in the first quarter of this year. The introduction of finger-jointed lumber will allow the company to increase the variety of lumber lengths that it sells in the market and to

more fully utilize its raw materials. Further information on the investment at Sexton Lumber is included in the *Manufacturing* section.

The U.S.–Canada lumber trade dispute will be a source of concern for Canadian lumber exporters going forward. The previous Softwood Lumber Agreement expired in October 2015. Despite ongoing negotiations to reach a new agreement, in November 2016, a U.S. industry organization petitioned the U.S. Department of Commerce to initiate an investigation into Canadian softwood lumber imports into the U.S. In January 2017, the U.S. announced a finding of injury and is continuing its investigation. A preliminary finding on countervailing duties is expected this spring.

Future Development

The Provincial Government continues to work towards an agreement on the utilization of forest resources in central Newfoundland, which were formerly held by AbitibiBowater until the closure of the Grand Falls-Windsor newsprint mill in 2009. The unallocated wood supply available for development is 280,000m³ per year (representing approximately 12% of the annual allowable wood supply for the island portion of the province).

NewGreen Technology Inc. and the Province reached an agreement in principle in February 2017 for the development of a 20 million board feet capacity sawmill and a biofuel manufacturing and export facility in Botwood. The agreement focuses on the development of a comprehensive business plan from the company and potential fibre arrangements to be provided by the Government to support the project.

In 2016, the Department of Fisheries and Land Resources achieved the ISO 14001:2004 environmental management system certification. The certification is compulsory for all forestry activities carried out on Crown land in the province. This standard emphasizes the Province's commitment

to sustainable forest management and opens access to additional certifications in the industry. Obtaining this certification has several associated benefits, such as cost savings in waste management, reduced insurance costs, better risk management, and competitive marketing advantages for local wood product manufacturers. This will not hamper annual harvest amounts as the industry is already harvesting at a sustainable rate.

Agrifoods

The provincial agrifoods sector is a diverse and growing component of the Newfoundland and Labrador economy. Provincial farms reported receipts of \$97.3 million during the first three quarters of 2016, down 3.5% from the same period in 2015. Livestock and livestock products, which accounted for 86% of total receipts during this period, were down by 5.4% to \$83.9 million. The decrease mainly reflected lower fur receipts, in particular mink, whose price is set on the global market and subject to fluctuations. Farm cash receipts from chicken farming are not available due to confidentiality restrictions, but data from the Chicken Farmers of Canada indicates that the volume of chicken produced in the province in 2016 totalled 15.6 million kilograms, up 8.8% from 2015. Total crop production receipts increased by 0.8% to \$12.1 million during the period. Gains were recorded in floriculture and in field and greenhouse vegetables.

Egg Industry

In Newfoundland and Labrador eggs are the third largest agricultural product (in terms of value) behind dairy and poultry. Egg production generated \$13.4 million in farm cash sales for the province in the first three quarters of 2016. There are currently six registered local commercial egg producers who produce 10 million dozen eggs annually. Egg farmers are part of the national supply management system which allocates

quotas based on consumption. The province has an allocated quota of approximately 370,000 birds. Consumption of eggs is on the rise due to consumer trends toward natural and nutritious protein-rich food.

In response to the increasing demand for eggs, the Egg Farmers of Newfoundland and Labrador (EFNL) established a new entrant program in 2015. Barn Fine Eggs, located on the West Coast of the island, was the first to avail of the program, and was allocated a quota of 5,000 birds. Construction of the barn began in the summer of 2016 and the birds, of Lohmann breed, were placed in the barn in December. The barn has an enriched colony system, which encourages hens to exhibit their natural behaviors such as dusting, bathing and foraging. Barn Fine Eggs reported that its birds are responding well to this habitat, have good plumage and are producing clean healthy eggs. The company is looking forward to the potential to expand its operation.

The EFNL is conducting a second call for a new entrant, who will be allocated a quota of 4,870 birds. There are several interested candidates in the province seeking to enter the industry. Growth of this sector will contribute to improve food security in the province.

NL Eggs Inc., located on the Avalon Peninsula, is the only federally registered grading station in the province. NL Eggs Inc. collects, grades and packages all eggs produced in the province. All egg farmers in Newfoundland and Labrador participate in a national food safety program called “Start Clean Stay Clean”, which is a mandatory Hazard Analysis Critical Control based program. Additionally, egg producers follow a mandatory Animal Care Program which is audited by a third party.

2017 OUTLOOK

- North American newsprint demand is anticipated to continue to decline. The shutdown of additional mills, such as the mill in Trois-Rivières (Québec) owned by Kruger, should reduce excess supply and allow for stable prices in 2017.
 - Newsprint prices are expected to average US\$571/tonne, up slightly from an average of US\$559/tonne in 2016. Canadian producers are expected to receive some relief because of lower exchange rate, with the Canadian dollar forecast to average US\$0.75 in 2017.
 - Newsprint shipments from Newfoundland and Labrador are expected to be around 245,000 tonnes, up 2.8% from 2016.
 - North American lumber prices are expected to increase, from an average transaction price of US\$398 per thousand board feet to US\$425.
 - Lumber production is projected to increase slightly to approximately 83 million board feet, reflecting mill improvements and increased capacity.
 - Farm cash receipts are expected to grow across all sectors.
 - On February 16, 2017, the Department of Fisheries and Land Resources and the Department of Municipal Affairs and Environment announced increased access to Crown land for the agriculture industry. Consisting of approximately 64,000 hectares, this has the potential to nearly double the amount of land available to farmers and agricultural producers.
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