

The Virgin Islands Consortium

Economic Impact From ABR To Start Slow, But 'Substantial' Growth Expected In 2016, Agency Report Says

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Completion of the proposed engineering, rehabilitation and construction necessary to restart the refinery is anticipated to take approximately 3 years at an estimated cost of \$1.1 billion. The initial engineering phase is expected to take approximately 9 months, and economic improvement resulting from the Operating Agreement is likely to be limited through the third quarter of 2015.

The Operating Agreement signed between the Government of the Virgin Islands and Atlantic Basin Refining (ABR), will help lift the Virgin Islands economy, specifically St. Croix, out of the mire it's currently in, according to the results of a study recently conducted by the V.I. Bureau of Economic Research.

The information was presented in a press release issued Tuesday from Government House, which made known that the research was sanctioned by Governor John P. de Jongh, Jr., who is currently pushing for the 30th Legislature to ratify the agreement before the Mapp administration takes hold on January 5, 2015. However, some in the Senate body, including Senate President Shawn-Michael Malone, have publicly said they would rather the incoming 31st Legislature deal with the ABR Operating Agreement, which spans some 40 years.

The bureau's [17-page document](#) details the closing of HOVENSA and the impact it has had on the Virgin Islands economy. Furthermore, it shows that, at one point, unemployment in the territory had reached 13.7 percent, with St. Croix hitting 17.8 percent unemployment. The national unemployment for November 2014 was 5.8 percent, unchanged from October, according to the Bureau of Labor Statistics.

The report also shows the effect HOVENSA's closing had on the territory's Gross Domestic Product (GDP), as it states the economy shrank by 13.8 percent in 2012 following the refinery's closure, and further in 2013 by 5.4 percent, all resulting from a reduction in the exports of refined products.

In the midst of the bleakness, however, the report identified signs of growth in various industries, including tourism, which it says saw a 4 percent overall increase in cruise passengers in 2014, while St. Croix experienced a 7 percent increase in tourist passengers to the island. Other industries showing improvements, according to the report, include scientific and technical services, health and social services, as well as the leisure and hospitality, and the food and services sectors.

"All of the current trends could be accelerated by restarting the refinery with ABR," the report states, although the impact won't be felt until late 2015, and into 2016 and 2017.

Once fully operational, the refinery has the potential of creating "an additional \$400 million in indirect economic output, yielding over \$1.5 billion in total economic output, creating over 3,000 jobs and amassing an estimated \$164 million in tax revenues" after the initial three-year restart process has taken hold.

"Completion of the proposed engineering, rehabilitation and construction necessary to restart the refinery is anticipated to take approximately 3 years at an estimated cost of \$1.1 billion. The initial engineering phase is expected to take approximately 9 months, and economic improvement resulting from the Operating Agreement is likely to be limited through the third quarter of 2015," reads the report.

Pending a successful restart, which must be preceded by ABR's ability to get the first round of financing of \$1.1 billion that it needs, "In 2016 and 2017 combined, an estimated \$550 million in expenditures related to the reconfiguration and restart are expected to be sourced locally," the report says.

	2007	2008	2009	2010	2011	2012	2013
Real Gross domestic product	4,836	4,852	4,585	4,645	4,795	5,702	5,581
Personal consumption expenditures	2,056	1,969	2,695	2,073	2,062	2,898	2,680
Goods	1,161	1,008	987	970	955	938	954
Durable goods	740	619	576	545	534	531	571
Nondurable goods	421	385	405	429	423	407	378
Food, feeds, and beverages	244	236	248	254	255	268	261
Other nondurable goods	187	149	157	164	168	137	122
Services	1,999	1,960	1,918	1,953	1,973	2,854	1,991
Housing and utilities	527	513	505	519	508	560	566
Health care	285	229	223	228	260	257	261
Food services and accommodations	475	481	434	448	433	440	440
Other services	745	738	725	739	739	755	731
Net foreign travel	-1,034	-996	-870	-851	-863	-889	-897
Private fixed investment	397	381	311	330	287	394	396
Change in private inventories	-404	106	200	-197	96	59	83
Net exports of goods and services	1,732	1,864	946	1,795	793	394	94
Exports	11,069	11,732	10,114	9,695	8,088	1,772	1,587
Goods	10,014	10,104	8,214	8,816	7,289	1,112	817
Services	1,057	1,015	885	881	872	898	947
Imports	9,337	9,868	9,169	8,440	7,335	1,578	1,412
Goods	9,082	9,645	8,954	8,235	7,145	1,501	1,337
Services	251	221	207	200	190	94	94
Government consumption expenditures and gross investment	997	964	1,008	1,049	989	895	885
Federal	112	136	129	150	135	129	127
Territorial	845	847	878	899	854	766	738
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Gross domestic income (current dollars)	4,833	4,184	4,280	4,406	4,298	4,143	3,782
Employee Compensation	2,176	2,123	2,108	2,278	2,218	2,855	1,887
Population (thousands)	114.7	115.9	107.1	106.6	105.9	105.6	106.9
Per capita real GDP (chain dollars)	42,162	41,864	42,712	43,656	43,557	39,123	33,375

U.S. Virgin Islands Territorial Gross Domestic

Product (Millions of Dollars)

The document went on to say that "approximately 50 percent of ABR-related expenditures sourced locally is anticipated to be spent directly in the Virgin Islands economy," an assumption made using the five-year average proportion of estimated personal consumer expenditures to total Territorial GDP, seen in the graph to the left of the screen (or beneath, depending on the reading device).

Added to the direct impact the report claims the estimated \$550 million will have on the local economy, once fully operational, the refinery has the potential of creating "an additional \$400 million in indirect economic output, yielding over \$1.5 billion in total economic output, creating over 3,000 jobs and amassing an estimated \$164 million in tax revenues" after the initial three-year restart process has taken hold.

Governor de Jongh, in a statement accompanying the press release, said the report "answers many questions," and that "this agreement could very well be the 'shot in the arm' our economy needs."

The Governor also gave voice to what he called the "risks" involved in moving forward with the ABR deal.

"Admittedly there are risks, but we believe those risks have been addressed by certain requirements in the Operating Agreement and these risks are better than the risk of doing nothing," de Jongh concluded.

Image Credit: Neftegaz