

Labor Economic Impact Analysis 2012 (HOVENSA plant closure)

Prepared by Virgin Islands Department of Labor Bureau of Labor Statistics

Summary

The HOVENSA oil refinery has decided to cease operations related to the process of refining petroleum in the Virgin Islands. This decision, according to corporate officials was based on economic reasons related to market demand and cost of production. Officials have stated that over the past three cycle's losses totaling -\$1.3 billion have occurred, and based on future forecasts for demand of refined petroleum products in addition to the plants cost of production, the losses came below margins needed for continuity. At the time of the announcement, the company directly employs over 1k, and another 1k on average in mechanical maintenance services through sub contractors. This loss will place a devastating blow on the manufacturing sector in the Virgin Islands, and cut into the Territory's economic infrastructure.

Although it is early in the process and until empirical statistical data is collected through structured methodology, in the short run, losses in taxable wages for the Virgin Islands government will amount to \$92 million in annual tax revenue, and protracted factors throughout the economy will be felt through adjustments in earning power, cost of living, and other socioeconomic implications that can occur when a large industry that has been an anchor establishment cease operations.

Over the past 30 years the Virgin Islands manufacturing sector has been slowly diminishing, and subsequently impacting employment. This last event will result in a total restructure of the Virgin Islands economic diversity and completely shift the economy to service producing.

This shift will subsequently have an impact on individuals who have been working in this sector which tend require different occupational skills sets that are not prevalent in the service producing sectors. Many of the jobs in the petroleum manufacturing sector involve mechanical and physical skills in comparison to service industry occupations that generally require administrative and clerical aptitude.

This departure will shift the labor force supply and demand curve, more specifically on the island of St. Croix where job openings related to the refinery supplied the majority of job openings. This shift is expected to begin at the end of the 2nd quarter of 2012 with the majority of labor supply increasing by 1,000 persons who have installation, maintenance, repair, and production experience. The down side is the current weak job demand in the economy and more specifically related to the manufacturing and production openings.



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The major challenge is not only in the short term cycle, but also providing long term career transitions for persons who need to prepare for possibly moving into service sector occupations, and upgrade of skills, job training, and experience to meet demand for emerging sectors.

Economic and Monetary Effect

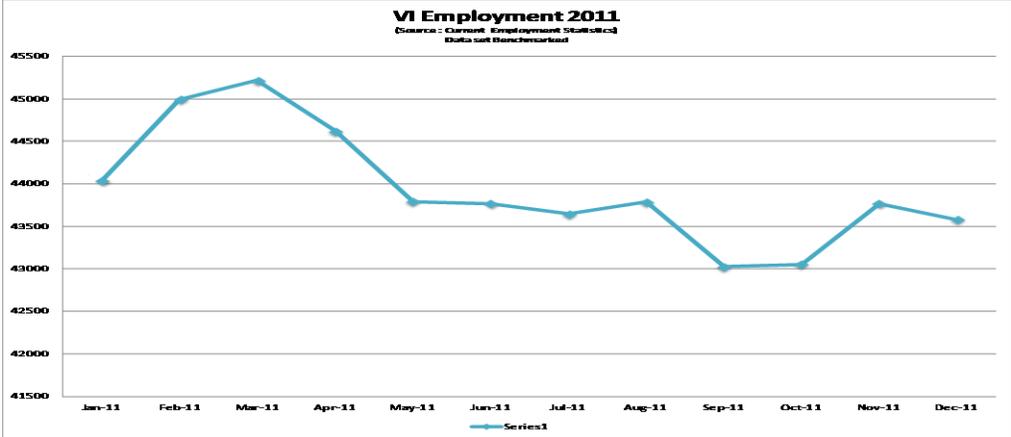
The discontinuance of the refining process represents a potential \$580 million reduction in gross economic output, and approximately \$92 million in tax revenue. Refined oil products have represented approximately 20% of the Virgin Islands \$5 billion economic output.

The largest and most significant factor of this event lies in the measure of income in the micro economy. Based on past occupational employment surveys, the average wages earned in this sector amounts to roughly \$30k. This sector represented the highest wage earning capacity outside the public sector, and was contributory to direct and indirect earnings to all Virgin Islands households. This restructure in earnings will have an exponential effect on all sectors and more directly in the retail, public, wholesale, hospitality, and health care areas as personal consumption begins to wane. Although this event is occurring presently, based on the Occupational Employment Statistics survey methodology, final adjustments will not be released until May 2013. However, this reduction on income will result in revenue loss to government payroll and services to the community. At the same time, the social networks that provide means through financial, healthcare, and instructional mechanisms will be impacted as the fallout from this sector progresses.

In addition, and as a result of prior budgetary shortfalls related to the contraction of economic resources, public and private sector have already begun furloughing before this event has occurred, and this event will further exacerbate economic growth.

Employment

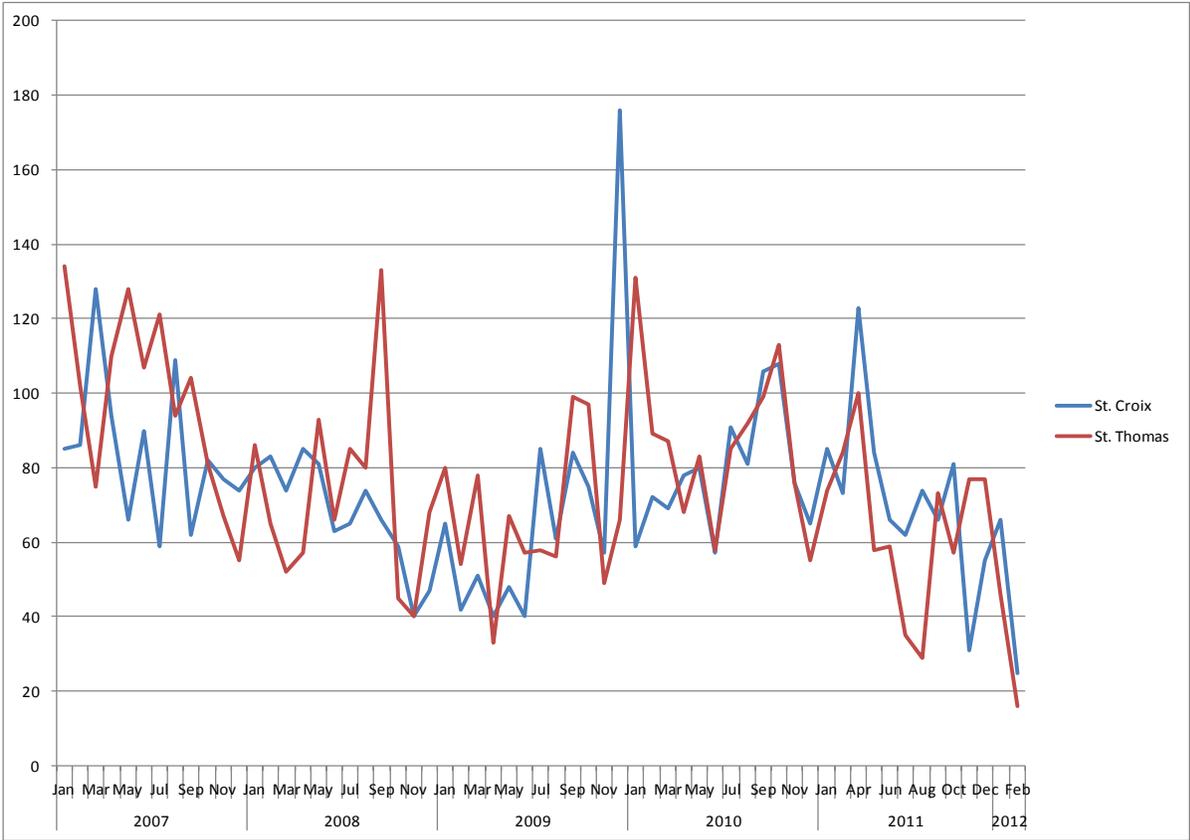
During 2011 the Virgin Island’s employment averaged 43k, (see chart). The manufacturing sector represented 10% of employment, but produced wages averaging \$35k based on skill demand related to work in the refining process.



The Virgin Islands economy is divided into two broad economic categories that are goods and service producing factors. At the close of 2011 the goods producing sector employed roughly 10% of the workforce, however, projections show this sector will contract to below 5% of the workforce after the close of the refinery. In ranking of the top Virgin Islands employers, the refinery and its related contractors comprised of the top five employers.

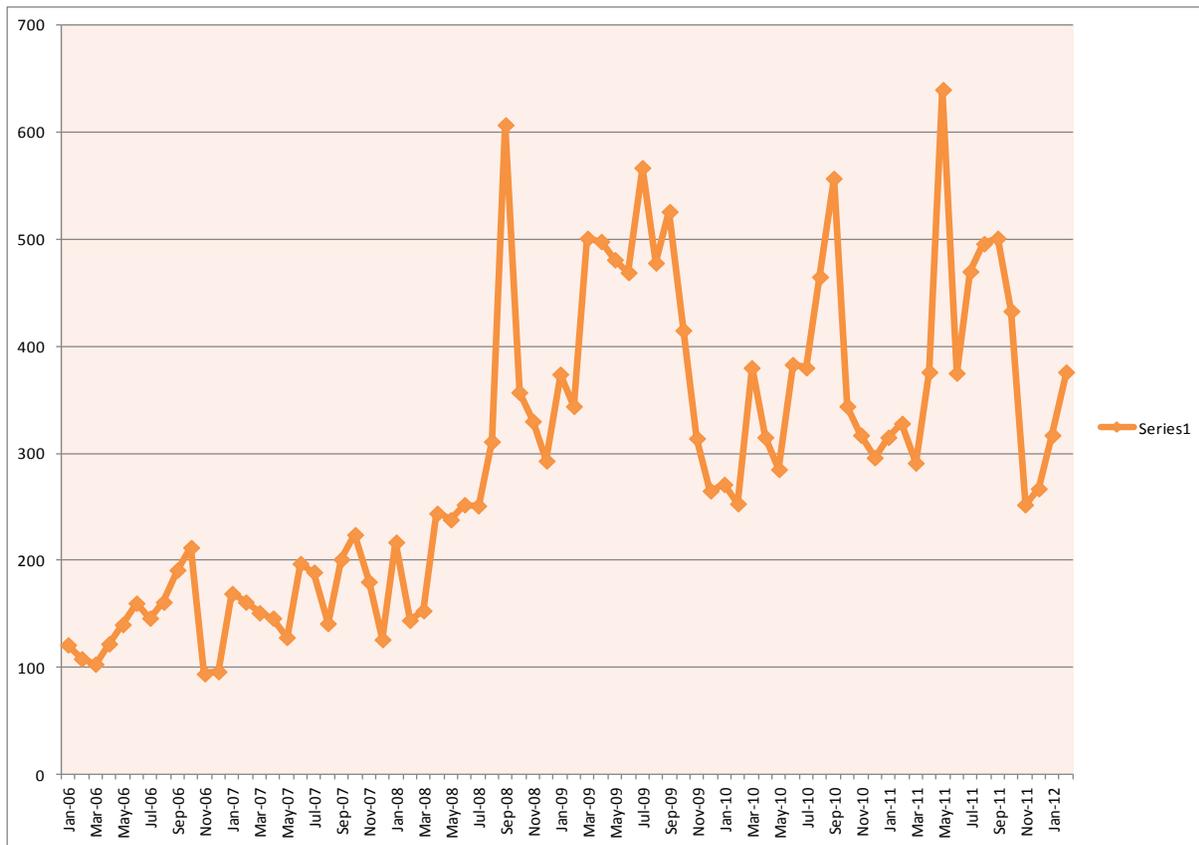
Job vacancies will be impacted and are already apparent in the economy (See chart below), based on the early 2012 preliminary numbers. Over the past 5 cycles, monthly job openings have averaged 149. In the first two months of 2012, prior to the refinery closure, the months of February’s vacancies in both jurisdictions have totaled 41. Based on the trend in the chart below, a turning point in job supply occurred around the 1st quarter of 2011, despite seasonality related to tourist season. The job vacancy chart also reflects the 2008 starting point of the economic contraction, with a slight increase related to ARRA funding, and census related employment. However, the beleaguered fundamentals in the economy have not spurred a sustained economic turn leading to more stable growth patterns, and the sunset of the stimulus events have resulted in stalemate.

Job Vacancy Chart 2007-Feb 2012



During this period of economic slowdown, the Virgin Islands unemployment system has seen increases and the implementation of several EUC (Extended Unemployment Compensation) benefits. Durational factors related to weeks collected have burdened the funds, and the Territory has borrowed over \$32 million to cover initial and continued claims. Over the past 4 years, the initial claims (see chart below covering 2006- Jan 2012) have moved from an average of 161 monthly claims to as high as 436 in 2009, and 392 since the turning point back in September 2008, where the count for the month climbed to 607 and was repeated in May 2011 at 640.

Initial Claims Chart 2006-Feb2012



Occupational Employment Impact

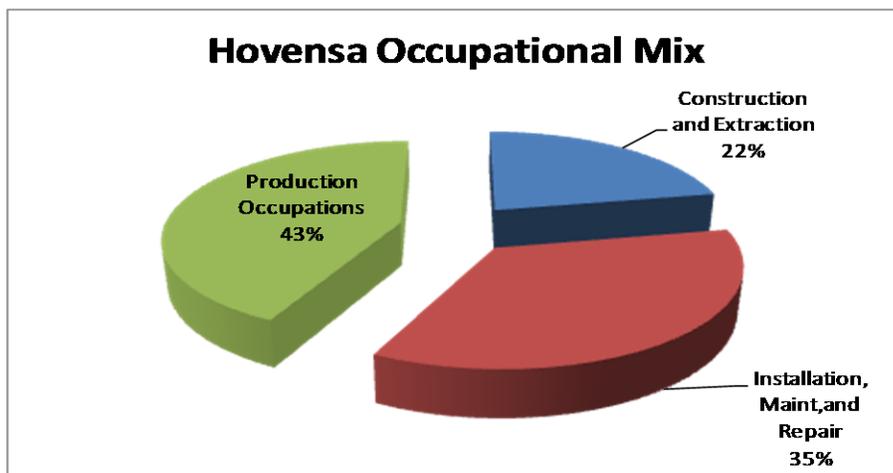
With this event occurring and impacting output, revenue, and employment, the principal resource that enables economic functionality is in the occupational talent that supplies industry to produce goods and services. The Virgin Islands job market will have a new pool of individuals with production operations experience, however, current openings within the market are down, and are in occupations outside the production sector. This change will skew the market and present an immediate challenge in the workforce. A medium to long term strategy begins with the process of retraining individuals to shift into existing and emerging sectors that are projected to see growth related to the recovering economy.

Occupations in the Virgin Islands have been concentrated around a seasonal employment pattern related and reliant on the U.S. climatic seasons for tourism, spirits distillation, and energy consumption related to gasoline production. Based on the status of the current global energy cycle, and more specifically the U.S. of which 80% of the local refining capacity was supplied to mainland distributors, this depletion will restructure and shift the occupational mix and in turn change the salary and wage structure .

The expected reduction in the manufacturing sector leaves the following sectors as the major sources of employment in the Virgin Islands:

Sector	Percent of Employment
Trade and Transportation and Utilities	20.0%
Financial Activities	5.5%
Professional and Business	8.4%
Education and Health Services	5.8%
Leisure and Hospitality	17.4%
Government	27.0%

In analyzing the various occupations that existed within the refinery the chart below displays the major occupational mix.



The residual occupations within the establishment are in managerial, administrative support, engineering, clerical staffing and scattered in various other occupations. If individuals with these skills remain in the local job market, transition to new jobs should be a factor of job demand in the remaining industry sectors.

Based on the industries occupational mix the following matrix will demonstrate the anticipated occupational retraining and restructuring necessary for the existing workforce, and what has been targeted for future demand.

Standard Occupational Code	Prevalent Hovenssa Production Occupation(s)	Standard Occupational Code	Projected Growth/Transitional Occupations	Training/ Job Placement Factor
51-8093	Petroleum Operator	47-0000	Construction and Extraction	Minimal
51-4121	Welders, Cutters	15-0000	Computer and Mathematical	Extended Training 2 plus years
49-9071	Maintenance and Repair	31-0000	Healthcare Support Occupations	Extended Training 2 plus years
49-9041	Industrial Machinery Mechanics	41-0000	Sales and Related Occupations	Minimal
47-2152	Plumbers, pipefitters,	25-0000	Education, Training, Library Occupations	Extended Training 2 plus years
47-2141	Painters, Construction Maintenance	33-0000	Protective Service Occupations	Minimal
47-2061	Construction laborers	19-0000	Life, Physical, and Social Science	Extended Training 2 plus years
47-2031	Carpenters	39-0000	Personal Care and Service Occupations	2 year training and on the job exp.
		29-0000	Health care Practitioners and Technical Occupations	Extended Training 2 plus years. On the job training and certification.