

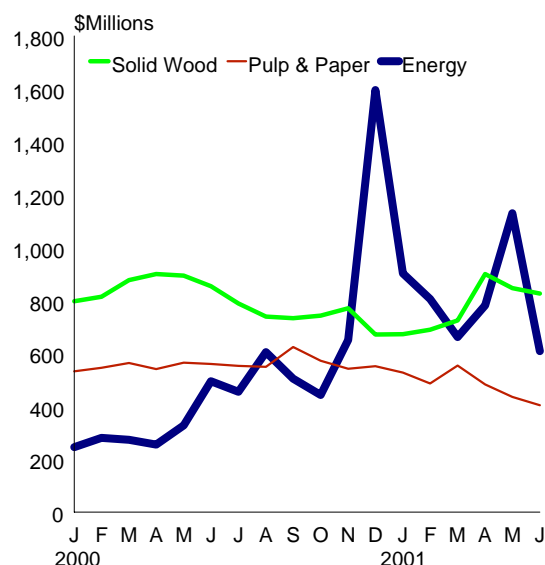
Exports ♦ June 2001

- The value of total BC exports in the first half of 2001 is over 13% higher compared to the same period in 2000. Unprecedented growth in the value of energy exports is largely responsible for the surge, but it appears that prices for electricity and natural gas have moderated to some extent so year-to-date growth over the rest of 2001 should slow from the torrid pace set in the first half.
- The year-to-date value of electricity exports is over four times the amount recorded in the January to June period in 2000 and natural gas exports are up almost 250%. Price inflation has been the main reason for the substantial growth in this sector.
- The phenomenal growth recorded in the energy sector has overshadowed a significant slowdown in trade of forest products. Year-to-date exports of both solid wood (-9.3%) and pulp and paper products (-12.6%) are significantly lower compared to the first half of 2000.
- At least part of the reason for the shrinking export market for BC forest products is the uncertainty caused by the expiration of the Softwood Lumber Agreement with the United States. Producers were hesitant to ship their product in the face of possible retroactive duties. Now that the US Department of Commerce has set a duty on Canadian softwood lumber of 19.3%, there could be a further drop in the volume of wood exported from

British Columbia. Lumber producers in the province have reacted to the duty with layoff notices, which will likely diminish supply and drive prices up. Although the higher prices may make selling the wood to the Americans profitable despite the duties, the subsequent damaging effect on the US economy will ultimately hurt Canadian exporters as well.

- Trade to the Pacific Rim (including Japan) continues to lag behind last year's pace (-18.2%). Similarly, trade with the European Union is down 2.2% from the first half of 2000. On the positive side, trade with Mexico, Central and South America is substantially higher so far in 2001.

Substantial growth in the value of energy exports has masked poor performing forest sector

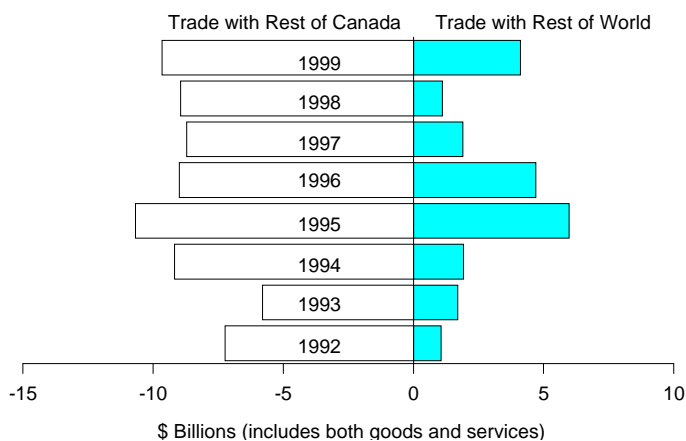


Interprovincial and International Trade in Goods and Services

For a region like British Columbia with an abundance of natural resources, trade is crucially important. Most often it is the trade between countries that receives the bulk of attention, but in a federation like Canada, it is also important to look at trade within the country. For example, in 1999 (the latest year for which interprovincial trade data is available), although British Columbia had over a \$4 billion surplus in international trade, interprovincially it had just under a \$10 billion dollar trade deficit with the rest of the country. The combined interprovincial and international trade deficit amounted to just over \$5.5 billion.¹

*A **trade deficit** occurs when imports exceed exports and a **trade surplus** occurs when exports exceed imports.*

BC Trade Balance: Net of Exports Minus Imports



BC has recorded an overall trade deficit in each year from 1992 to 1999 due to interprovincial trade deficits that exceed international surpluses.

This internal deficit/external surplus is not unique to 1999, but rather has been the case for at least the last 15 years. The interprovincial trade deficit has increased in the nineties, hovering between 9 and 10 billion dollars, whereas in the mid-eighties it was closer to 5 to 6 billion dollars. At the same time, the trade surplus with the rest of the world has become smaller, such that the overall trade balance for British Columbia has been negative throughout the nineties. In contrast, in the eighties there were a few years where there were overall trade surpluses.

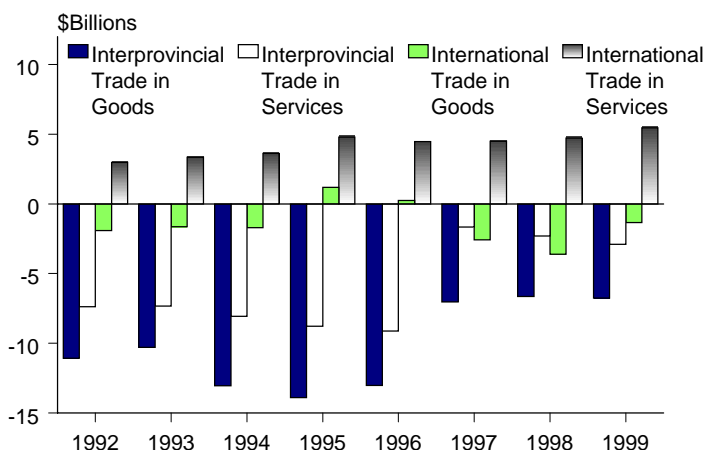
Goods versus Services

The biggest contributor to British Columbia's trade deficit tends to be trade in goods rather than services. In fact, even internationally, BC tends to import more goods than it exports in most years. While BC still has a trade deficit in services with the rest of the country, this is not the case internationally. British Columbia generally has a healthy surplus in international trade in services, which outweighs any deficit in goods such that the province usually has a trade surplus with the rest of the world.

BC generally has a trade surplus with the rest of the world in services.

¹ Statistics Canada, *Interprovincial and International Trade Flows 1992-1999*.

With the exception of trade of services to other countries, BC's trade balance is usually in the red



Location, Location, Location

British Columbia's location on the West Coast is the primary reason for the surplus in trade of services to the rest of the world. A substantial portion of BC's service exports derives from the transportation, storage and handling of goods and services. The province's location ensures that a great deal of the commodities traded between Canada and Pacific Rim countries will travel through BC, via its ports, railways, highways or airports. This includes imports destined for BC and other provinces, as well as exports from BC and the rest of Canada. BC also has a significant international trade surplus in business and computer services. In 1999, the net of exports minus imports in these services was valued at almost a billion dollars.

BC's location is the key to an international trade surplus in services.

In terms of exports of services, the transportation, storage and handling of merchandise (where handling includes the wholesaling margins, which are the difference in costs between the producer's prices and the purchaser's prices) is the most significant component. This is true both for trade with the rest of Canada and the rest of the world. For imports of services, this category is also one of the largest, but makes up a smaller portion of the total compared to exports. Again, it is British Columbia's location that makes transportation, storage and handling of goods such a large component of the province's trade.

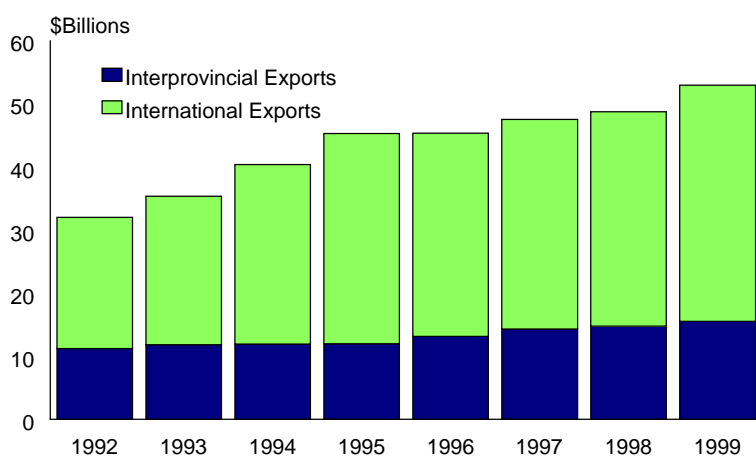
Other significant components of trade in services both internationally and interprovincially are in finance, insurance and real estate, particularly for imports, and business and computer services for both exports and imports. For international transactions, another large sector is services to tourists in the form of accommodation and meals. For interprovincial transactions, communication services are significant.

Manufactured goods in, raw materials out

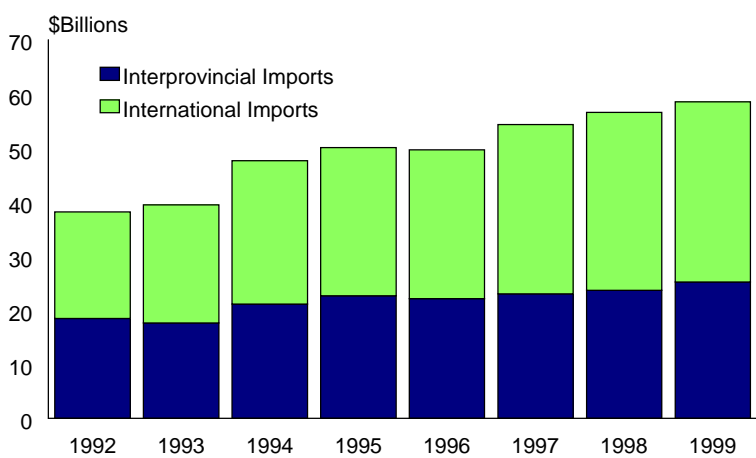
With the wealth of resources available in British Columbia, it comes as no surprise that the majority of goods exported, particularly to international destinations, are resource-based, such as wood, pulp, paper, and mineral products. Imports of goods from other countries tend to be concentrated in manufactured products such as motor vehicles and parts, machinery and equipment, and electrical, electronic and communication products. Imports from other provinces are most often food and beverages, chemicals and pharmaceuticals, or petroleum products. As Canada has developed international free trade agreements, such as NAFTA (North American Free Trade Agreement), the value of international trade has increased as a percentage of overall trade and some of the goods that were traditionally purchased from other provinces are now being purchased internationally.

Resource-based goods dominate BC's exports, while imports are primarily concentrated in manufactured products.

BC's trade with other countries has been growing as a percent of overall trade for both exports...



...and imports



BC's international trade has been growing at a faster rate than inter-provincial trade.

The myth of provincial trade barriers

There are some that argue that the shift toward international trading partners away from those in other provinces has as much to do with trade barriers within Canada, as it has to do with the removal of barriers internationally. While it is true that trade barriers still exist between provinces, for the most part they are insignificant relative to the overall level of trade. In 1995, the Canadian provinces signed on to the *Agreement on Internal Trade* (AIT). This agreement was designed to reduce or eliminate existing barriers to trade within Canada, and it has succeeded in dealing with the worst cases, particularly those involving alcoholic beverages. It is somewhat ironic that in a country where beer commercials can evoke strong feelings of patriotism, until very recently, in BC, it was less expensive to buy beer from the United States than from Ontario. The AIT has since eliminated those barriers.

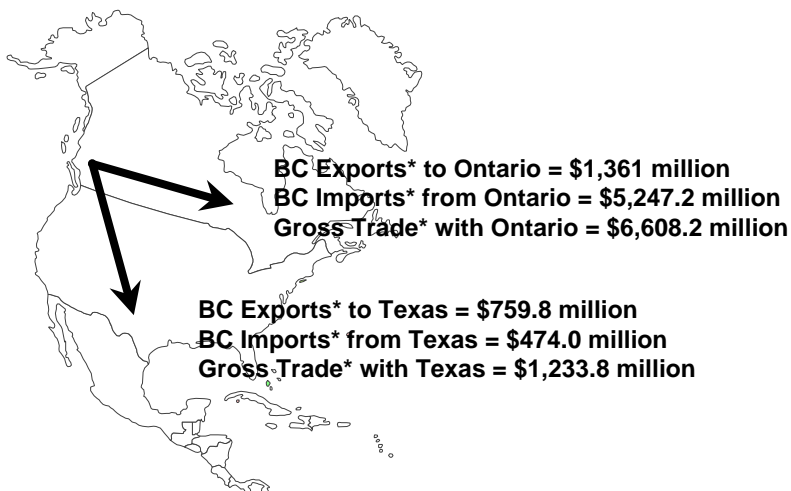
The AIT still has its share of critics, however, who suggest that it has a long way to go before all the interprovincial trade irritants are eliminated. This may be true, but evidence suggests that the remaining barriers are, for the most part, a minor concern in the overall trade picture and are not substantially hampering interprovincial trade. According to research performed by John McCallum and John Helliwell,² provincial barriers to trade are far less significant than the barrier of an international border.

McCallum and Helliwell examined trade flows between Canadian provinces and American states accounting for distance and market size. Their study suggests that the international border is in itself a barrier to trade. Uncertainty over exchange rates and the possibility of countervailing duties or anti-dumping charges add risk to international trade that does not exist in interprovincial trade. Given the decline in international trade barriers in recent years with the signing of various trade agreements like NAFTA, it would make sense that if there truly were serious barriers to trade within Canada, then the provinces would trade far more with sources outside the country. This has occurred to some degree as a reduction in trade barriers has naturally increased trade, but not enough to support the idea that provincial trade barriers are driving the provinces to trade less with each other and more with other countries.

International borders can serve as a barrier to trade.

² McCallum, J. and J.F. Helliwell, *The Extraordinary Trade-Generating Powers of the Canadian Economic Union*, Royal Bank and University of British Columbia, May 1995.

BC trades far more with Ontario than Texas despite similar distances and a much larger economy in Texas



* Goods only, 1999

McCallum and Helliwell suggest that in a world of perfect free trade British Columbia would trade far more with Texas than with a province approximately the same distance from BC like Ontario, because the economy of Texas is much larger than that of Ontario. In reality this is not the case at all. In 1999, British Columbia's gross trade in goods with Ontario (i.e., exports plus imports) was over five times larger in value compared to Texas.³ The authors suggest that these kind of trade disparities imply that trade barriers within Canada are trivial compared to those between the United States and Canada. Considering that with NAFTA most of those barriers have been reduced or eliminated, that would mean that barriers within Canada are not very significant or, at least, that the benefits of trading within the country far outweigh those barriers. At any rate, it suggests that internal trade barriers are not causing the level of damage to trade that some critics believe. This argument is a bit simplistic since it does not take into account the difference in product mix between Ontario and Texas. However, the authors tested all provinces against the 30 largest states and found similar results, which suggests that although they may be overstating the importance of the international border, it is still a more significant factor in trade than any existing provincial trade barriers.

Research shows that Canadian provinces trade with each other at levels far in excess of what would occur in a perfect free trade world.

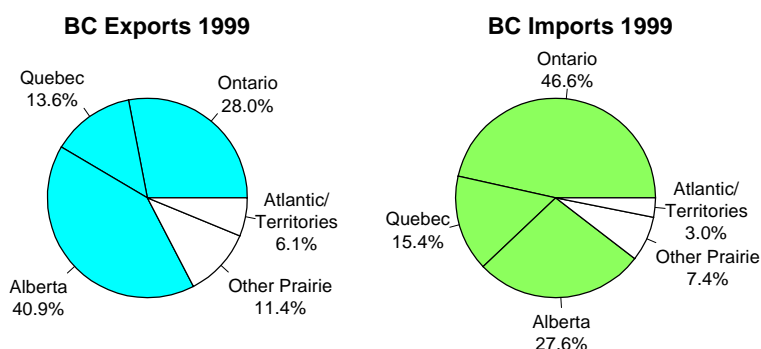
³ Note that the data sources for interprovincial and international trade used in this comparison are different. This is because the interprovincial and international trade flow data does not give any breakdown of the international trade by destination or origin so data on a customs basis had to be used. The interprovincial trade data, on the other hand, is on a balance of payments basis. However, the differences are nowhere near large enough to account for the substantially greater level of trade with Ontario.

BC trades most with Alberta, Ontario and Quebec

It should come as no surprise that Canada's two largest provinces together with British Columbia's neighbouring province generate the most trade with BC. In 1999, 82.5% of BC's interprovincial export trade and 89.6% of interprovincial import trade was with one of these three provinces. The largest destination for BC exports within Canada was Alberta with 41% of interprovincial exports. The largest Canadian source for imports to BC was Ontario at 47%.

Within Canada, BC trades mostly with Alberta, Ontario and Quebec.

Amount of trade with BC depends on size and proximity



On the whole a far greater percentage of British Columbia's trade is with other countries. In 1999, interprovincial trade accounted for only 43% of imports to BC and 29% of exports out of BC. This probably has very little to do with barriers to interprovincial trade, but rather, is likely due to the product mix available within Canada. British Columbia still depends significantly on resource-based exports and, for the most part, these products are readily available within other provinces in Canada, which is why BC exports mainly outside the country. Ontario and Quebec are the main source of imports from within Canada because of the size of their economies and their diversified manufacturing sectors that offer goods not produced in BC.

It is likely product mix that determines the level of trade within Canada, rather than trade barriers.

Conclusion

It is doubtful that further reductions in provincial trade barriers would have a significant impact on the amount of trade between BC and the other provinces. The level of interprovincial trade is likely more a product of the commodity mix and the relative proximity of the provinces, rather than the effect of any existence of barriers to trade. As pointed out earlier, if anything, the advantages of trading within Canada have amplified trade between provinces far beyond what they would be in a perfect free trade universe.

**Recent Feature Articles In British Columbia Origin Exports Release
Listed By Statistical Reference Date of Issue**

01-05	<i>Buy Low, Sell High: Trade in Electricity (released July 2001)</i>	99-12	<i>British Columbia Trade Becoming More Continental Than Global (released Feb 00)</i>
01-04	<i>Attack of the Canadian Tomatoes (released June 2001)</i>	99-11	<i>Growing Cross Border Trade In Agricultural Food Products (released Jan 00)</i>
01-03	<i>The Softwood Lumber Dispute (released May 2001)</i>	99-10	<i>Trade Imbalances Growing Within NAFTA (released Dec 99)</i>
01-02	<i>(no article)</i>	99-09	<i>B.C. Exports Recovering In Some Asian Markets, Still Declining In Others (released Nov 99)</i>
01-01	<i>(no article)</i>	99-08	<i>British Columbia Exports to United States Move Increasingly By Truck (released Oct 99)</i>
00-12	<i>(no article)</i>	99-07	<i>Export Changes During 1990s Reduce Resource Dependency (released Sep 99)</i>
00-11	<i>After Much Economic Diversification, B.C. Exports Are Still Mainly Resource Based (released Jan. 00)</i>	99-06	<i>British Columbia Losing Dominant Position In World Lumber Markets (released Sep 99)</i>
00-10	<i>Ambitious Western Hemisphere Trade Agreement Could Help Shape Canadian Trade In the New Decade (released Dec. 00)</i>	99-05	<i>September Team Canada Mission To Visit Japan and Australia (released Jul 99)</i>
00-09	<i>Trade Growth Tied To Transportation Infrastructure (released Dec. 00)</i>	99-04	<i>New Export Industries Depend Heavily On Air Freight Services (released Jul 99)</i>
00-08	<i>Some Familiar Patterns Developing In Trade Between China and British Columbia (released Nov. 00)</i>	99-03	<i>United States Log Exports (released May 99)</i>
00-07	<i>International Trade In Services Produces B.C.'s Only Trade Surplus (released Oct. 00)</i>	99-02	<i>British Columbia Losing Ground In United States Lumber Market (released Apr 99)</i>
00-06	<i>Value Added Wood Exports Grow Fast In B.C., But Faster In Rest of Canada (released Aug. 00)</i>	99-01	<i>British Columbia Export Reliance On U.S. Market Highest Since Early 1960s (released Mar 99)</i>
00-05	<i>What Has Free Trade Meant For B.C.'s International Trade? (released July 00)</i>	98-12	<i>(no article)</i>
00-04	<i>British Columbia Shipping Smaller Portion of Canadian Forestry Products (released June 00)</i>	98-11	<i>Diversification of Export Mix Accelerates In 1998 (released Jan 99)</i>
00-03	<i>1990s Brought New Markets and New Products For B.C. Exports (released June 00)</i>	98-10	<i>Offsetting Export Losses In Asia With Gains In the United States Market (released Dec 98)</i>
00-02	<i>United States Continues Substantial Log Exports In 1999 (released April 00)</i>	98-09	<i>Half A Century of B.C. Exports, From British Empire to the U.S. & Asia (released Nov 98)</i>
00-01	<i>B.C. Goods Export Growth Among Lowest In Canada During 1990s (released Mar 00)</i>		

NOTES

Countries Included Within World Regions:

(1) Western Europe: United Kingdom, Ireland, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland.

(2) Eastern Europe: other Europe, including all of Russia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, etc.

(3) South East Asia: Malaysia, Brunei Darussalam, Singapore, Myanmar, Kampuchea, Laos, Indonesia, Philippines, Thailand, Vietnam.

(4) Africa: continental Africa, excluding Ethiopia, Libya, Somalia, Sudan, Egypt.

(5) South America: continental South America from Colombia and Venezuela south to Chile and Argentina, including offshore islands, but not Caribbean.

(6) Central America and Caribbean: from Guatemala and Belize to Panama, plus Caribbean Islands.

(7) Pacific Rim (including Japan): Japan, Hong Kong, Malaysia, Brunei Darussalam, Singapore, Laos, Mongolia, China, Indonesia, North Korea, South Korea, Philippines, Macau, Taiwan, Thailand, Vietnam, Australia, Fiji, New Zealand.

(8) Pacific Rim: as above, but excluding Japan.

(9) Middle East: from Turkey and Iran south through the Arabian Peninsula. Excluding Afghanistan and Pakistan, but including Cyprus, Ethiopia, Egypt, Somalia, Sudan and Libya.

'Selected Value-added Wood Products' category includes prefabricated houses, doors, windows, furniture, moulding, siding, etc. It does not include panel products, shakes, shingles or any pulp and paper products.

Service Offered for Detailed Trade Statistics

For B.C. government statistics users requiring more detailed information on exports or imports, a special report service is offered through the address below:

Dan Schrier - Trade Statistics

BC STATS

553 Superior Street, Victoria, B.C. V8V 1X4

(250) 387-0376

This service is provided through the Trade Research and Inquiry Package (TRIP) computer reporting system. TRIP offers user-defined tabulations of export or import statistics for British Columbia, Canada, the United States and other countries. Tabulations can include information on commodities, countries, U.S. states, years, months, mode of transport, etc.