

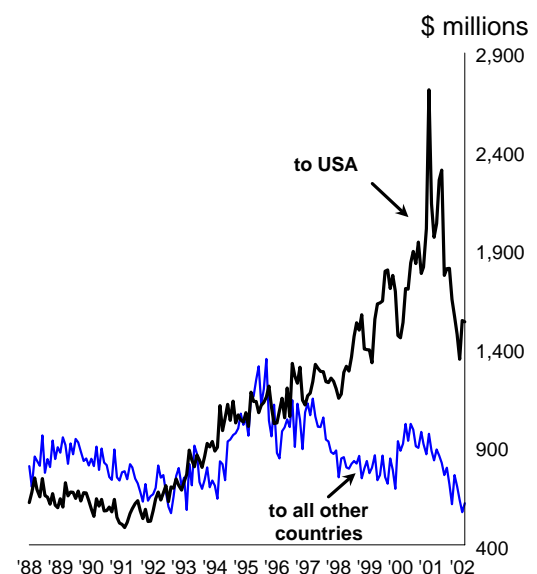
Exports ♦ February 2002

- The value of BC origin exports are down 27% year-to-date compared to the first two months of 2001. Energy products are one of the main contributors to the decline, particularly natural gas (-66%) and electricity (-94%). For both electricity and natural gas, the fall is entirely due to price effects as volumes exported year-to-date are higher than last year. Record high prices recorded in late 2000 and early 2001 are giving way to prices closer to historical levels.
- Another major factor in the drop in the value of BC exports is continuing weakness in the demand for pulp and paper products. BC origin exports of pulp and paper are down 33% in the first two months of 2002 compared to the same period last year. Shipments to the United States (-21%), Japan (-60%) and the European Union (-46%) are all well below last year's levels.
- The value of exports of metallic mineral products have fallen 36% year-to-date compared to the first two months of 2001. Copper ores and concentrates dropped 29% and unwrought aluminum declined 42%. The bulk of the decline in exports of metallic mineral products was due to reduced shipments to Japan (-69%).
- Exports of solid wood products are up almost 8% in the first two months of 2002, on the strength of a 21% increase in exports to the US. Despite the softwood lumber dispute, BC origin

exports of softwood lumber to the US are up 24%. This is likely due to the fact that under the previous softwood lumber agreement, some BC companies did not get any quota to ship to the US because their main customers were in Japan. When the Japanese economy deteriorated, demand for lumber fell and the BC companies were left without customers. With the expiry of the agreement, BC companies that had no quota can now ship to the US. It should be noted that the value of exports does not include tariffs that Canadian companies have to pay.

- Exports to the US are down 25%, mostly due to reduced energy exports (-75%).

Low commodity prices continue to affect the value of BC origin exports



The Threat of American Protectionism

On March 22, 2002 the worst fears of the Canadian lumber industry were realised as the US Department of Commerce imposed punishing duties of 29% on imports of Canadian softwood lumber into the United States.¹ Ironically, the announcement came at a time when President Bush was in Mexico extolling the potential benefits of free trade with Central America. The imposition of the substantial duty comes on the heels of an American decision to place tariffs of up to 30% on several types of imported steel. These two decisions are giving rise to strong criticism against the United States and the strength of its commitment to the concept of free trade.

Fortunately for Canadian steel producers, Canada is exempt from duties on steel thanks to the North American Free Trade Agreement (NAFTA). However, the duties on Canadian softwood lumber have left the industry reeling, particularly in British Columbia. International Trade Minister Pierre Pettigrew described the 29% levy as "obscene" and immediately requested the creation of a panel under NAFTA to investigate whether the duties are consistent with American trade law. Canada had earlier registered a challenge with the World Trade Organisation (WTO).

Another Canadian industry that had been singled out by the United States for allegedly dumping its goods in the US recently won a reprieve. The Canadian greenhouse tomato industry had been facing anti-dumping duties ranging from 1.53% to 18.21%, with the highest duty earmarked for BC Hot House Foods Incorporated. However the United States International Trade Commission found that imports of greenhouse tomatoes from Canada did not threaten the US industry, and therefore the trade action was lifted. The decision gives hope to Canadian exporters that perhaps the perceived American shift toward protectionism has been exaggerated.

However, major institutions, including the Toronto Dominion Bank, are warning that current conditions in the United States could help foster protectionism.² One of the factors they suggest could give rise to more protectionism is the fact that the US is facing mid-term elections this year. This could result in politicians trying to win support from various groups by endorsing trade restrictions that will benefit those groups.

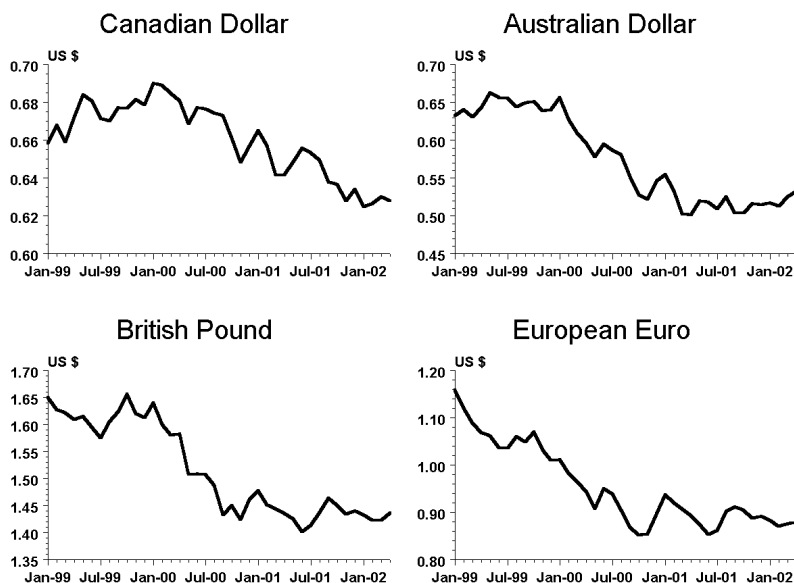
¹ The 29% figure is comprised of a 19.34% countervailing duty on all Canadian exporters of softwood lumber (excepting those in the Atlantic provinces and a number of companies where it was determined there was no subsidy), plus an average dumping margin of 9.67%. The average dumping duty is applied to all companies excluding six for which specific margins were calculated. Four of these were companies operating in BC: Weyerhaeuser (15.83% anti-dumping duty), Slocan (7.55%), Canfor (5.96%) and West Fraser (2.26%).

² TD Bank Financial Group, "The Spectre of U.S. Protectionism," *TD Economics Topic Paper*, March 18, 2002.

The United States has imposed duties of up to 29% on imports of Canadian softwood lumber

Canadian greenhouse tomato growers won their battle with their American counterparts when the USITC rejected the petition for anti-dumping duties on Canadian greenhouse tomatoes

The slowdown in the economy could also bring calls from struggling American industries for protection from their competitors. Yet another factor that could influence United States' trade policy is the strength of its currency relative to its trade partners. The weakness of the Canadian dollar relative to that of the US has given Canadian exporters a huge advantage over their American competitors. Ironically, it is the United States' economic strength that keeps its currency strong in times of global economic recession or socio-political strife. The recent economic slowdown coupled with the conflicts in Afghanistan and the Middle East have only served to strengthen the US dollar against the currencies of the United States' major trading partners (like Canada).



The American dollar has appreciated against the currencies of many of its major trade partners

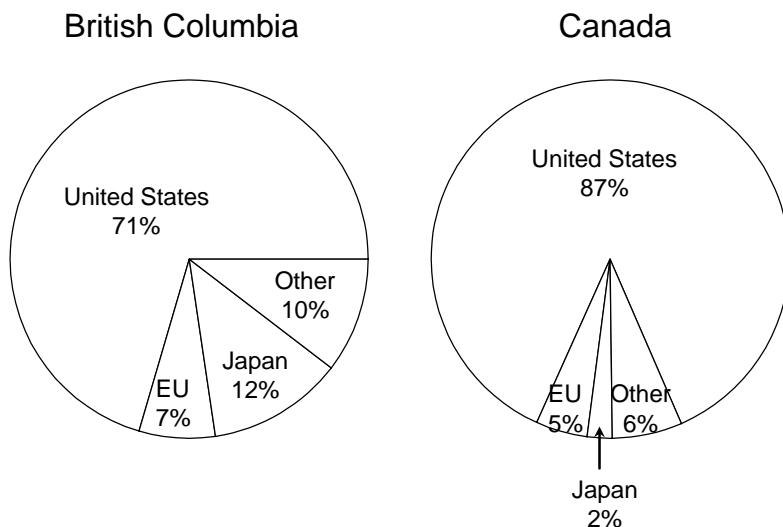
A further irony is that an increase in protectionism could slow global economic recovery, which could cause further appreciation of the US dollar relative to other currencies, or at least hamper the ability of those currencies to regain the ground they have lost in the last year or so. This will affect the ability of American manufacturers to compete with imports from those countries and could bring about further accusations of dumping and other unfair business practises.

The TD Bank report also identifies the "Byrd amendment" as possibly providing impetus for trade challenges. This legislation, officially called the Continued Dumping and Subsidy Offset Act, stipulates that any anti-dumping duties collected by US Customs must be ceded to the companies that initiated the anti-dumping complaint. What this means for Canadian softwood lumber producers, for example, is that the fines they pay will go directly to their competitors, thereby conferring a double whammy on the Canadian producers. In effect, the foreign competitor ends up subsidising the US company. Needless to say, there has been significant international opposition to this law and several countries have appealed to the WTO to declare the legislation is in violation of international trade law.

The 'Byrd amendment' may give American companies incentive to initiate dumping challenges since the duties paid will accrue to them

The threat of increased American protectionism is no small matter for Canada. Recently the US put Canada near the top of its list of countries that it considers have unfair trading practices. In addition to lumber, it appears that wheat and dairy products could be the next commodities to face US tariffs. The United States is by far Canada's most important trading partner and these kinds of trade disputes could do severe damage to the Canadian economy.

The US is the destination for the large majority of exports from both British Columbia and Canada as a whole

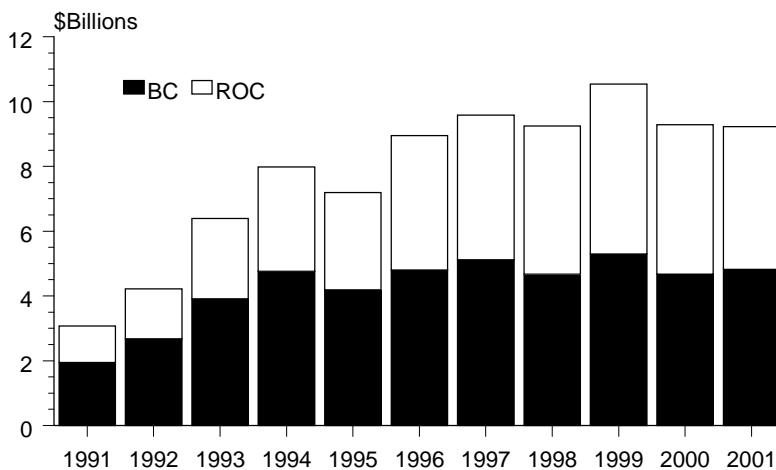


In 2001, 87% of all Canadian exports and 71% of all BC exports were to the United States

Note: EU is European Union

Softwood lumber alone represented over \$9 billion in exports from Canada to the United States in 2001. Over half that amount originated in British Columbia. The imposition of a 29% duty has the potential to do serious harm to that industry.

Exports of Softwood Lumber to the United States



Over half the softwood lumber exported to the United States originates in British Columbia

The decision has left those in the industry outraged and has many promoting the idea of a boycott of American retailers operating in Canada. Others are suggesting that Canada should place export taxes on energy and other Canadian goods coveted by the US. Some even argue that Canada should retaliate by putting duties on imports of some American products, or by tying participation in the conflict in Afghanistan to the lumber issue. Several industry leaders and politicians have petitioned the federal government to assist those in the forest sector by paying their duties.

The softwood lumber decision has prompted suggestions of retaliatory actions ranging from boycotts to export taxes on energy products...

There have been criticisms that these options offer little in terms of a viable solution to the dispute. Putting export taxes on Canadian products would just hurt those industries and make them less competitive with foreign producers. Retaliatory tariffs could lead to an escalating trade war that would benefit nobody and tying trade matters to foreign policy decisions is probably unwise. The idea of having the federal government pay the duties of the forest companies has generated some of the harshest criticism based on fears that the Americans would perceive it as an illegal subsidy, which could lead to further trade action. In fact, the American lumber producers have stated that they would immediately petition for further duties if the federal government pays the tariffs.

...but these solutions would likely create more problems than they would solve

While Canada's comparatively small economy relative to the United States gives it little leverage in this kind of dispute, there are still options Canadians can explore. The first option is to stay the course with regard to the WTO and NAFTA challenges. Canada has won appeals on this matter before these trade bodies before, and there is a strong possibility that it will be successful again. The problem is that these appeals take some time and in the interim, Canadian lumber firms could be bankrupted.

There have been suggestions made that Canada should mount an advertising campaign in the US in an attempt to educate American consumers about the consequences of the lumber duties. There have been estimates from American consumer organisations that the duties could add at least \$1,000 to the price of a new house. There are also other manufacturing industries in the US that use softwood lumber as inputs to their products, and the prices of these goods will likely rise as well. Based on the lack of press coverage on this issue in the US, this kind of approach may yield some positive results. An aggressive advertising campaign could lead to public pressure, thereby raising the profile of this issue with the US Government, particularly since this is an election year.

There are several other options to explore that are preferable to retaliatory types of measures

Other options that Canadian lumber companies have been prompted to explore include moving toward more value added production and diversifying their customer base to countries other than the United States.

All these options are preferable to retaliatory measures that will only serve to escalate an already bitter trade dispute. Canada cannot afford to get into a trade war with the United States, and for that matter, the US cannot afford it either. Canada was the destination for over 22% of American exports in 2001. Exacerbating the current trade dispute by spreading it to other areas of the economy will benefit no one, and in the end, consumers and businesses on both sides of the border will suffer.

Further reading regarding trade disputes:

“Canada and U.S. in Food Fight: Countries Swap Dumping Charges on Tomatoes,” *Business Indicators*, March 2002.

“Is ‘Runaway’ Film Production in Canada Harming the U.S. Industry?” *Exports*, December 2001, and *Business Indicators*, February 2002.

“The Softwood Lumber Dispute,” *Exports*, March 2001.

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01-01	<i>(no article)</i>	99-08	<i>British Columbia Exports to United States Move Increasingly By Truck (released October 1999)</i>
00-12	<i>(no article)</i>	99-07	<i>Export Changes During 1990s Reduce Resource Dependency (released September 1999)</i>
00-11	<i>After Much Economic Diversification, B.C. Exports Are Still Mainly Resource Based (released January 2000)</i>	99-06	<i>British Columbia Losing Dominant Position In World Lumber Markets (released September 1999)</i>
00-10	<i>Ambitious Western Hemisphere Trade Agreement Could Help Shape Canadian Trade In the New Decade (released Dec. 2000)</i>	99-05	<i>September Team Canada Mission To Visit Japan and Australia (released July 1999)</i>
00-09	<i>Trade Growth Tied To Transportation Infrastructure (released November 2000)</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.

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