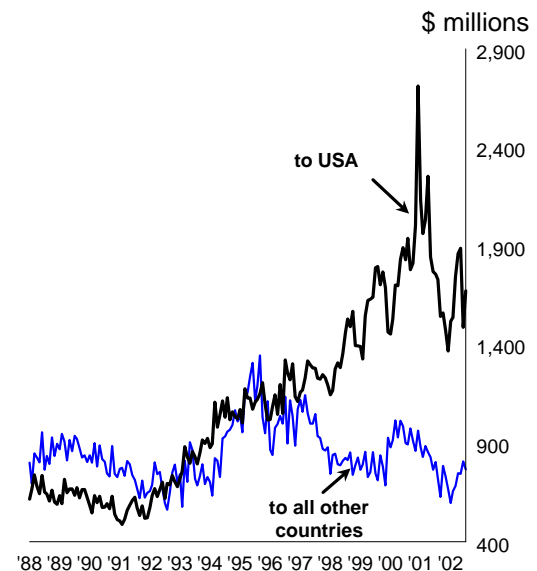


Exports ♦ July 2002

- Year-to-date to July 2002, the value of BC origin exports is almost 15% lower than the level posted in the first seven months of 2001. The energy spike recorded early in 2001 continues to affect year-over-year comparisons. The value of exports of both natural gas (-47%) and electricity (-91%) has dropped sharply due to the return to more normal prices.
- Although shipments of softwood lumber to the United States are still up 5% year-to-date, the imposition of an average combined countervailing and anti-dumping duty of 27.2% significantly reduced lumber exports to the US in June and July. It is likely that this will continue to be the case in the months to come as no end to the trade dispute is in sight.
- Japan's economy may be starting to turn around, but the process is expected to be slow, which could be bad news for British Columbia exporters. So far this year, the value of exports to Japan is almost 19% off the pace set in the first seven months of 2001.
- BC exports to the European Union are over 22% lower in the first seven months of 2002 compared to the same period a year earlier. A 28% drop in the value of pulp and paper exports is the largest contributor to the decrease, although reduced shipments of machinery and equipment (-39%) are also significant.
- In addition to the drop in exports to the European Union, pulp and paper shipments to Japan (-34%) and the United States (-13%) have fallen substantially resulting in an overall drop of almost 17% year-to-date. However, there are signs that the pulp and paper markets may be recovering.
- Shipments of BC goods to South America are down 33% year-to-date to July compared to the same period in 2001. Economic problems related to turmoil in the currency markets of countries like Argentina, Brazil, Venezuela and Uruguay are likely the main reason for the decline.
- Although exports to most destinations have fallen, one bright spot is South East Asia, where shipments have increased almost 14% year-to-date compared to the first seven months in 2001.

Lower prices for energy are the main reason for the drop in exports between 2001 and 2002



FTAA: Free Trade for the Western Hemisphere?

FTAA Pros and Cons

The proposal to create a Free Trade Area of the Americas (FTAA) has lost some momentum over the last year, but it appears that the United States, under the direction of President Bush, is eager to advance negotiations to the next step. The FTAA would encompass 34 countries,¹ including Canada, and would basically cover the entire Western Hemisphere (excluding Cuba). This agreement is an enormous undertaking that has both strong support and vehement opposition.

The FTAA would cover virtually the entire Western Hemisphere

Supporters of the agreement are generally of the opinion that free trade is always preferable to forms of protectionism. They argue that free trade offers lower prices and greater choice for consumers, and new markets, technology and lower-cost inputs for producers. In addition to these benefits, free trade promoters suggest it creates employment, helps poorer countries develop and promotes democracy.

Some detractors of the agreement discount these claims, arguing that free trade arrangements like the North American Free Trade Agreement (NAFTA) have resulted in less employment and have done nothing to help countries like Mexico further develop. These kinds of arguments are often the result of misinformation and fear of changing the status quo. While it may be true that some people were displaced from their jobs by NAFTA, on the whole employment did increase and Mexico's GDP has been experiencing strong growth over the last several years.

Perhaps the most significant concern is how these free trade agreements will affect a country's culture, its social services, and environment. Many opponents of the FTAA point to the provisions in Chapter 11 of NAFTA that protect investors against legislation that limits their profits, allowing them to sue the government that invokes these new regulations, suggesting that these provisions limit the ability of governments to set environmental standards. This may be a legitimate concern, as the Chapter 11 provisions have had some unforeseen consequences. This section of NAFTA was originally intended to protect investors from expropriation of private property; however, it has been used for completely different reasons. All three member countries have been involved in lawsuits that

The Chapter 11 provisions of NAFTA protecting investors against new regulations that limit their profits is one of the primary concerns of FTAA opponents

¹ The countries that would be covered by the FTAA are: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Columbia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, United States, Uruguay, and Venezuela.

put into question the desirability of these kinds of provisions. Examples include a California-based company's successful challenge of a Mexican municipality's refusal to grant a construction permit to build a toxic waste facility. Canada's ban of the gasoline additive MMT because of its toxicity was overturned due to a Chapter 11 complaint. In the US, a Canadian funeral chain is attempting to reverse a Mississippi jury's ruling of breach of contract. The company argues that rules requiring it to post a bond when filing an appeal, which are designed to prevent the company from liquidating its assets if an appeal was unsuccessful, amount to expropriation.

These cases are certainly causes for concern and point to the need for careful consideration of what is to be included in any agreement; however, this does not mean that the FTAA should be dismissed outright. Some detractors point to the draft of the agreement that was made public² as proof that their concerns are legitimate, since similar provisions to those in Chapter 11 are included. However, virtually the entire document is enclosed in square brackets indicating that no consensus has been reached on any of these issues. This means that the public can express their concerns to the negotiators and make it clear that these types of provisions should not be included, or, at least, should be clarified such that they cannot be used for unintended purposes as they have in the NAFTA.

Will Protectionism Derail the FTAA?

In economic theory at least, free trade is always a good thing, which is why there has been a rush in recent years to create new economic unions around the globe. Whether we like it or not, the world is becoming smaller every day as technology brings nations closer and creates a more global economy. The FTAA would create the largest economic union on the planet affecting approximately 650 million people, but that distinction would likely be short-lived. China and ten Southeast Asian nations recently agreed to create a free trade zone within ten years that would cover nearly 30 percent of the world's population.

Canada has been actively pursuing free trade agreements and in addition to NAFTA has bilateral agreements with Chile, Costa Rica and Israel. Just last month, Canada began talks on a proposed free trade agreement with the Andean countries of Bolivia, Columbia, Ecuador, Peru and Venezuela. This indicates recognition on the part of the federal government that Canada cannot afford to be left out of the free trade loop. If Canada stood by while other countries formed agreements it would have a seriously detrimental effect on Canada's trade.

In addition to NAFTA, Canada has free trade agreements with Chile, Costa Rica and Israel and is pursuing other agreements

² This draft document is available online at:
http://www.ftaa-alca.org/ftaadraft/eng/draft_e.asp

The Americans have also come to this realisation, which is why President Bush has been pushing for Fast Track legislation to give him the power to more easily negotiate free trade agreements. Basically, this legislation, renamed Trade Promotion Authority (TPA), will limit the Congress and Senate's input to a simple "yes" or "no" vote on the trade agreement. President Bush feels this agreement is crucial if there are any hopes of ever achieving the FTAA.

President Bush is hoping that Trade Promotion Authority will hasten the negotiations for the FTAA

This legislation did not come without a price, however. Critics suggest that in order to secure the TPA, the President had to offer some political payoffs, some of which were, ironically, of a protectionist nature.

The example of this most familiar to Canadians is the imposition of duties on Canadian softwood lumber. The US imposed duties averaging 27.2% on imports of Canadian softwood lumber in May. Since then, the World Trade Organisation (WTO) has made two rulings in Canada's favour. In one ruling the WTO found that Canadian provincial stumpage programs are not equivalent to subsidies and that American preliminary duties on Canadian softwood imports were in violation of international trade rules. In another ruling, the WTO found that the so-called "Byrd amendment," which directed the receipts of anti-dumping tariffs to go to the companies allegedly affected by the dumping, to be inconsistent with international trade rules. Despite these rulings, the Americans are persisting with the tariffs.

Another trade action that sparked outrage in Europe and Japan, in particular, was the American imposition of tariffs on steel. This action may have backfired on the US, to some extent, as domestic manufacturers are suffering. The high tariffs have led to a significant drop in imports and combined with earlier closures of steel mills in the US, this has tightened supply considerably. As a result, prices have shot up and users of steel are facing higher input costs and potential layoffs, as well as losing market share to foreign competitors.

Despite its stated commitment to free trade, the United States has recently embraced several measures of protectionism

One action that has the potential for worldwide repercussions is the farm bill legislation enacted by the US. The legislation guarantees American farmers a minimum price for certain crops. This means that the farmer can sell the crops at whatever price the market will yield, then the government will kick in the difference. The consequence of this bill will likely be increased production by US farmers, thereby flooding the market with cheap grain and further reducing prices. This could seriously affect the Canadian agricultural industry, as well as that of other countries around the world.³

³ It should be noted that Canada is not entirely innocent with regard to agricultural subsidies. The WTO recently deemed Canadian dairy subsidies to be inconsistent with WTO rules and the US is threatening to bring a challenge before the WTO alleging unfair trading practices by the Canadian Wheat Board.

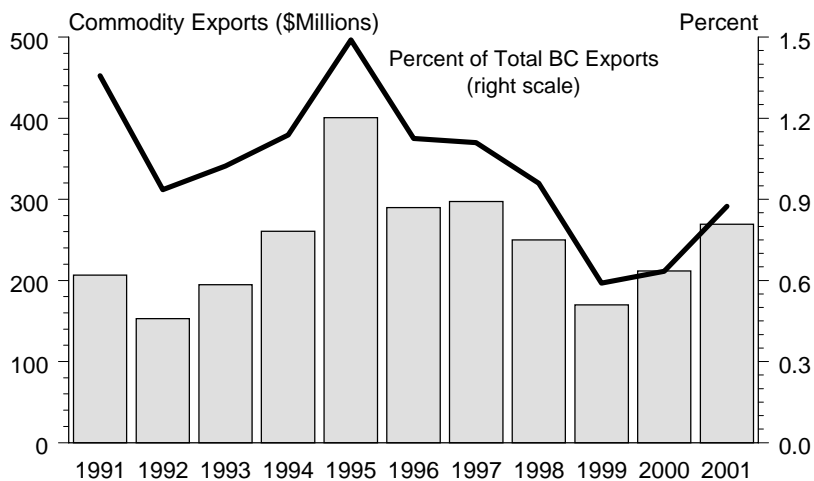
Although these measures may have ultimately helped get the TPA passed, they may have harmed the United States' credibility with regard to free trade negotiations and could seriously hamper efforts to negotiate the FTAA. For this reason, it may be wise for Canada to pursue agreements on its own as it is doing with the Andean community.

What would the FTAA mean for British Columbia?

When NAFTA was signed British Columbia's trade patterns were forever altered. It is doubtful that the FTAA will have as profound an impact as did NAFTA, but it will definitely offer new opportunities for BC investors and exporters, as well as consumers. On the other hand, BC companies may face increased competition from other members of the FTAA.

Over the last decade, the share of BC origin exports shipped to countries involved in the FTAA negotiations (excluding Mexico and the United States) has ranged from about 0.7% to 1.7%. In 2001, just under \$350 million worth of goods were shipped to these countries. By comparison, the United States was the destination for \$21.4 billion worth of goods; almost 50 times the amount shipped to all other FTAA destinations, including Mexico, combined.

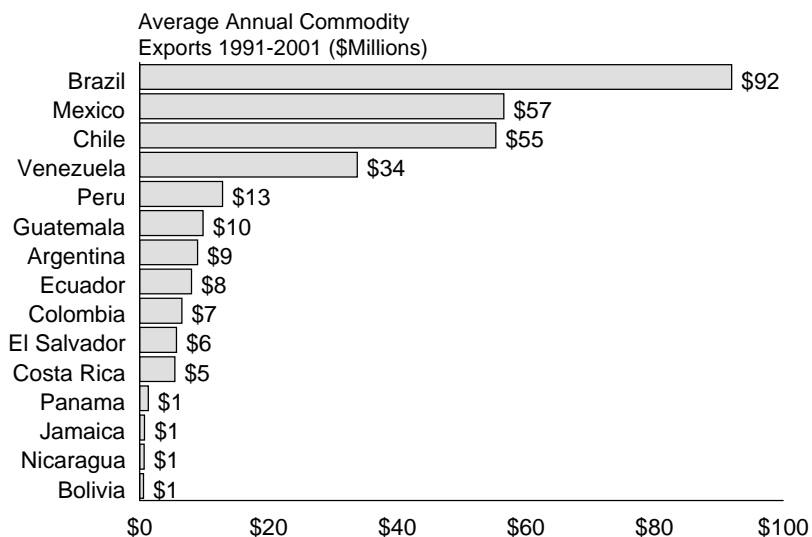
The non-NAFTA FTAA countries have been a relatively insignificant destination for BC origin exports



To date, the FTAA countries outside of NAFTA have been a relatively insignificant destination for BC goods

The United States is by far the most significant destination for BC origin exports with almost 70% of all product exports from BC shipped to the US in 2001. The next most significant destination for BC goods within the FTAA group of countries is Brazil, followed by Mexico and Chile, with which Canada already has free trade agreements.

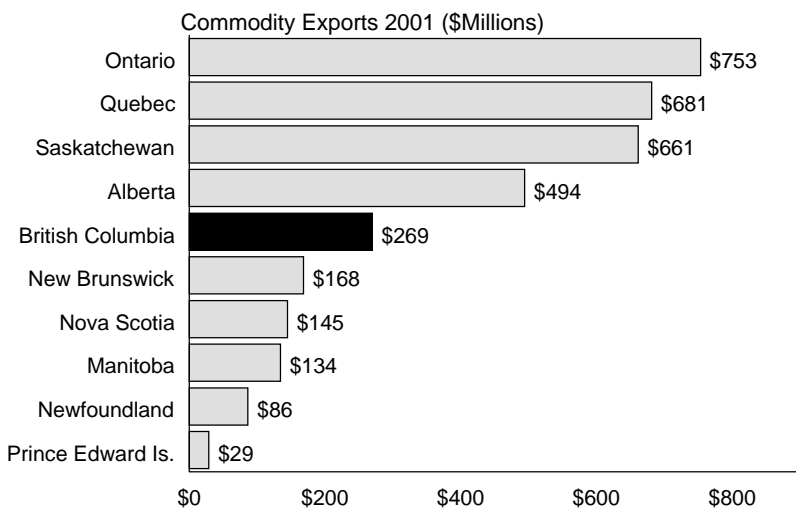
Excluding the United States, Brazil is currently the most significant FTAA destination for BC origin exports



After the United States, Brazil leads the way as the most significant destination among FTAA nations for BC origin exports

British Columbia's top commodity exports to the non-NAFTA FTAA countries tend to be resource-based goods. Pulp and paper products and coal were the top exports to these destinations in 2001. BC shipped \$89.5 million worth of pulp and paper and \$80.6 million of coal to countries within the FTAA (excluding Mexico and US), that combined to make up 63% of the value of all goods exported to these countries in 2001.

British Columbia is ranked fifth in exports to potential FTAA member countries (excluding Mexico and the United States)



BC is in the middle of the pack with respect to provincial ranking of exports to non-NAFTA FTAA countries

British Columbia was ranked fifth among the provinces in shipments to FTAA countries outside the NAFTA agreement in 2001. Ontario led the way, exporting mainly machinery, equipment and vehicles. Quebec's substantial paper exports helped give it a second place ranking. Saskatchewan and

Alberta were the other two provinces ranked ahead of BC. Wheat was the most significant commodity shipped from these provinces, although fertiliser (potash) was also very significant for Saskatchewan.

The figures quoted above for BC may not be very impressive and this raises the question of whether or not the FTAA would have much of an effect on the province. Some might argue that it could hurt BC because it will open the door to other nations to compete on equal footing with BC in the United States. This is unlikely because, for the most part, resource-based goods already have low US tariffs on them, such that BC companies have been competing in a global arena with regard to these products for some time. Also, for secondary manufactured goods, BC companies have already had to adjust to competing head to head with established American competitors and low-wage Mexican producers since the signing of NAFTA. They should be well prepared to face the challenge of duty-free competition from South and Central American manufacturers.

While the FTAA may not suddenly cause a shift in BC commodity exports to South and Central American destinations, it could have some important benefits for BC companies. One of the most important advantages of a free trade deal with these countries is a new consistency to the rules governing trade. This will reduce the risk of doing business within these countries and will also make them more palatable destinations for Canadian investors. The agreement with Chile is a good illustration of how free trade can make foreign direct investment more attractive. Canada's direct investments in Chile have increased dramatically since the signing of the free trade agreement and with this investment, exports of services have also risen.

The FTAA will likely not result in dramatic changes to BC trade such as were experienced with NAFTA, but if Canada remains on the outside of a deal while others join in free trade, Canadian companies will be at a significant disadvantage.

The FTAA may not have a dramatic effect on BC exports, but it could have some important benefits

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

02-07	<i>FTAA: Free Trade for the Western Hemisphere? (released September 2002)</i>	01-03	<i>The Softwood Lumber Dispute (released May 2001)</i>
02-06	<i>The Changing Face of BC Exports (released August 2002)</i>	01-02	<i>(no article)</i>
02-05	<i>Japan's Economic Woes Translate to Reduced Trade for BC (released July 2002)</i>	01-01	<i>(no article)</i>
02-04	<i>Team Canada Promotes Trade With Mexico (released June 2002)</i>	00-12	<i>(no article)</i>
02-03	<i>Chile Warms Up to Trade With Canada (released May 2002)</i>	00-11	<i>After Much Economic Diversification, B.C. Exports Are Still Mainly Resource Based (released January 2000)</i>
02-02	<i>The Threat of American Protectionism (released April 2002)</i>	00-10	<i>Ambitious Western Hemisphere Trade Agreement Could Help Shape Canadian Trade In the New Decade (released Dec. 2000)</i>
02-01	<i>Canada Seeks to Increase Trade With India (released March 2002)</i>	00-09	<i>Trade Growth Tied To Transportation Infrastructure (released November 2000)</i>
01-12	<i>Is "Runaway" Film Production in Canada Harming the U.S. Industry? (released February 2002)</i>	00-08	<i>Some Familiar Patterns Developing In Trade Between China and British Columbia (released October 2000)</i>
01-11	<i>Team Canada Scouts Russia and Germany for New Trade Ties (released January 2002)</i>	00-07	<i>International Trade In Services Produces B.C.'s Only Trade Surplus (released October 2000)</i>
01-10	<i>Exploring China as a Market for BC's Wood Products (released December 2001)</i>	00-06	<i>Value Added Wood Exports Grow Fast In B.C., But Faster In Rest of Canada (released August 2000)</i>
01-09	<i>Is Trade Threatened by Security? (released November 2001)</i>	00-05	<i>What Has Free Trade Meant For B.C.'s International Trade? (released July 2000)</i>
01-08	<i>Thirst for Energy Powers British Columbia's Exports (released October 2001)</i>	00-04	<i>British Columbia Shipping Smaller Portion of Canadian Forestry Products (released June 2000)</i>
01-07	<i>International Trade in High Technology Goods and Services (released September 2001)</i>	00-03	<i>1990s Brought New Markets and New Products For B.C. Exports (released June 2000)</i>
01-06	<i>Interprovincial and International Trade in Goods and Services (released August 2001)</i>	00-02	<i>United States Continues Substantial Log Exports In 1999 (released April 2000)</i>
01-05	<i>Buy Low, Sell High: Trade in Electricity (released July 2001)</i>	00-01	<i>B.C. Goods Export Growth Among Lowest In Canada During 1990s (released March 2000)</i>
01-04	<i>Attack of the Canadian Tomatoes (released June 2001)</i>	99-12	<i>British Columbia Trade Becoming More Continental Than Global (released February 2000)</i>
		99-11	<i>Growing Cross Border Trade In Agricultural Food Products (released January 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.

Revisions

Statistics Canada revises trade data for the previous three data years with release of the December data. The revision number is indicated in the footer of the tables (e.g., Rev 1 is the first annual revision, etc., and Prelim indicates it is the first release of data to December for that year). In addition to annual revisions, Statistics Canada revises the data for the previous data year every quarter (indicated in the footer by Rev Q1, etc).

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.