

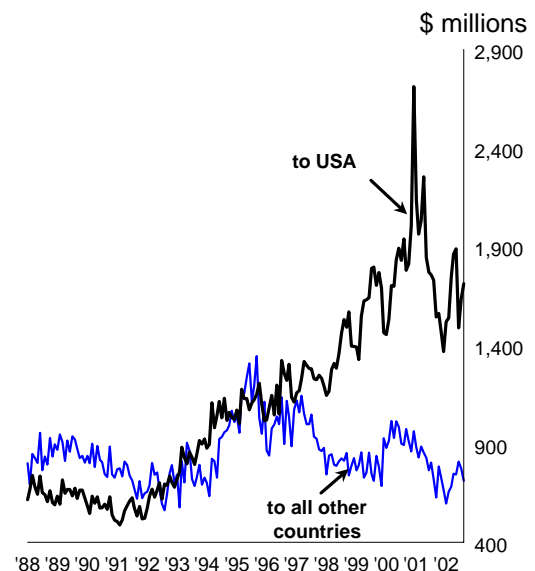
## Exports ♦ August 2002

- Through the first eight months of 2002, the value of BC origin exports is over 13% lower than the level posted in the same period of 2001. The energy spike recorded early in 2001 continues to affect year-over-year comparisons. The value of exports of both natural gas (-45%) and electricity (-89%) has dropped sharply due to the return to more normal prices.
- Coal exports are down almost 16% year-to-date, but unlike natural gas and electricity it is not prices that are driving the decline, but rather quantities. There has been 4.2 million metric tonnes less of coal shipped so far in 2002 compared to the same period in 2001, a drop of 26%.
- Shipments of softwood lumber to the United States are still up 1% year-to-date, despite the imposition of an average combined countervailing and anti-dumping duty of 27.2%. However, the duties have resulted in a significant drop in lumber exports to the US over the last few months.
- Japan's economy is starting a slow process toward recovery, which bodes well for future British Columbia exports. However, year-to-date the value of exports to Japan is down over 15% from the January to August period of 2001.
- The value of pulp and paper exports is almost 15% lower in the first eight months of 2002 compared to the same period last year. Shipments to the United States are 11% off last year's pace, while exports to Japan have

fallen by 33% and the European Union has taken in 26% less than in the same period in 2001.

- Exports of machinery and equipment are down over 6% from the January to August period in 2001. Shipments to the European Union have dropped 37%, while exports to the United States are 4% lower.
- British Columbia origin exports to both of Canada's NAFTA partners have fallen year-to-date compared to 2001. Shipments to Mexico have dropped 30%, while exports to the United States are 14% lower. The drop in shipments to the United States is due mostly to the fall in prices for electricity and natural gas.

*Lower prices for energy continue to affect year-over-year growth figures for exports*



## Canada's Share of US Softwood Lumber Market Slipping

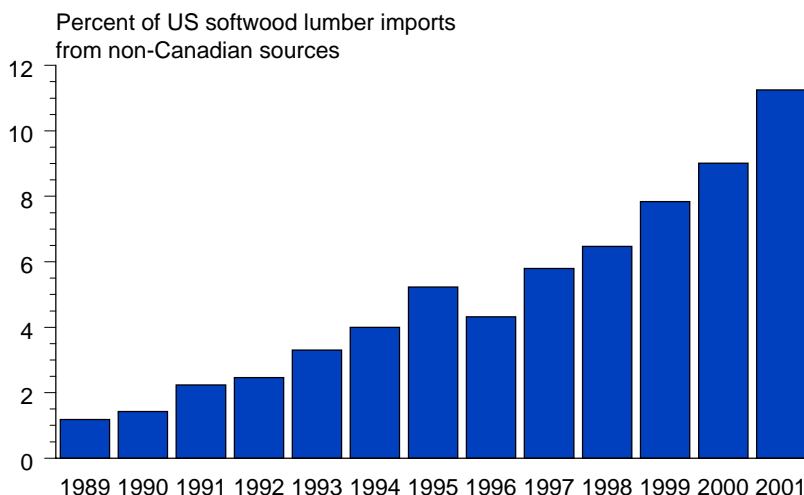
Softwood lumber production is an important component of Canada's economy, and this is even more true for British Columbia, in particular. According to data from Statistics Canada, British Columbia produced almost 12.8 billion board feet of softwood lumber in 2001, almost twice that of Quebec (6.4 billion board feet), the second most significant producer in Canada. Of the lumber produced in BC, 9.2 billion board feet, or approximately 72%, was shipped to the United States. This is almost half the total Canadian exports of lumber to the US. This data makes it clear that the province with the most to lose from the dispute with the United States is British Columbia.

While the short-term effects of the duties imposed by the United States on imports of Canadian lumber are causing serious hardship for Canadian companies and their employees, the long-term fallout may be just as critical. Canada has already won some of its appeals to the World Trade Organisation (WTO), indicating that the Americans may eventually be forced to lift the tariffs on Canadian lumber. However, it is possible that Canada will have permanently lost a portion of its market share by that time. Countries in Western Europe are aggressively pursuing a position in the American marketplace and early indications are that they are having some success. If this continues, it could impact not only Canada's forest industry, but the American industry as well. Not only could other countries pick up the slack left by a reduction in shipments of lumber from Canada, but also the American lumber lobby would be powerless to prevent it. According to US law, it cannot implement a trade sanction against another country until their market share exceeds three percent. While the share for Western Europe as a whole exceeds three percent, so far this is not the case for any single country within the region.

*The term **Softwood lumber** used in this report is consistent with the goods involved in the American trade action against Canada. The Canadian export classification codes comprising this definition are 4407.10, 4409.1011, 4409.1019, 4409.1091 and 4409.1099. The corresponding American import classification codes are 4407.10, 4409.1010 and 4409.1020.*

*The 4407.10 category is standard sawn or chipped lumber, while the 4409.10 categories include lumber that has had slightly more processing, including siding, flooring and other wood continuously shaped along any of its edges or faces.*

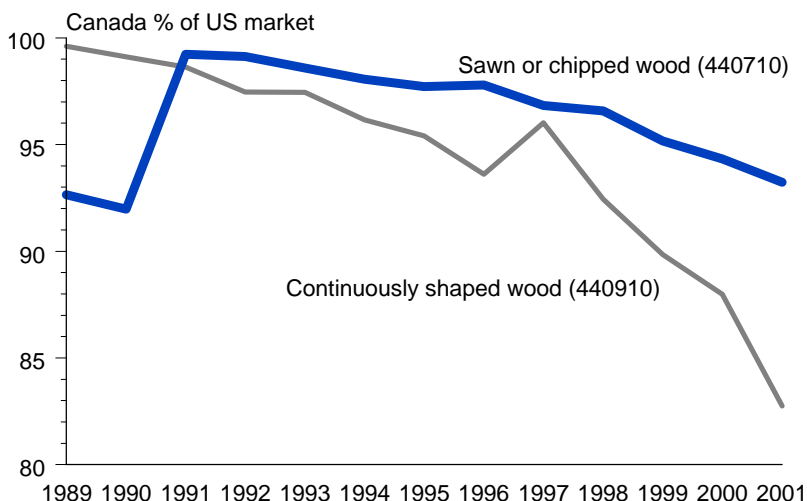
### Canada's market share of US softwood lumber imports is declining



*Countries in Europe and South America are starting to erode Canada's market share of US imports of softwood lumber*

As can be seen from the preceding chart, Canada's share of US imports of softwood lumber has been in decline for over a decade. However, the percent of lumber imported into the US from non-Canadian sources has more than doubled since 1996 when Canada and the US signed the Softwood Lumber Agreement, which has since expired. The falling share is not only true for the dollar value, but for quantities as well. After shooting up from about 92-93% to over 99% in 1991, the Canadian share of volume of sawn or chipped wood (HS code 440710) sent to the US has continually slipped over the last decade such that it now has dropped back down to 93%. For continuously shaped wood, such as siding and flooring (HS code 440910), the drop has been even more dramatic. From almost 100% in 1989, Canada's share has fallen to just under 83% in 2001. In 1989 volumes of sawn or chipped wood exported to the US were only slightly higher than those of siding, flooring, etc. However, by 2001 there was almost three times as much wood from the sawn or chipped wood class shipped to the US compared to wood within the continuously shaped wood category.

### Canada is losing some of its dominance on volumes of softwood lumber shipped to the United States



*Share of exports to the US by volume of continuously shaped wood has dropped from almost 100% in 1989 to less than 83% in 2001*

The drop in share of sawn or chipped wood is of far less concern than the continuously shaped variety. Despite the drop in share of exports of sawn or chipped wood to the US, volumes climbed about 34% from 1989 to 2001. The falling share may be a reflection of Canada having reached its production ceiling while demand in the US continues to increase, forcing the Americans to look to other sources. However, for siding, flooring and other continuously shaped wood, volumes in 2001 are about half what they were in 1989.

*Volumes of sawn or chipped wood exported to the US are up despite a reduced market share, but volumes of siding, flooring and other continuously shaped wood are half what they were a decade earlier*

Losing market share in the United States is of particular concern because the Americans are increasing their share of value of world imports of softwood lumber. In 1990, the US imported only 18% of the value of the world's softwood lumber, compared to 51% for Western Europe. By 2000, the US was taking in 32% and Western Europe's share was down to 34%.<sup>1</sup> However, it should be noted that Canada's share of the value of total world exports of softwood lumber increased over this period from 27% to 35%. At the same time, Western Europe went from shipping 32% of the world's softwood lumber exports to only 22%. It used to be the case that Western European countries shipped their lumber mainly to other countries in Western Europe. In 1990, 88% of softwood lumber shipments from Western Europe were destined for other Western European countries, while exports to the US and Japan were negligible. By 2000, Western Europe was making inroads into Canada's traditional markets of the United States and Japan, with 3.5% of its exports of softwood lumber headed to the US and 6.9% shipped to Japan. So although Canada's share increased over the last decade, Western Europe is poised to reclaim a significant portion of the world's softwood lumber market.

*Over the last decade, Western Europe's share of softwood lumber exports to the world has declined, but now they are shipping more to markets that were traditionally served by Canada*

The dispute with the United States has underlined Canada's dependence on that country as a market for softwood lumber, and the potential competition from other countries, particularly in Western Europe, could prove detrimental to the Canadian industry. The ongoing squabbles between the US and Canada over softwood lumber have had a definite impact on the marketplace and British Columbia has had to bear the brunt of it.

The 1996 Softwood Lumber Agreement (SLA) between Canada and the United States established quotas on how much lumber each province could ship to the United States in one year. Any lumber shipped in excess of the quota was assessed a steep export fee. The provinces covered under the agreement were BC, Alberta, Ontario and Quebec, while the other provinces and territories had no restrictions on the amount of softwood lumber they could ship to the US. Quotas were set based on exports to the United States just prior to the agreement. Since many coastal BC forest companies (and some based in the interior) relied heavily on trade with Asian countries, particularly Japan, they were allocated very little US quota. When the economic crisis hit these Asian markets and demand for softwood lumber consequently collapsed, the coastal mills did not have the opportunity to shift their sales to the United States because they did not have the quota to do so. This, combined with the fact that provinces not covered by the agreement had no restrictions on exports to the US,

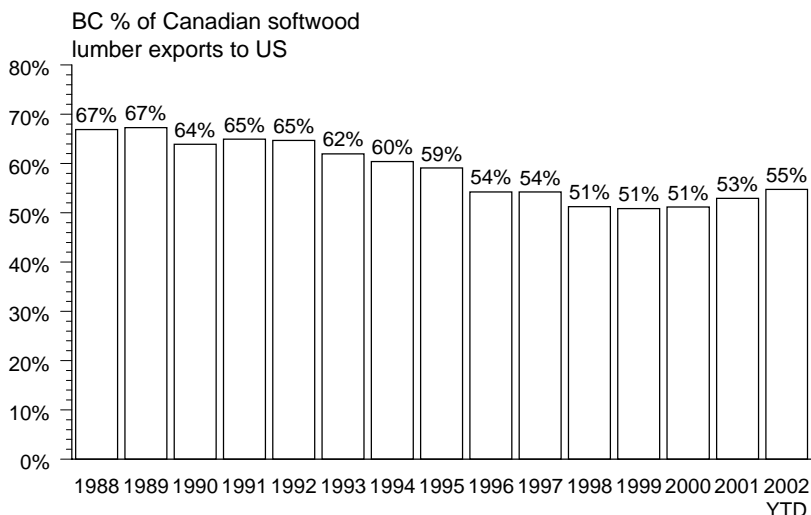
*A lack of US quota left BC lumber producers with nowhere to go after Japan's economy faltered*

---

<sup>1</sup> This is based on data from the World Trade database and includes mouldings and dowelling, which are not included in the definition of softwood lumber used elsewhere in this report. The most recent data available from this source is from 2000.

resulted in a decline in British Columbia's share of Canada's softwood lumber exports to the United States. Since the SLA expired in 2001, BC has regained some of this share.

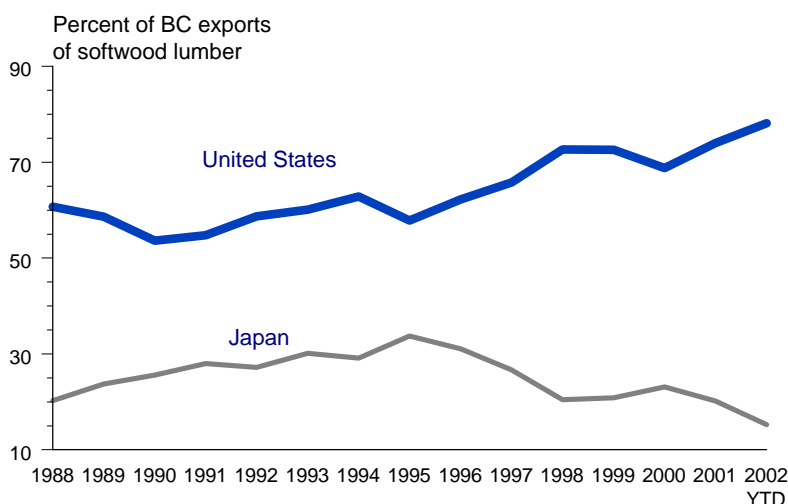
### BC's share of Canada's softwood lumber exports to the US slipped during the years of the Softwood Lumber Agreement



*The Softwood Lumber Agreement resulted in British Columbia losing a portion of its share of the US market for lumber*

Despite the drop in share to the United States, BC is more dependent than ever on American customers for its softwood lumber. With economic problems in Japan leading to a reduced demand, BC has been shipping a larger proportion of its lumber to the United States.

### Japan's economic difficulties have made BC even more dependent on the US as a destination for BC lumber



*Japan's share of BC exports of softwood lumber declined with Japan's economic fortunes*

If the Americans continue to apply substantial duties on Canadian lumber, Canada's market share could deteriorate further. Countries from Western Europe and South America, as well as other emerging markets like Russia, will have a price advantage. This could be devastating for British Columbia's forest

industry. The combined countervailing and anti-dumping duties averaging 27.2% came into effect May 22, 2002 and since that time BC exports of softwood lumber to the United States have plunged. Part of the reason for the drop is excess inventory that was built up in the two months preceding the imposition of the duties. Canadian companies took advantage of a loophole in American trade law that allowed for a short period of duty-free shipments and exported large quantities of wood to the US. Exports bounced back slightly in July, but were still well down from July of 2001 and the same is true for August.

Even if the United States eventually lifts the duties on Canadian lumber, it is not likely to happen any time soon and Canadian companies could fall by the wayside if they do not come up with a strategy to survive. If lumber producers in Western Europe, South America and elsewhere continue to chip away at Canada's share of the US market, Canada will have to find other outlets for its wood. Emerging economies like those in China and India are prime candidates to fill the void left by falling demand in the US. British Columbia has already increased its exports of softwood lumber to China four-fold in just the two years from 1999 to 2001 and year-to-date to August, shipments to India are already more than double what they were in all of 2001. However, even combined, these two countries take in less than half of one percent of all BC exports of softwood lumber. The United States will continue to be the number one destination for Canadian lumber, but diversification of markets should be good for Canada's forest companies, and may be necessary for them to survive.

*Canadian companies may need to find new markets outside the United States if they are to prosper*

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

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