

Exports ♦ November 2002

Note: Statistics Canada has not yet corrected the error made with last month's data release. British Columbia origin exports of natural gas and electricity for October were coded incorrectly and reported as zero. As a result of this error, year-to-date total exports to the United States and total international exports cannot be reported. Year-to-date analysis presented here is based on total exports *excluding* natural gas and electricity.

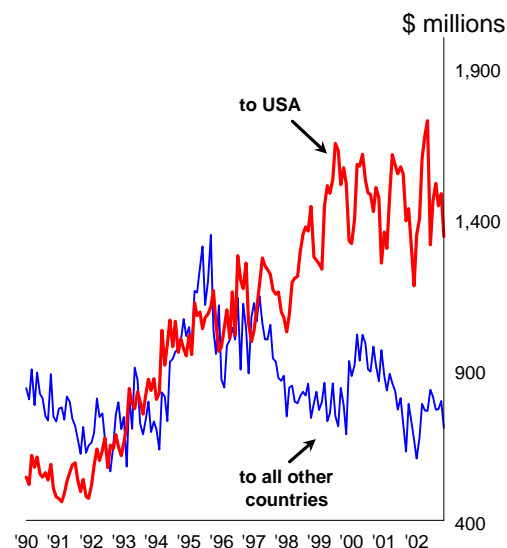
- The value of BC origin exports (excluding natural gas and electricity) is 1.1% lower year-to-date to November 2002 compared to the first 11 months of 2001. Low commodity prices in the forest sector are the main reason for the decline.
- Falling prices for softwood lumber resulting from oversupply are responsible for a 2.4% drop in the value of softwood lumber shipments to the US year-to-date compared to the same period a year earlier. The value of lumber shipped declined despite the fact that volumes exported are up 8.5%.
- Low prices continue to trouble the pulp sector as well. The value of pulp exports is almost 14% lower year-to-date compared to the same period in 2001. Shipments to the European Union are down almost 22%, which is the main factor driving the overall drop of 19% in the value of exports to that re-

gion. There were also large declines in pulp exports to the United States (-18%) and Japan (-27%).

November data

- The value of natural gas exports in November were more than 10% lower compared to the same month in 2001, but the decline was entirely due to price effects as quantities shipped were up 2.6%.
- Exports of electricity seem to be recovering from the doldrums caused at least in part by low water levels in British Columbia's dams in 2001. Despite lower prices, the value of electricity exported in November was well over twice that of the same month in 2001 (+124%) as quantities transmitted rose 187%.

*Low commodity prices in the forest sector are affecting the value of exports**



*This chart excludes exports of natural gas and electricity

Canada Courts the European Union for Freer Trade

With a population of 377 million as of January 1, 2001,¹ the group of 15 nations that comprise the European Union (EU) is the world's largest single market. With this in mind, it is not surprising that Canada has been interested for quite some time in strengthening trade with the region. Since the early 1970s when Prime Minister Trudeau sought to diversify Canada's trade to lessen the dependence on the United States, Canada has been courting Europe for stronger trade ties.

Ironically, the signing of the Canada—United States Free Trade deal and later the North American Free Trade Agreement resulted in Canada becoming even more closely tied to the United States while the proportion of Canada's trade with the EU has declined from 8.7% in 1990 to 4.7% in 2001. In December 2002, Canada and the EU signed a declaration stating a desire to move toward closer trade and investment ties. This may be a sign that the EU is warming up to the idea of freer trade with Canada after decades of indifference. However, the idea of a free trade agreement between Canada and the EU is probably premature, to say the least. Lingering disputes regarding agricultural products could prove to be insurmountable hurdles, at least in the short term. The EU's ban of Canadian hormone-treated beef and European agricultural subsidies and tariffs could prevent a free trade agreement from coming together. Nevertheless, Canada continues to seek out greater trade opportunities in Europe as demonstrated by the scheduling of a Team Canada trade mission to the Netherlands, the United Kingdom and Italy in late March 2003.

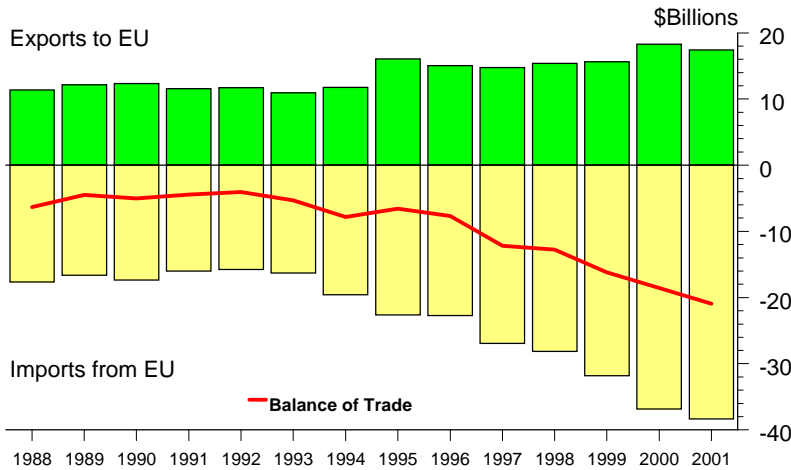
The current trade relationship between Canada and the EU is tilted significantly in favour of the Europeans as Canada has a commodity trade deficit with all but the Benelux countries (Belgium, Netherlands, Luxembourg) and Greece. The overall trade deficit with the EU approached \$21 billion in 2001. Canada's exports to the EU amounted to \$17.4 billion in 2001 compared to \$38.3 billion of goods imported from the region. The trade deficit has increased sharply over the last five years, from \$7.7 billion in 1996. The United Kingdom (UK) was the source of almost a third of the trade deficit with the EU in 2001. Although the UK was the top destination in the EU for Canadian exports with \$4.7 billion, it was also the largest source of imports at \$11.6 billion.

The European Union is comprised of the United Kingdom, Ireland, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Portugal, Spain and Sweden

Canada has a commodity trade deficit with all countries in the EU with the exception of the Benelux countries and Greece

¹ Source: Department of Foreign Affairs and International Trade.

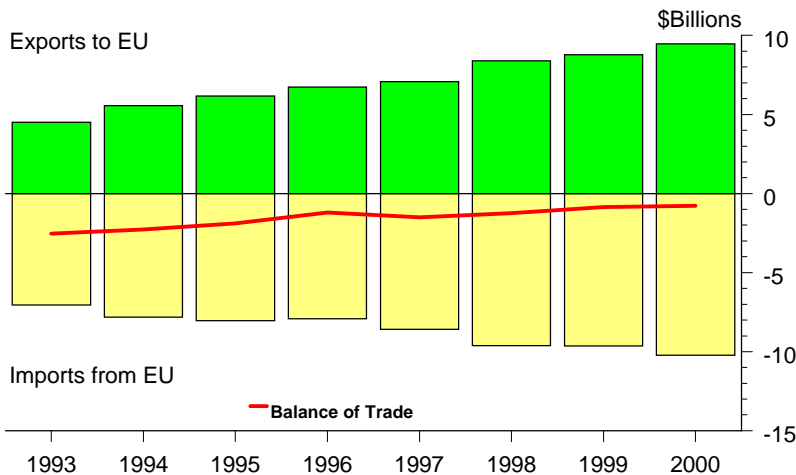
Canada has a trade deficit with the European Union both in terms of goods...



Canada's deficit with the EU in commodity trade has increased sharply in the last five years

Canada also has a deficit with the EU in terms of trade in services, although unlike the commodity trade deficit, the services deficit has been diminishing in recent years. Canada has a significant surplus in trade in services with Ireland, Germany and Sweden, but a substantial deficit with the United Kingdom, Greece and Italy.

...as well as services



Canada also has a deficit in trade in services with the EU, although the gap has been shrinking

Not only is the EU important to Canada in terms of two-way trade, but also with regard to foreign direct investment. After the United States, the EU has the most foreign direct investment in Canada, at just over \$76 billion in 2001, or 23.5% of all foreign direct investment in Canada. At the same time, Canada has about the same amount invested in EU countries. The UK is by far the most significant country for Canadian investment, with about half

of Canada's direct investment abroad located there. The UK is also a major investor in Canada with almost a third of all EU foreign direct investment in this country. Investment from other EU countries has ramped up significantly over the last few years almost doubling between 1998 and 2000.

Foreign Direct Investment (Canada and EU)

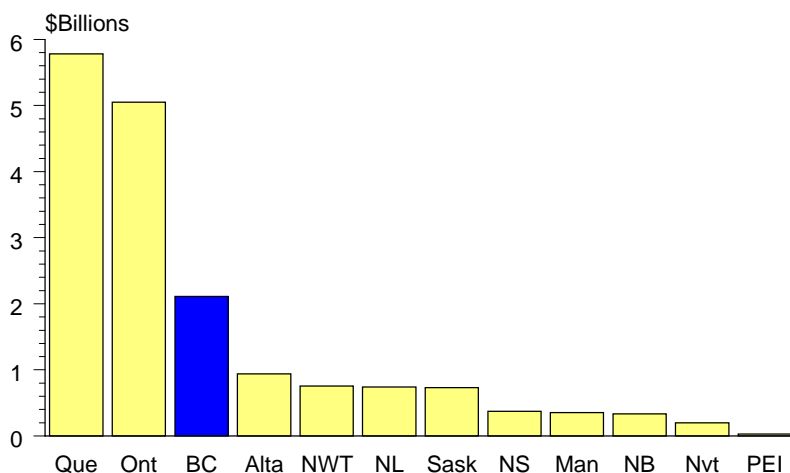
\$Millions	UK FDI in Canada	Other EU FDI in Canada	Canadian FDI in UK	Canadian FDI in other EU
1992	16,799	15,056	12,271	9,071
1993	15,872	15,732	12,907	11,478
1994	14,693	16,824	15,038	15,620
1995	14,097	21,778	16,412	18,106
1996	14,292	24,406	17,825	19,192
1997	15,748	25,508	22,722	22,416
1998	17,042	31,126	24,956	29,149
1999	14,894	35,902	24,883	28,470
2000	21,970	60,787	35,427	36,773
2001 (p)	24,713	51,551	38,305	38,197

Almost a quarter of all foreign direct investment in Canada in 2001 was from the European Union (\$76 billion)

Source: Statistics Canada, *Canada's International Investment Position, 2001*, cat. 67-202-XPB

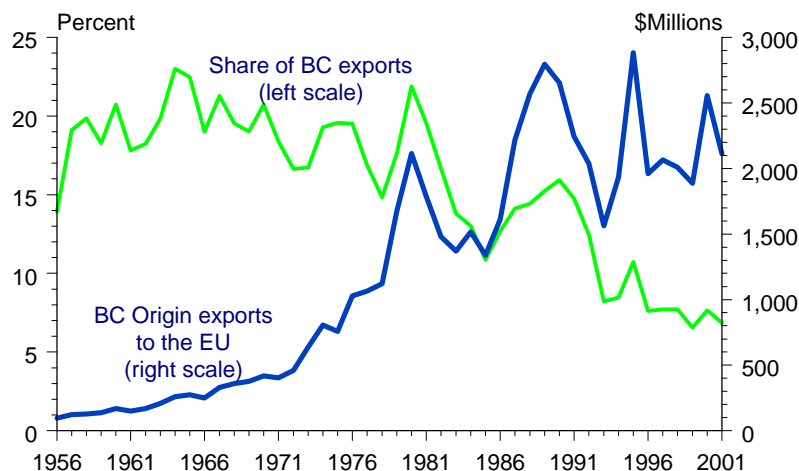
While the EU will likely never rival the United States in importance as a trade and investment partner for Canada, it is clear from the figures above that it is a significant economic partner. However, the impact of trade with the EU varies by province. In 2001, Quebec, Ontario and BC were responsible for almost three-quarters of all Canadian exports to the EU. British Columbia ranked third with \$2.1 billion in exports, or 12% of the Canadian total.

British Columbia ranked third in Canada in value of exports to the European Union 2001



British Columbia shipped about 12% of total Canadian exports to the EU in 2001

The share of BC Exports to the European Union
has been declining for two decades



The European Union's share of total BC origin exports has declined from around 20% in 1981 to only 7% in 2001

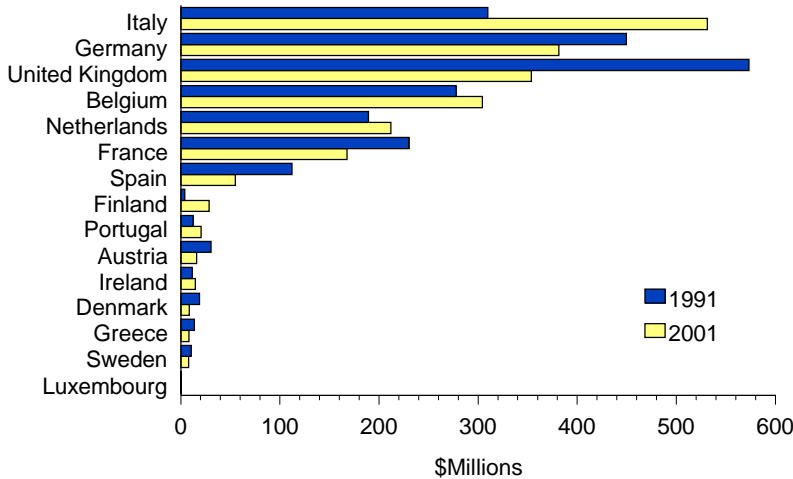
For British Columbia, the importance of the EU as a destination for exports has diminished over the last couple of decades. Peaking at 23% of total BC exports in the mid-sixties, the share of BC origin commodity exports shipped to the EU dropped to under 7% in 2001. This is likely in part a direct result of free trade with the United States, combined with a favourable exchange rate for exporters shipping to the US. The share of BC exports headed to the US has increased from about 45% in the early eighties to 70% in 2001. In addition to the US, the EU lost a portion of its share of BC exports to Asian destinations, although in recent years the financial crises in Asia have resulted in declining exports to those countries. Despite the falling shares to Asia, the EU's share continued to drop as well. Part of the reason for this may be the emergence of other competitors for BC products within Europe, such as Russia for lumber products.

The types of goods shipped to the EU from BC in 2001 were mainly resource-based, with three-quarters of total BC exports being comprised of just three commodities. Almost half (49%) of British Columbia's commodity exports to the EU were pulp. Coal (17%) and softwood lumber (9%) made up another quarter of total exports.

Three-quarters of BC origin exports to the EU were comprised of pulp, coal or softwood lumber

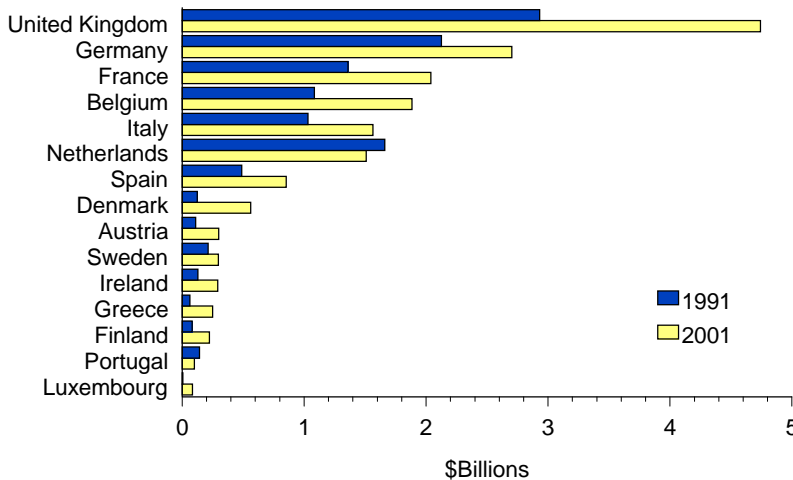
For Canada as a whole, exports to the EU were far more diversified. Aircraft (11%) were the top export in 2001, followed by pulp (10%) and diamonds (4%). The aircraft originated in Quebec (80%) and Ontario (20%) and were the top exports for both those provinces. The diamonds were exclusively from the North West Territories and comprised almost 100% of that region's exports to the EU. British Columbia was the origin of 60% of Canada's total pulp shipments to the EU. Quebec (14%) and Alberta (12%) also had significant pulp shipments.

Italy has become the top destination in the European Union for British Columbia origin exports...



Italy has surpassed both the United Kingdom and Germany to become the top destination for BC origin exports

...while for total Canadian exports, the United Kingdom remains the leading destination



The United Kingdom is by far the most significant destination for Canadian exports overall

Italy has surpassed the UK and Germany as the top destination for BC origin exports, but for Canada as a whole, the UK is by far the most significant destination and Germany ranks second. Italy's growing importance to BC exporters gives the next Team Canada trade mission even more significance for British Columbia.

BC has already demonstrated that the EU is an important trade partner with the share of BC exports destined for the EU well above the Canadian average. If Canada can negotiate better trade ties with the EU it could be significantly beneficial for the province. While it is unlikely that a free trade deal will be struck any time soon, any movement toward freer trade should help Canadian exporters looking to diversify their markets.

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

02-10	<i>Canada Courts the European Union for Freer Trade</i> (released January 2003)	01-08	<i>Thirst for Energy Powers British Columbia's Exports</i> (released October 2001)
02-10	<i>Lumber Battle Takes an Unexpected Turn</i> (released December 2002)	01-07	<i>International Trade in High Technology Goods and Services</i> (released September 2001)
02-09	<i>Canada Looking to Shed Light on Trade With the Dark Continent</i> (released November 2002)	01-06	<i>Interprovincial and International Trade in Goods and Services</i> (released August 2001)
02-08	<i>Canada's Share of US Softwood Lumber Market Slipping</i> (released October 2002)	01-05	<i>Buy Low, Sell High: Trade in Electricity</i> (released July 2001)
02-07	<i>FTAA: Free Trade for the Western Hemisphere?</i> (released September 2002)	01-04	<i>Attack of the Canadian Tomatoes</i> (released June 2001)
02-06	<i>The Changing Face of BC Exports</i> (released August 2002)	01-03	<i>The Softwood Lumber Dispute</i> (released May 2001)
02-05	<i>Japan's Economic Woes Translate to Reduced Trade for BC</i> (released July 2002)	01-02	(no article)
02-04	<i>Team Canada Promotes Trade With Mexico</i> (released June 2002)	01-01	(no article)
02-03	<i>Chile Warms Up to Trade With Canada</i> (released May 2002)	00-12	(no article)
02-02	<i>The Threat of American Protectionism</i> (released April 2002)	00-11	<i>After Much Economic Diversification, B.C. Exports Are Still Mainly Resource Based</i> (released January 2000)
02-01	<i>Canada Seeks to Increase Trade With India</i> (released March 2002)	00-10	<i>Ambitious Western Hemisphere Trade Agreement Could Help Shape Canadian Trade In New Decade</i> (released Dec. 2000)
01-12	<i>Is "Runaway" Film Production in Canada Harming the U.S. Industry?</i> (released February 2002)	00-09	<i>Trade Growth Tied To Transportation Infrastructure</i> (released November 2000)
01-11	<i>Team Canada Scouts Russia and Germany for New Trade Ties</i> (released January 2002)	00-08	<i>Some Familiar Patterns Developing In Trade Between China and British Columbia</i> (released October 2000)
01-10	<i>Exploring China as a Market for BC's Wood Products</i> (released December 2001)	00-07	<i>International Trade In Services Produces B.C.'s Only Trade Surplus</i> (released October 2000)
01-09	<i>Is Trade Threatened by Security?</i> (released November 2001)	00-06	<i>Value Added Wood Exports Grow Fast In B.C., But Faster In Rest of Canada</i> (released August 2000)
		00-05	<i>What Has Free Trade Meant For B.C.'s International Trade?</i> (released July 2000)

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.