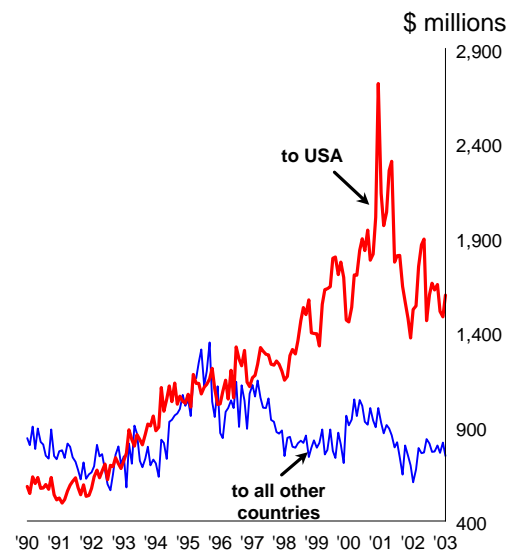


Exports ♦ January 2003

- The value of BC origin exports increased 10% in January compared to the same month in 2002. Energy products led the way with a 65% year-over-year jump. Rising prices for natural gas in particular, but also electricity, are partially responsible for the increase, but quantities of these goods exported are up as well. A combination of cold weather and global uncertainty over tensions in Iraq and elsewhere has helped push up the price for these commodities and for the short-term, at least, this price inflation will likely be sustained resulting in higher revenues from energy exports.
- In the forest sector, the story was mixed in January. Pulp shipments were up markedly, with the value of BC pulp exported rising 27% year-over-year. This was despite a 20% drop in shipments to the European Union. Falling prices for newsprint resulted in a 5% drop in the value of exports of that product. However, the big story continues to be softwood lumber. Overall, shipments of lumber fell by over 16% driven by a 23% decline in exports to the United States. The drop was due solely to price deflation as the quantity of lumber shipped actually increased compared to January 2002. It is unlikely prices will rise anytime soon as BC manufacturers continue to run at full capacity in an effort to drive down operating costs and continue producing despite punishing duties payable on exports to the US.
- Revenue from exports of machinery and equipment was down almost 10% compared to the same month a year earlier. A drop in shipments of motor vehicles and parts (-23%) was responsible for approximately a third of the decline.
- With the exception of Western Europe (-3%), the value of exports to most of BC's major trading partners was up in January. Shipments to Japan grew 20% with exports of coal (+79%) and metallic mineral products (+109) leading the way. Shipments to the United States rose 5%, mostly on the strength of energy commodities. Exports to the Pacific Rim (excluding Japan) jumped 50%, although Hong Kong (-26%) and Australia (-33%) experienced significant declines.

Rising energy prices are driving the value of BC origin exports higher



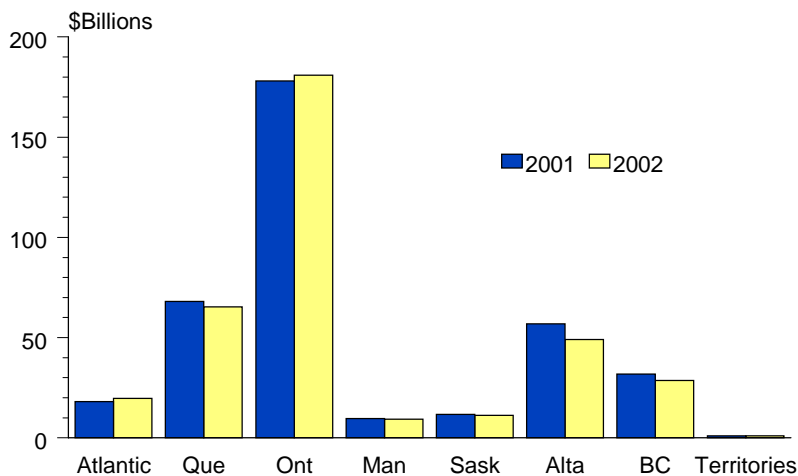
Review and Outlook for BC Exports

2002 in Review

The value of BC origin commodity exports fell almost 10% from 2001 to 2002. Commodity prices were the driving force behind the decline, particularly for energy products. The price spike for electricity and natural gas that occurred in late 2000 and early 2001 helped inflate export figures and when prices returned to more normal levels in 2002, the value of exports consequently dropped. This is particularly apparent with respect to exports of electricity, which increased by 37% in terms of quantity from 2001 to 2002, but fell 87% in terms of value. The implicit price of electricity exported from BC plummeted from over \$340 per megawatt hour in 2001 to just over \$33 per megawatt hour in 2002, a 90% decline. Natural gas did not have quite as dramatic a drop in price, but the implicit price differential was still quite substantial (-37%).

Falling prices for energy and forest products resulted in lower values for BC origin exports in 2002

Falling energy prices were the main reason for the drop in value of exports from BC and Alberta



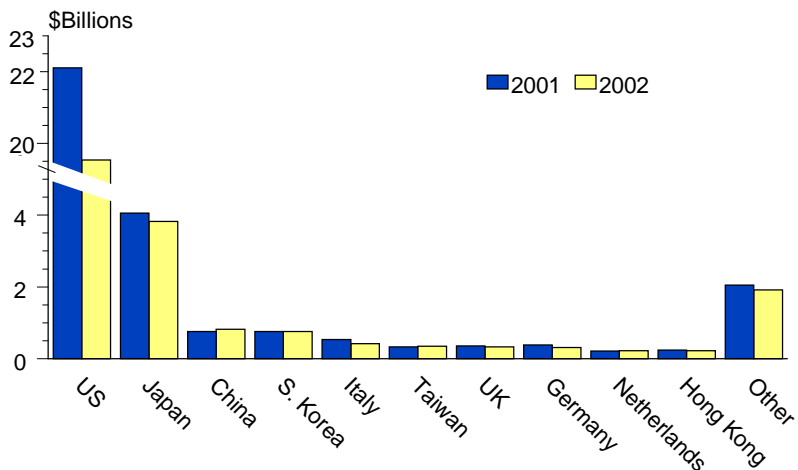
As a result of the substantial drop in energy prices, Alberta (-14%) and BC (-10%) suffered the largest drops in value of exports of all provinces in Canada

Commodity prices in the forest sector also had a negative effect on the value of BC origin exports. Prices for both pulp and newsprint were down from a year earlier and exports of these goods dropped both in terms of quantity and value. The softwood lumber dispute with the United States also affected exports, but in an unexpected way. Duties averaging 27.2% on Canadian softwood lumber destined to the US became payable as of May 22, 2002. Canadian companies, particularly in BC, responded to the duties by ramping up production at efficient mills and closing down inefficient mills in order to minimise costs. As a result, the lumber market became oversupplied and prices fell. Despite the punishing duties, BC producers shipped just under 7% more lumber (to all destinations) in 2002, but the value of exports was 4% lower than a year earlier.

BC lumber companies increased production to minimise costs, which helped drive down prices such that despite an increase in the volume of exports, the value fell

The combination of price deflation for energy and forest products drove the value of exports to the United States down from \$22.1 billion in 2001 to \$19.5 billion in 2002. However, the US was not the only country to spend less on BC origin exports in 2002. Of the top ten destinations for BC commodity exports in 2002, seven experienced a decline in the value of shipments from BC.

The value of BC origin exports declined for most destinations in 2002



Seven of the top ten destinations for BC exports in 2002 experienced a decline in the value of shipments from British Columbia

Outlook for 2003

The large number of variables involved in matters of trade makes it difficult to predict what the year 2003 will yield in terms of the value of exports from BC, but it is probably safe to say that one should not expect robust growth. Geopolitical uncertainty arising from the possible conflict in Iraq and terrorist threats, combined with uncertainty regarding the softwood lumber issue could negatively impact BC exports, but, on the other hand, if commodity prices improve, the value of BC exports could also rise.

The looming conflict in Iraq has cast a shadow over economic growth in many countries, not the least of which has been the United States. The impact of the uncertainty over Iraq has resulted in soaring costs for oil and delays in investment decisions, keeping growth of the US economy at modest levels. While Canadian economic growth has been more robust, significantly outpacing that of its neighbour to the south, a continuing slump in the US will almost certainly become a drag on the Canadian economy as well unless fortunes turn around quickly. With the United States taking in almost two-thirds of BC origin exports, the health of the US economy and the quantity of US housing starts will heavily influence the strength of BC exports. If American manufacturers are producing less, they will need fewer British Columbia material inputs and if American consumers continue to cut back on

The threat of a war in Iraq is having a dampening effect on the global economy and could result in reduced demand for BC exports

spending, that will translate into less demand for BC products as well. This indicates that if BC exports are to experience strong growth in 2003, there needs to be a quick resolution to the situation in Iraq.

Compounding the problem of a lethargic US economy is an even greater economic slowdown in Japan. British Columbia depends on Japan as a customer for its exports more than any other province in Canada. In 2002, 12% of BC exports went to Japan, but this is well down from about 28% in 1990. Economic difficulties have plagued Japan for several years now, reducing Japanese demand for BC goods, such as coal, that are used as inputs to Japanese production. Since the Japanese economy is export-dependent, not unlike BC, it too will suffer in the event of a war in Iraq, and subsequently, Japanese demand for goods from BC will likely fall. In addition to external factors, the Japanese economy continues to suffer from the slow pace of reform of its financial institutions. Most economists predict that economic growth in Japan in 2003 will be flat and this does not bode well for a significant increase in exports to that country.

Japan's economic difficulties have resulted in reduced demand for BC products

Another factor that will significantly impact the value of BC exports is the exchange rate. The American dollar is depreciating against many world currencies, including its Canadian counterpart and this will likely result in a lower value of exports from Canada. The Canadian dollar has already appreciated substantially against the US greenback in the first quarter of 2003, and there are signs that this could continue. The Bank of Canada recently raised its trend setting rate by 250 basis points and has indicated that there will be further increases later in the year. Meanwhile the US Federal Reserve Board is expected to keep a lid on rate increases until later in the year, possibly as late as October. This should help drive the Canadian dollar up even further and many economists are predicting it will go as high as between 69 and 70 cents US. This could have a two-pronged effect on Canadian exports. First, the cost of Canadian exports to American buyers will increase, which could reduce demand. Second, the value of exports in Canadian dollars will decline if the price (in American dollars) does not increase enough to offset the exchange rate effects.

The appreciation of the Canadian dollar could result in a reduction in the value of BC exports

This brings up the next crucial factor that will affect the value of BC exports, which is the price of commodities. On the positive side, prices for natural gas are expected to remain high. The combination of the conflict in Iraq, cold weather and a supply that is growing slower than demand will likely continue to exert upward pressure on natural gas prices. This should result in an increase in revenue from natural gas exports from BC.

Prices for natural gas are rising, which should help boost the revenue from natural gas exports from British Columbia

Prices for electricity may also rise in 2003, but according to BC Hydro, snow packs are at low levels, which may mean that surplus electricity available for export may be in short supply. If this is the case, it is possible that the volume of exports of electrical energy could fall off from last year's pace. If price increases are not enough to compensate for this drop in quantity, revenue from electricity exports will fall.

Low snow packs could result in a reduction in BC exports of electricity in 2003

The coal industry in BC is comprised primarily of metallurgical coal, which is used in manufacturing steel. Thermal coal, which is used for electricity generation, makes up only about 5% of all coal produced in the province and is sold mainly to the United States. Metallurgical coal is sold primarily to Asian markets, particularly Japan and South Korea and prices are set annually by contract. The contract price for coal sales to Japan, which bought over a third of all coal exported from BC in 2002, will be determined by April 1. The economic situation in Japan could play a large role in the volume of coal exported from BC in 2003. Not only will the Japanese likely be pushing for a lower contract price, but demand may remain low unless production in Japan rebounds.

Coal exports could depend to a large extent on the Japanese economy

One of the key export commodities for British Columbia is softwood lumber. While commodity prices will be a factor in volumes of lumber exported, the most significant determinant of levels of exports of lumber will be whether or not there is a resolution with regard to the dispute with the United States. Negotiations have been unsuccessful to date and the outlook for a negotiated settlement in the near term is looking dim. However, in the next few months preliminary decisions for both the NAFTA and WTO challenges will be released and if they find in favour of Canada it may make the Americans more flexible in their position. In addition, the appreciating Canadian dollar could make lumber less of an issue for the Americans as some of Canada's competitive advantage is eroded.

On the other hand, it is unlikely that Canadian manufacturers will be able to continue running at full capacity if prices do not improve. It is likely that Canadian mills will have to take some down time to allow the excess supply to be drained from the market. In the short-term, the combination of oversupply and the continuation of the trade dispute will probably have a negative effect on the value of trade in softwood lumber from BC. If the trade dispute is settled soon, prospects for the industry should improve.

The status of the softwood lumber dispute will have a significant effect on levels of lumber exports from BC

Commodity prices for pulp and paper products are improving, which bodes well for BC exports of these goods. Metals are also experiencing price inflation, particularly gold, which is benefiting from current global tensions. The outlook is for continued improvement for these goods once the conflict in Iraq is resolved.

British Columbia's revenue from exports in 2002 was affected primarily by commodity prices and the softwood lumber dispute. In 2003, these factors will again play an important role, but the situation in Iraq will possibly be the most significant determinant of the value of BC exports. The prospect of war, combined with a rising Canadian dollar and a prolonged softwood lumber dispute could lead to another decline in export revenue. On the other hand, rising commodity prices could offset some or all of these factors. The bottom line is that unless the Iraq situation is resolved quickly and the dispute over softwood lumber is settled, the prospects for strong growth in BC exports are slim. More likely, growth will be modest, and in a worst case scenario, there could be a third consecutive annual decline in the value of BC international goods exports.

Unless the conflict in Iraq and the softwood lumber dispute are settled, BC exports will likely experience little, if any, growth

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

03-01	<i>Review and Outlook for BC Exports (released March 2003)</i>	01-10	<i>Exploring China as a Market for BC's Wood Products (released December 2001)</i>
02-12	<i>Team Canada Returns to Europe (released February 2003)</i>	01-09	<i>Is Trade Threatened by Security? (released November 2001)</i>
02-11	<i>Canada Courts the European Union for Freer Trade (released January 2003)</i>	01-08	<i>Thirst for Energy Powers British Colum- bia's Exports (released October 2001)</i>
02-10	<i>Lumber Battle Takes an Unexpected Turn (released December 2002)</i>	01-07	<i>International Trade in High Technology Goods and Services (released September 2001)</i>
02-09	<i>Canada Looking to Shed Light on Trade With the Dark Continent (released November 2002)</i>	01-06	<i>Interprovincial and International Trade in Goods and Services (released August 2001)</i>
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02-07	<i>FTAA: Free Trade for the Western Hemi- sphere? (released September 2002)</i>	01-04	<i>Attack of the Canadian Tomatoes (released June 2001)</i>
02-06	<i>The Changing Face of BC Exports (released August 2002)</i>	01-03	<i>The Softwood Lumber Dispute (released May 2001)</i>
02-05	<i>Japan's Economic Woes Translate to Reduced Trade for BC (released July 2002)</i>	01-02	<i>(no article)</i>
02-04	<i>Team Canada Promotes Trade With Mexico (released June 2002)</i>	01-01	<i>(no article)</i>
02-03	<i>Chile Warms Up to Trade With Canada (released May 2002)</i>	00-12	<i>(no article)</i>
02-02	<i>The Threat of American Protectionism (released April 2002)</i>	00-11	<i>After Much Economic Diversification, B.C. Exports Are Still Mainly Resource Based (released January 2000)</i>
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01-11	<i>Team Canada Scouts Russia and Germany for New Trade Ties (released January 2002)</i>	00-08	<i>Some Familiar Patterns Developing In Trade Between China and British Colum- bia (released October 2000)</i>
		00-07	<i>International Trade In Services Produces B.C.'s Only Trade Surplus (released October 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.