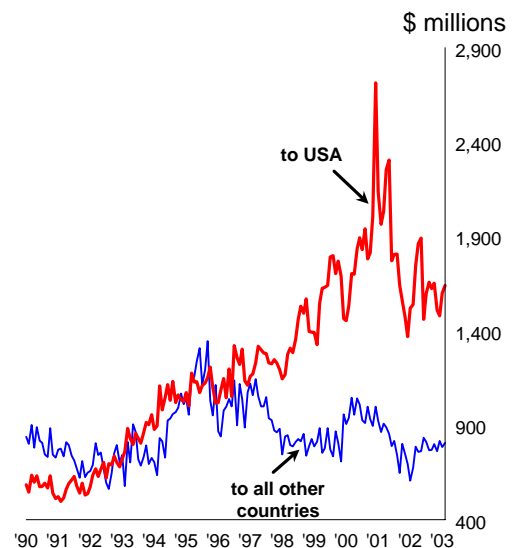


Exports ♦ February 2003

- The value of BC origin exports is up 11% year-to-date to February compared to the same period in 2002. Rising commodity prices contributed to the increase, particularly for natural gas and electricity, although quantities exported are also higher for these goods. With cold weather pushing up demand and growing geopolitical uncertainty also influencing prices, the value of BC exports of both natural gas (+137%) and electricity (+78%) rose substantially in the first two months of 2003 compared to 2002.
- The softwood lumber dispute continues to affect the value of BC lumber product exports. Lumber exports to the US have dropped 28% year-to-date compared to the first two months of 2002. Most of this decline is due to falling prices as a result of oversupply.
- Elsewhere in the forest sector, things are looking far more positive. Exports of pulp (+16%) and paper products excluding newsprint (+16%) have increased considerably year-to-date. Plummeting prices for newsprint have resulted in a 9% decline in the value of BC origin exports of that product.
- Exports of machinery and equipment are 9% lower than in the same period last year. A 28% drop in the value of shipments of motor vehicles and parts is driving much of the decline. This is due to the closure of Kelowna's Western Star Trucks assembly plant last fall.
- The value of exports of metallic mineral products has risen 39% in the first two months of 2003 compared to the same period last year. Much of this increase is the result of improving commodity prices.
- Declining shipments of coal (-10%) and pulp (-11%) are the main reason for a 2% drop in exports to the European Union. However, the value of exports to most other major destinations is up. Shipments to Japan increased 24% mostly on the strength of mineral products, particularly copper and aluminum. Exports to the US rose 6% due to rising prices in the energy sector. Shipments to China more than doubled (+129%) to just under \$190 thousand.

BC origin exports are higher so far in 2003 compared to last year



Rising Log Exports Fuel Controversy

One of the key issues in the softwood lumber dispute between Canada and the United States is the restriction on exports of raw logs from Canada, particularly British Columbia. The Americans argue that restricting exports of unprocessed logs in essence amounts to a subsidy to Canadian forest companies since putting logs up for auction will supposedly bring a higher price than companies are currently paying through the stumpage system. On the other side of the debate, those working in the forest sector say that there should be a complete ban on log exports. They argue that the timber is a public good that should confer benefits to Canadians and exporting raw logs is tantamount to exporting manufacturing jobs.

Log exports have stirred up controversy with the Americans arguing that there are not enough and forest sector workers complaining there are too many

The position of the United States is made dubious by the fact that the United States itself prohibits the export of raw logs from publicly owned lands. The main difference between the forest sector in BC and that in the United States is that the large majority of timber in BC is publicly owned, whereas in the US, most of it is privately owned. About 89% of the volume of timber billed in BC is from Crown land.¹

Although there is not an outright ban on raw log exports from BC, there are restrictions on sales outside the province for both privately and publicly owned timber. Currently, in British Columbia, exports of logs from privately owned forests are under federal jurisdiction. Logs can be sold outside BC only after they have been offered for sale within the province and no buyer has been found. For timber harvested from Crown land, other than in exceptional circumstances, exports of logs are prohibited. Section 127 of the *Forest Act* explicitly states that all timber harvested from Crown land must be either used in BC or manufactured within the province into other goods. However, Section 128 provides for an exemption if the timber is surplus to the requirements of British Columbia's processing facilities, if it cannot be processed economically near the harvesting area and cannot be transported economically to another facility in BC, or if an exemption would prevent waste or improve the utilisation of the wood.

Exports of raw logs from BC are restricted, but not banned outright

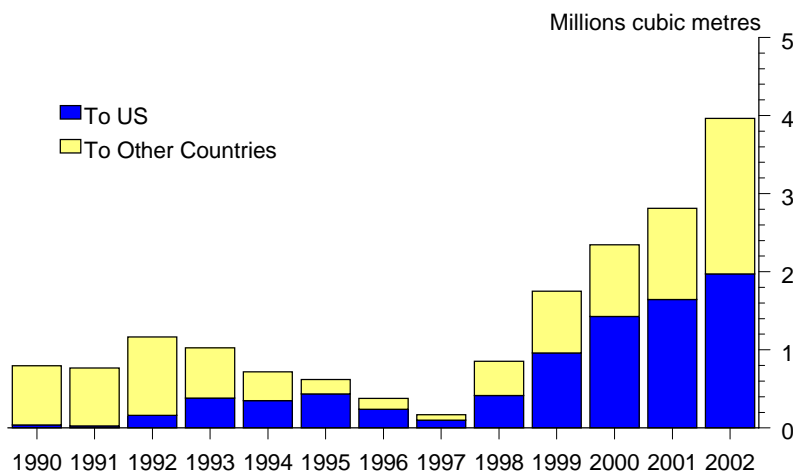
This exemption was used in February 2002 to approve exports of up to 35 percent of the logs harvested in the Kispiox, Kalum and North Coast timber supply areas. The government has defended the exemption, stating that the logs are lower-valued timber from areas where harvesting costs are high. Accordingly, the logs could not be processed economically within the province and therefore meet the criteria for exemption. By allowing the logs to be

¹ Source: Ministry of Forests annual reports.

exported, at least jobs for loggers are created. Mill workers in the province disagree with this stance and have launched a legal challenge of the export permits.

The mill workers' anger over this issue is probably being fuelled by the fact that exports of raw logs from BC have been rising over the last five years. From 1998 to 2002 the quantity of BC logs shipped out of the country has risen over 360% from 855 thousand to almost four million cubic metres. The value of these exports increased from \$128.3 million in 1998 to \$515.1 million in 2002. Approximately 50 to 60 percent of these shipments were destined for the United States. Asia, particularly Japan, was the destination for most of the remaining logs.

The quantity of logs exported from BC has risen significantly in the last few years...

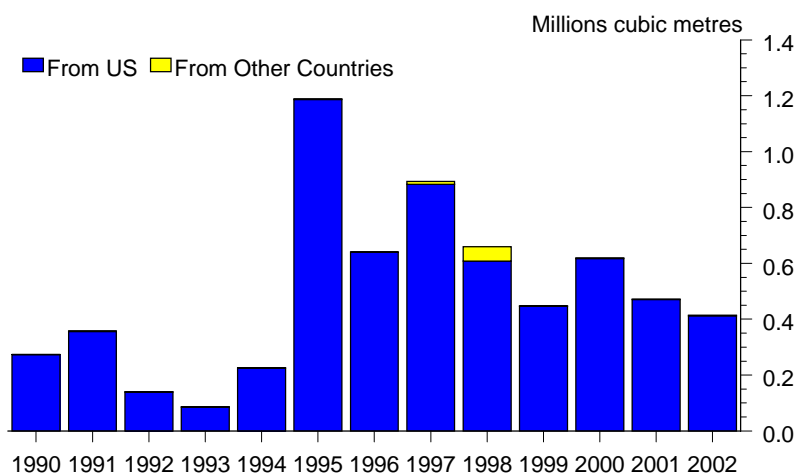


From 1998 to 2002, the volume of logs exported from BC increased by over 360%

There are significant imports of logs into BC as well.² In fact, in the mid-nineties there were three consecutive years where BC was a net importer of quantities of logs. Virtually all the log imports were from the United States, and therefore, BC was a net importer from the US in even more years in the last decade. However, after hitting a peak in 1995, imports of raw logs have been consistently falling, which has resulted in a growing deficit in volumes of logs traded.

² Note that there is no data available on imports consumed within BC. All import figures refer to shipments of logs cleared through BC customs ports. It is possible that a portion of these exports was shipped to another province after entering BC, but it is likely that the majority was consumed within the province.

...while imports of logs entering Canada through BC have been falling



Imports of logs entering Canada through BC have been falling since hitting a peak in 1995

It is somewhat misleading to look only at the total volume of logs exported and imported, since logs can be of substantially varying qualities. Based on a simple comparison of implicit prices (i.e., dividing value by volume), it is clear that the quality of logs exported from the province is significantly greater than that of the logs imported into BC. Over the last decade the implicit value of logs exported from BC has been approximately double that of logs imported through the province. In 2002, for example, the value of exports was approximately \$130 per cubic metre (or \$115 for exports to the US only) compared to \$61 for imports. This is due to the fact that exports from the province are composed of a greater portion of quality saw logs, while imports are primarily logs used for pulping.

The quality of logs exported from the province is significantly greater than that of logs entering the country through BC customs ports

It is difficult to determine the scope of trade in logs without looking also at the volume of timber harvested within the province. While the portion of logs shipped from BC to other countries has generally been within half a percentage point of one percent of timber scaled in BC, this percentage has been growing in recent years. From just over one percent in 1998, the percentage of timber scaled in BC that was exported grew to over five percent in 2002. According to data from the Ministry of Forests, the portion of logs exported in the fiscal year 2000/2001 (the latest year of data available) that required a permit under Section 128 of the *Forest Act* was 40%. The remainder was from areas under federal jurisdiction or from First Nations' reserves.

The volume of logs exported as a percentage of timber scaled has risen from just over 1% in 1998 to over 5% in 2002

Exports of unprocessed timber generate an emotional reaction on both sides of the issue and will likely fuel controversy for years to come. As British Columbia's forest policy evolves, it will have to find a delicate balance if it is to appease both BC forest workers and American lumber interests.

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

03-02	<i>Rising Log Exports Fuel Controversy</i> (released April 2003)	01-11	<i>Team Canada Scouts Russia and Germany for New Trade Ties</i> (released January 2002)
03-01	<i>Review and Outlook for BC Exports</i> (released March 2003)	01-10	<i>Exploring China as a Market for BC's Wood Products</i> (released December 2001)
02-12	<i>Team Canada Returns to Europe</i> (released February 2003)	01-09	<i>Is Trade Threatened by Security?</i> (released November 2001)
02-11	<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)
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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)
		00-08	<i>Some Familiar Patterns Developing In Trade Between China and British Columbia</i> (released October 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
P.O. Box 9410 Stn Prov Govt
Victoria, B.C.
V8W 9V1
(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.