

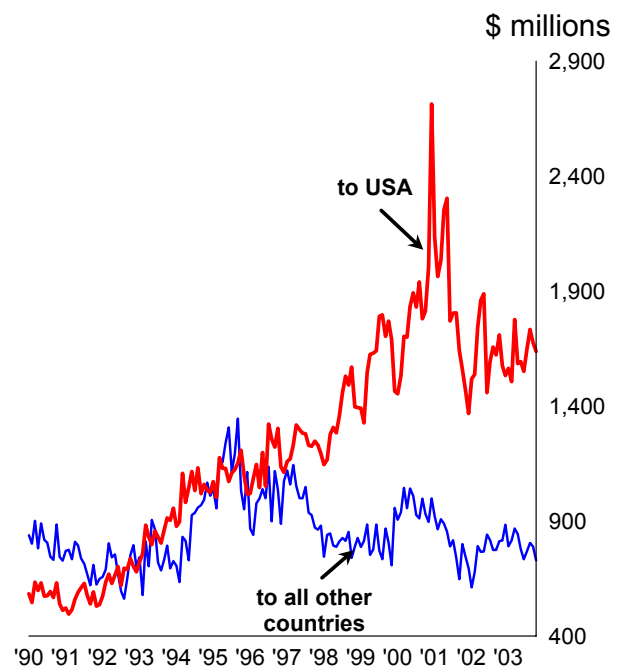
Exports ♦ October 2003

- Despite a doubling in the value of exports of energy products, total British Columbia origin exports are slightly lower (-0.1%) through the first ten months of 2003 compared to the same period last year.
- Although prices for natural gas have been falling in recent months, they are still well above levels experienced at this time last year. Most of the increase in the value of exports of natural gas (+86%) is due to the jump in price, although quantities shipped have also risen. With electricity exports (+71%), all the growth is due to price inflation as quantities have actually fallen slightly.
- The surge in energy exports has been offset by declines in shipments of other goods. In particular, BC exports of softwood lumber have dropped over 17% year-to-date compared to the first ten months of 2002. The softwood lumber dispute with the United States has driven the decline as BC exporters face a 27.2% tariff on all exports of softwood lumber to the United States.
- Elsewhere in the forest sector, pulp and paper exports have slipped 6% through January to October compared to the same period a year earlier. After recovering slightly in the spring, pulp prices have once again slumped. Prices for newsprint, which are down substantially from October of 2002, are re-

sponsible for the 13% decline in exports of that commodity.

- Besides energy, the one other bright spot for BC's resource sectors is with regard to exports of metallic mineral products, which have climbed 5% year-to-date. Molybdenum (+42%) has experienced the most growth, but other significant metal exports such as aluminum (+6%), zinc (+6%) and copper (+4%) have also seen increases.
- Exports to BC's two primary trading partners, the United States (-2%) and Japan (-4%) have fallen in the first ten months of 2003 compared to the January to October period in 2002.

The increase in energy exports has been offset by declines in other resource-based goods, particularly softwood lumber



Is Global Free Trade Possible?

The issue of free trade is one that is certain to spark debate. On the one hand, there are those who gather to protest at any meeting of foreign leaders where the topic of increased globalisation or free trade may be discussed. On the other hand, there are significant efforts being made to arrive at more free trade agreements, whether they are bilateral, such as the Canada-Chile free trade agreement, for example, or whether they are more encompassing, such as the attempt to create a Free Trade Area of the Americas (FTAA).

The negotiations surrounding the latter accord have highlighted the difficulty of coming to an agreement that will satisfy all parties. After almost a decade of talks, the ambitious plans for the FTAA have been diluted such that what is now left on the table is being dubbed by some as "FTAA light." The problems encountered in these trade discussions are emblematic of the difficulties cropping up in all free trade negotiations. Earlier in the year, the Doha round of the World Trade Organization's (WTO) attempt at trade liberalisation fell apart as the interests of the developed nations and those that are less developed could not be reconciled.

Negotiations for a Free Trade Area of the Americas have been reduced to "FTAA light"

The key stumbling block in all these negotiations has been the agricultural sector. In particular, poorer nations with a primarily farm-based economy were asking for reforms that would reduce the amount of subsidies granted to the agricultural sectors in the richer, western nations. The poor countries feel that if they are ever to climb their way out of poverty, they need to have all barriers to agricultural trade removed. In both the WTO and FTAA negotiations, there was strong resistance on the part of the developed nations to accede to these demands.

Agricultural reform is the key roadblock to achieving global trade deals

The worst offenders with regard to agricultural protectionism are the United States and the European Union (EU), although other countries, including Canada, also have significant trade barriers in place. The United States passed a bill in 2002 that amounted to the most generous support offered to American farmers ever. The European Union is equally, if not more, supportive of its farmers and both the EU and the United States are hesitant to remove these subsidies.

Even among the richer nations, there are mounting difficulties to achieving free trade. In his candidacy announcement speech, George W. Bush stated, "I'll work to end tariffs and break down barriers everywhere, entirely, so the whole world trades in freedom. The fearful build walls. The confident demolish them."¹

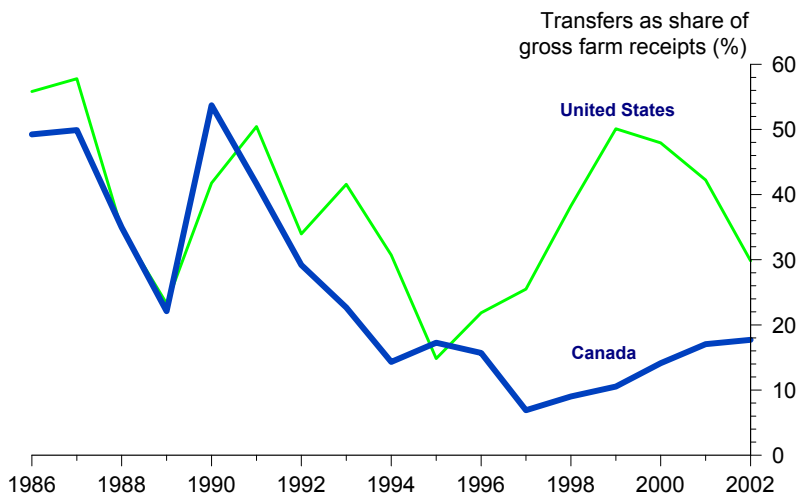
¹ Source: Candidacy Announcement speech, Cedar Rapids, Iowa. June 12, 1999.

Despite these sentiments, the actions of the United States over the last couple of years have demonstrated a clear movement towards protectionism. The US has targeted Canadian softwood lumber and wheat for tariffs, implemented steep duties on steel and most recently has imposed restrictions on textile imports from China. Many analysts claim that these actions have been politically motivated and that these protectionist barriers are most likely an attempt to secure votes in politically sensitive areas in anticipation of a close election next year.

Canada has appealed the softwood lumber duties to a NAFTA panel, and so far the decisions have been leaning in Canada's favour.² With respect to wheat, Canadian farmers are facing a 14% tariff on red spring wheat despite a report by the Organization for Economic Co-operation and Development (OECD) that suggests that American wheat farmers were subsidized, on average, more than twice as much as their Canadian counterparts over the 2000 to 2002 period. Over the three-year period, American wheat farmers averaged transfers of about 40% of gross farm receipts, compared to 16% for Canadian wheat farmers.³

According to the OECD, American wheat farmers have been subsidised to a far larger extent than those in Canada

Producer support estimates for wheat are significantly higher in the United States compared to Canada



Source: OECD, PSE/CSE database 2003

According to the OECD, in 2002, American wheat farmers received transfers equivalent to 30% of gross farm receipts, compared to only 18% for Canadian wheat farmers

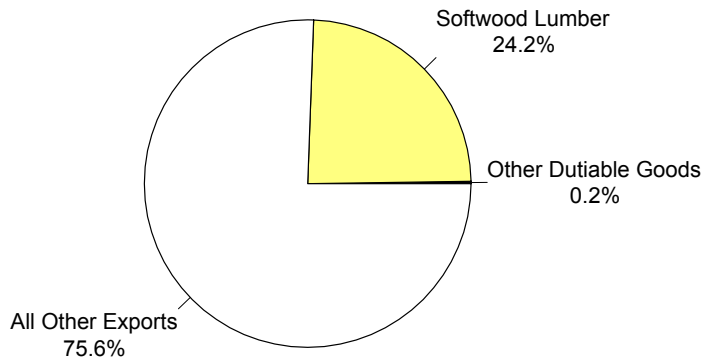
Other Canadian commodities subject to American duties are: iron construction castings, brass sheet and strip, steel rails, pure and alloy magnesium, corrosion-resistant carbon steel flat products, stainless steel plate in coils and carbon steel wire rod. For British Columbia, most of these items are of minor significance in the current overall trade picture with the United States. Softwood lumber

² See "A Summary of the NAFTA Panels' Decisions on Lumber Duties" in the July 2003 *Exports*.

³ Source: OECD, PSE/CSE database 2003 (<http://www.oecd.org>).

is the only good facing duties that seriously affects British Columbia exporters. In 2002, almost one-quarter (24.2%) of all BC origin exports to the United States were comprised of softwood lumber.⁴ By comparison, all the other goods subject to American tariffs combined accounted for only 0.2% of BC exports to the US.

British Columbia shipments of softwood lumber made up almost a quarter of all BC exports to the United States in 2002



For BC exporters, softwood lumber is by far the most significant commodity subject to American duties

With the exception of specific items of steel listed above, due to its inclusion in the North American Free Trade Agreement (NAFTA), Canada escaped the substantial tariffs of up to 30% placed on imports of steel products into the United States. The duties on steel, even more so than those on softwood lumber, demonstrate the political nature of these decisions. The American steel industry has fallen behind its competitors in terms of efficiency and without state intervention there was a strong possibility that many steel producers would go out of business in the United States. The tariffs are meant to give the industry a chance to retool and become competitive again. The problem is that the damage done to the rest of the American economy has far outweighed the benefits to the steel industry. According to a recent study by the Institute for International Economics, although the tariffs may have saved some jobs in the steel-producing sector, overall there has been an estimated net loss of over 12,000 jobs in the durable goods sector in the United States as a result of the increased cost of steel for industries using the good as an input.⁵

More jobs have been lost in steel-using industries in the United States than have been saved in the steel-producing industries as a result of the imposition of tariffs on steel

⁴ That is, softwood lumber that is subject to American duties.

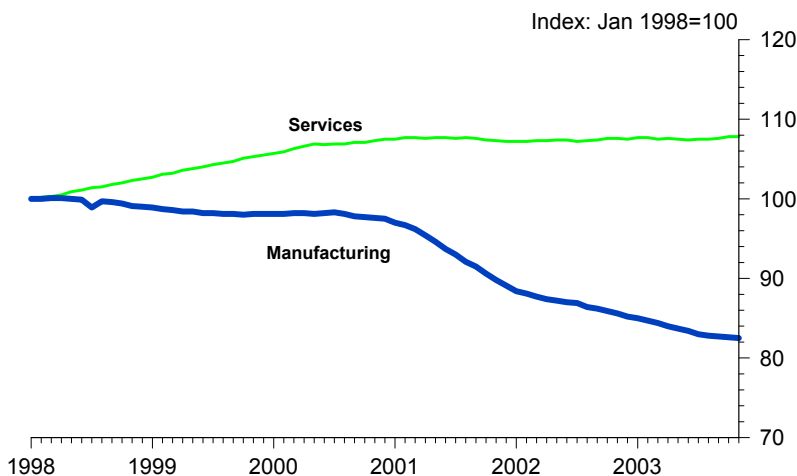
⁵ Hufbauer, Gary Clyde and Ben Goodrich, "Next Move in Steel: Revocation or Retaliation?" *International Economics Policy Briefs*, number PB03-10 (October 2003), Institute for International Economics. Note that the 12,000 figure is assuming all labour income loss is due to loss in employment. There may have been fewer job losses with employees working shorter hours instead.

In addition to the adverse domestic effects of the duties placed on steel, the United States has faced intense international pressure to lift the duties. Several countries appealed to the WTO to rule on the legality of the tariffs and in November, the WTO found that the steel tariffs were illegal exposing the United States to as much as \$2.2 billion in retaliatory duties. The EU threatened to target goods such as Florida oranges and products in other states where the 2004 election is expected to be a closely fought race. Faced with pressure from steel-using industries and the threat of retaliatory duties, the US government lifted the tariffs on steel, much to the displeasure of steel-producing industries.

The United States has lifted its tariffs on steel to comply with a WTO decision that found the duties illegal

The latest attempt to prop up the United States' domestic manufacturing sector is the imposition of import caps on Chinese textile items. Predictably, China has threatened retaliation, which could once again result in other American industries being harmed by a trade action designed to protect a different industry. In fact, if the Chinese do impose retaliatory duties on selected American products, those industries could face losing market share to countries with competing industries, including Canada. This kind of short-term fix could result in long-term economic pain. The American consumer is also paying for these trade actions with higher prices for clothing, steel-based products, lumber-based products and food.

Employment in the manufacturing sector has plummeted in the United States, but more Americans are working in services



Data for September and October 2003 is preliminary.
Source: US Department of Labor, Bureau of Labor Statistics

Although manufacturing employment in the US has plummeted, there have been significant increases in service jobs, more than compensating for the drop in manufacturing jobs

One of the reasons for this spate of protectionism is the sharp decline in manufacturing employment in the United States. Since 1998, nearly three million manufacturing jobs have disappeared in the US. However, at the same time, about five and a half million net new jobs have been created in the service sector. About 70% of

these have been in higher paid service industries like professional and business services, education, health and government.⁶ Protecting inefficient companies could threaten this employment growth by increasing costs for consumers, which could reduce consumption, and inflating costs of inputs to industries, harming their ability to compete internationally.

The spate of protectionist moves implemented by the United States has even drawn the criticism of Federal Reserve Chairman Alan Greenspan, who suggested that the increase in trade barriers could negatively affect the ability of the United States to compete.

Federal Reserve Chairman Alan Greenspan has criticized the rising spate of protectionism in the United States

Despite all these disincentives to erecting trade barriers, the United States does not appear to be backing down from its protectionist stance. Even though the US removed the barriers on trade in steel, it is looking at changing the way it calculates anti-dumping duties as a way of appeasing angry steel manufacturers. The duty would be calculated only after countervailing duties are deducted from the export price. This would have the effect of substantially increasing anti-dumping duties. There has already been a flood of protests from various nations, including Canada, which would get hit with substantial increases in softwood lumber duties if this practise were adopted.

However, to single out only the United States for criticism is unfair. The European Union, for example, is one of the worst offenders when it comes to agricultural subsidies. In the Doha round of the WTO talks, the EU refused to grant any concessions to the poorer nations in terms of relaxing trade barriers by reducing subsidies to European farmers. Other western countries, Canada included, also have significant agricultural subsidies, albeit not to the degree of those in the US and the EU. As long as these wealthier nations continue to erect trade barriers that make it difficult for poorer nations to develop their economies, trade deals such as the original scope envisioned for the FTAA are doomed to failure. For a province like British Columbia, which has a significant dependence on resource extraction industries, international trade is crucial to its economic welfare. Any reduction in trade barriers should benefit this province, which means that BC has a vested interest in freer trade.

⁶ Source: United States Department of Labor, Bureau of Labor Statistics.

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

03-10	<i>Is Global Free Trade Possible?</i> (released December 2003)	02-07	<i>FTAA: Free Trade for the Western Hemisphere?</i> (released September 2002)
03-09	<i>Relatively Few Small Businesses in BC are Exporters</i> (released November 2003)	02-06	<i>The Changing Face of BC Exports</i> (released August 2002)
03-08	<i>Where's the Beef?</i> (released October 2003)	02-05	<i>Japan's Economic Woes Translate to Reduced Trade for BC</i> (released July 2002)
03-07	<i>A Summary of the NAFTA Panels' Decisions on Lumber Duties</i> (released September 2003)	02-04	<i>Team Canada Promotes Trade With Mexico</i> (released June 2002)
03-06	<i>Natural Gas Heats Up British Columbia's Exports</i> (released August 2003)	02-03	<i>Chile Warms Up to Trade With Canada</i> (released May 2002)
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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)

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

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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.