

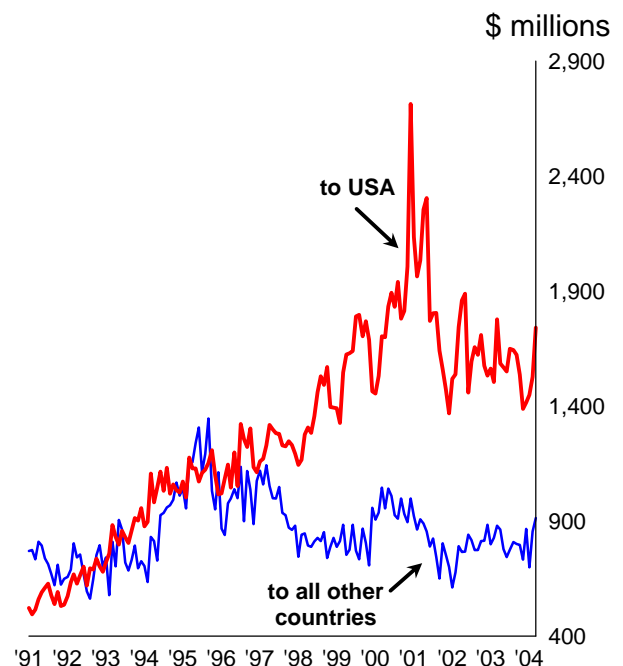
Exports ♦ March 2004

- Over the first quarter of 2004, the value of total BC origin exports fell 2.3% compared to the first quarter of 2003. Energy products and pulp and paper were mainly responsible for the decline.
- Falling prices were the reason for the drop in the value of energy exports. Natural gas exports fell 2.2% in the first quarter despite a 19.2% increase in the quantity shipped. Similarly, despite a 21.1% jump in quantities of electricity transmitted across the border, the value of those exports declined 19.5%.
- International shipments of pulp and paper products were down 5.4% in the first three months of 2004, compared to the same period a year earlier, despite a 4.6% increase in exports of newsprint. Pulp shipments declined 5.1%, while exports of paper and paperboard fell 10.5%.
- Elsewhere in the forest sector, exports of solid wood products climbed 3.3% in the first quarter, mainly on the strength of a significant 6.1% jump in exports of softwood lumber. Rising prices for lumber have helped boost lumber exports despite the substantial duties imposed on imports of Canadian lumber into the United States. The recent NAFTA ruling, which found that the United States had not proved that Canadian lumber posed a threat to the American industry, has given Ca-

nadian producers hope that the lumber dispute will soon come to an end. US appeals of the NAFTA decision should be exhausted by the end of this year. It is anticipated that they will not be successful and that the duties will subsequently be dropped.

- Exports to Japan (-9.7%), Taiwan (-9.4%), South Korea (-8.8%) and India (-2.9%) have fallen in the first quarter, but exports to China have climbed 13.5% and shipments to Hong Kong are up 32.4%. The value of exports to the Pacific Rim excluding Japan have risen 3.3% in the first quarter compared to the same period in 2003.

Falling energy prices have offset climbing lumber exports so far in 2004



Seasonal Adjustment of Exports

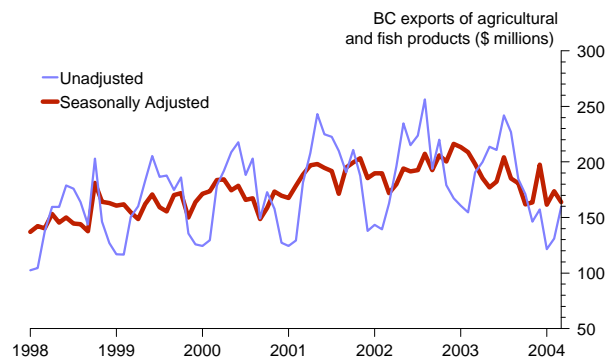
What is seasonal adjustment and why do we do it?

Starting with the last issue of *Exports*, some information on exports adjusted for seasonal variation was included in the report. Seasonal adjustment is basically a statistical process that removes the cyclical effects caused by seasonal factors. This is particularly important when looking at economic data such as retail trade, for example, because sales around the Christmas season ramp up well above those for the rest of the year. This means that comparing growth in sales from December to January is unlikely to give any useful information, since sales will always drop in that period. Data can be compared on a year-over-year basis (i.e., January of this year compared to January last year), but such an approach ignores what has been happening in the intervening 11 months.

Seasonal adjustment supplies a means of making month-to-month comparisons by removing the regular periodic seasonal fluctuations that occur. Variations from normal seasonal patterns are revealed in the seasonally adjusted data series.

Although seasonality is not necessarily quite so pronounced for export data, there are some commodities for which it can be quite significant, such as agricultural goods, for example. By removing the seasonal component of the data, we can

Seasonal adjustment averages out the seasonal movement to better allow month-to-month comparison



compare exports from the present month to the previous month to get a better idea of the current state of trade.

Why not report only adjusted data then?

So, you may ask, if seasonally adjusting the data allows for more up-to-date analysis, why report unadjusted data at all? Well, the answer is simply that the seasonal adjustment process requires some data aggregation in order to work properly, which means that most of the detail available with the unadjusted data is lost. The raw trade data has a wealth of detail that allows for more specific analytical breakdowns of goods, as well as country of destination and quantity information. Both types of data have value depending on the type of information required.

SEASONALLY ADJUSTED EXPORTS

- Exports adjusted for seasonal variation edged up 0.5% in March, solely on the strength of a 9.1% jump in forest product exports. Exports of agricultural and fish products (-5.6%), energy (-1.5%), machinery, equipment and automobiles (-5.6%) and industrial and consumer goods (-9.2%) all declined.
- Exports increased 4.7% in the first quarter from the fourth quarter of

2003. Of the major commodity categories, only agricultural and fish exports experienced a decline (-4.6%), likely due to the avian flu outbreak that resulted in poultry export restrictions.

- Most of the increase in forest product exports was a result of a jump in shipments to the United States (+12.1%), which helped boost overall exports to the United States by 4.1%. Declining prices for energy products resulted in a 5.6% drop in energy exports to the US.

Expanded European Union Could be Both Good and Bad for BC

As of May 1, 2004, the European Union (EU) has expanded to include ten new members. This new development could prove to be both good and bad for the economy of British Columbia. On the one hand, membership in the EU is certain to have a positive effect on the economies of these ten countries, helping propel them toward increased prosperity, which could increase their demand for BC-made products, as well as open new doors for investment. On the other hand, some of these countries have a wealth of forest resources, which could result in stiff competition for BC forest products, particularly pulp, which is one of BC's main exports to Europe.

In an attempt to develop closer ties with the EU and take advantage of its substantial market, the Canadian government is currently working with the EU to reduce the regulatory barriers that hinder two-way trade and investment through the development of the Canada-EU Trade and Investment Enhancement Agreement (TIEA). The new agreement would be a broad-based, forward-looking initiative that would not only attempt to facilitate trade in goods and services, but would also seek to improve investment and coordinate regulations. Some specific goals include provisions to improve bilateral trade and investment for small and medium-sized enterprises, to protect intellectual property rights, to increase scientific and technological cooperation, to mutually recognize professional qualifications and to cooperate on sustainable development. As the EU expands to include an additional 75 million people, increasing its overall population to more than 454 million people, the time for these kinds of talks couldn't be better. With World Trade Organization negotiations stalling over disagreements on agricultural reforms, and other free trade discussions like those of the Free Trade Area of the Americas faltering over similar obstructions, the TIEA could prove to be mutually beneficial for both Canada and the EU.

In 2003, Canada and the 25-member EU had almost \$59.7 billion in two-way commodity trade, of which approximately 6.5% involved the ten new EU members. Canada exported \$19.9 billion worth of goods to the EU (including \$1.3 billion in re-exports) and imported \$39.8 billion in merchandise, resulting in a commodity trade deficit of about \$20.0 billion. Although data on trade in services is not available for most of the new members of the EU, figures for trade between Canada and the original 15 EU members indicate that Canada has a trade deficit in services as well, although it is small in comparison to the goods trade deficit. In 2001, the last year for which data is available, Canada had a services trade deficit with the 15-member EU of approximately \$667 million, comprised of \$10,012 million in exports and \$10,681 million in imports.

EU Membership

1951:

- Belgium
- France
- Germany (West)
- Italy
- Luxembourg
- Netherlands

1973:

- Denmark
- Ireland
- United Kingdom

1981:

- Greece

1986:

- Spain
- Portugal

1990:

- Germany (East)

1995:

- Austria
- Finland
- Sweden

2004:

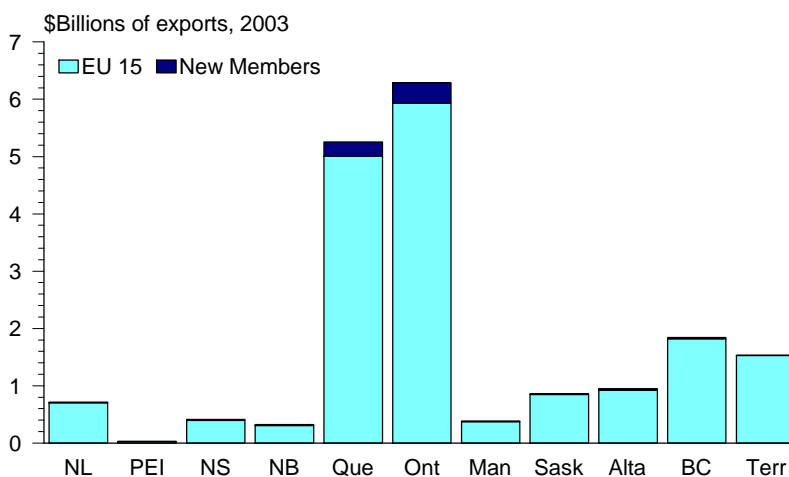
- Cyprus
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Malta
- Poland
- Slovakia
- Slovenia

In addition to trade in goods and services, Canada also has significant foreign investment in countries of the European Union and vice versa. Data for 2002 for the original 15-member EU indicate that Canadian investment in EU countries was just shy of \$100 billion, of which \$45.2 billion was invested in the United Kingdom. Foreign direct investment in Canada by the original fifteen EU countries amounted to just under \$94 billion, with \$26.3 billion of that originating in the United Kingdom. The size of these figures emphasizes the importance of the EU to the Canadian economy and reciprocally, Canada's value to the EU.

Among the provinces, Ontario and Quebec rank one-two in terms of value of exports to the EU, followed by BC. With almost \$6.3 billion in exports, Ontario was responsible for a third of Canada's shipments to the EU. Quebec's \$5.3 billion represented 28% of Canadian exports, while BC's \$1.8 billion amounted to 10% of all Canadian shipments to the EU. Northwest Territories is somewhat surprisingly ranked fourth, exporting \$1.5 billion worth of goods, or 8% of the Canadian total. This figure is almost entirely comprised of diamond shipments to either the United Kingdom or Belgium. Machinery and equipment are the main exports from Ontario, although metals such as gold and nickel are also shipped in significant quantities. Quebec's leading export to the EU is aircraft and parts thereof, followed by other manufactured goods, such as machinery and equipment. Quebec also ships significant quantities of aluminum products, as well as resource goods such as pulp and paper.

Among the provinces, BC ranked third in 2003 in terms of value of commodity exports to the EU

BC ranks third in the country in terms of exports to the European Union



BC exported over \$1.8 billion worth of goods to the 25 countries of the European Union in 2003

For British Columbia, the top export to the countries of the EU is pulp. Almost 41% of all commodity exports from BC to the EU in 2003 were comprised of pulp. The next most significant export

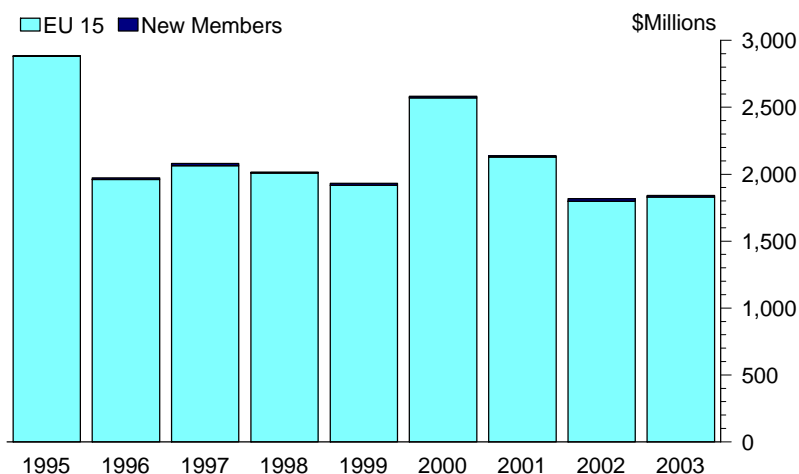
was coal, at 19% of all BC exports to the EU, followed by wood and articles of wood, representing about 14% of the total.

BC Exports to the EU, 2003

Commodity	Exports (\$millions)	Percent of Total
Pulp	\$747.8	40.6
Coal	\$351.3	19.1
Wood and articles of wood	\$249.0	13.5
Machinery, boilers, mechanical appliances, etc.	\$135.5	7.4
Electrical machinery, equipment, parts, etc.	\$48.8	2.7
Total	\$1,842.1	100.0

Pulp comprised over 40% of all BC exports to the EU in 2003

Historically, the new EU members have imported very little from British Columbia



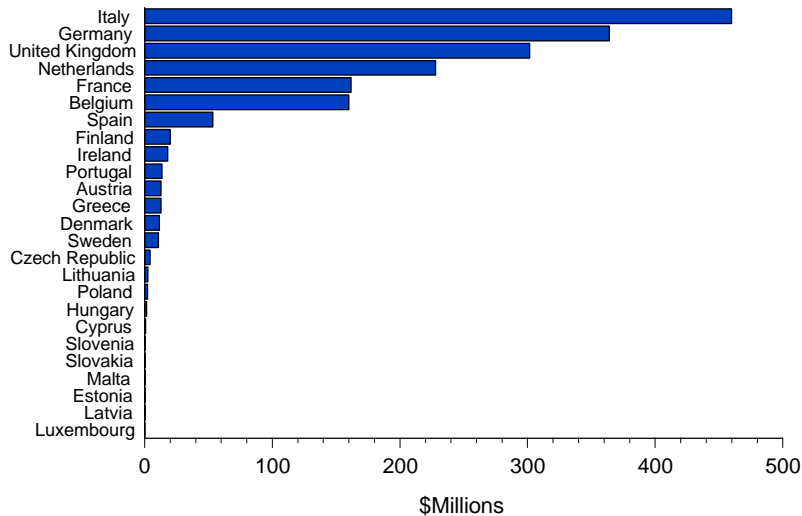
The new EU members have not been significant destinations for BC exports in the past

A very small percentage of goods exported from BC have been destined for the ten new members of the EU. Over the last decade the share of BC exports to the EU shipped to the ten new member nations has consistently been less than one percent. Part of the reason for this may be that several of these countries are reasonably resource-rich and therefore do not require the goods that BC specializes in. The fact that many of these countries are former Communist nations whose economies are only recently beginning to transform into a more market-based system is another possible reason for the lack of trade. It is conceivable that as these countries are integrated into the European Union and attract new capital investment, they could become more significant trading partners for British Columbia and for Canada as a whole.

In 2003, just six countries were responsible for about 91% of BC's exports to the EU. Italy led the way, importing \$459.8 million worth of goods, followed by Germany (\$364.1 million), the United

Kingdom (\$301.6 million), the Netherlands (\$227.8 million), France (\$161.8 million) and Belgium (\$159.9 million).

Italy was the leading EU destination for BC exports in 2003



Just six out of the 25 member countries received 91% of BC exports to the EU in 2003, with Italy leading the pack

For all of these countries, pulp was one of the top exports from BC, if not *the* top export. Other forest products were also well represented in international shipments from BC to the EU. This highlights a point alluded to earlier, that although these new members of the EU could provide new opportunities for trade and investment for BC, they could also threaten existing trade relationships.

As trade barriers among the new EU members and the other countries of the EU are dismantled, BC's forest sector could be looking at increased competition from lower-cost producers in countries that have significant forest resources such as Poland, the Czech Republic, Slovakia and the former USSR countries of Estonia, Latvia and Lithuania. These countries are not currently among the world's major producers of forest products; however, as the EU increases their access to capital investment and offers them barrier-free markets, they could use their cost advantage resulting from relatively lower labour expenses to squeeze some of the North American forest products out of the EU market.

BC's forest sector could face losing market share in the EU to these new member countries

The one saving grace for North American producers is that it will likely take some time for the forest sector to get up to speed in these countries and, in the meantime, wages could rise to levels seen in the rest of the EU. While this could effectively wipe out the labour cost advantage, these countries will still have the advantage of proximity and guaranteed tariff-free access. Also, their proximity and historical ties to Russia, which has a vast supply of under-harvested forestland, could ensure a long-term supply of wood fibre, which would help them remain competitive in an increasingly global market. If Canada continues to struggle against attacks on its lumber exports by the American lumber lobby and

the United States persists in charging duties on Canadian wood, it is possible that these countries with emerging forest sector industries could end up usurping some of Canada's market share in the US as well.

While there will certainly be challenges for BC and for Canada as a whole with regard to the expansion of the EU, there should also be increased opportunities. The expanded EU brings its combined output to about 21% of the world's gross domestic product (measured in purchasing power parity), just shy of the United States at 23%, which underscores the importance of the economic region as a trade and investment partner.¹ Canada's negotiations toward the Canada-EU TIEA could open up the economic region to a world of possibilities for increased trade and investment, but it is possible that the types of goods and services that are traded will change, which may be problematic for a province like BC, where resource-based products still make up the majority of international exports.

¹ Source: CIA World Factbook, July 1, 2002.

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

04-03	<i>Expanded European Union Could be Both Good and Bad for BC</i> (released May 2004)	02-12	<i>Team Canada Returns to Europe</i> (released February 2003)
04-02	<i>BC's Animal Agriculture Exports Facing Trade Restrictions</i> (released April 2004)	02-11	<i>Canada Courts the European Union for Freer Trade</i> (released January 2003)
04-01	<i>China Offers Considerable Opportunities for Trade</i> (released March 2004)	02-10	<i>Lumber Battle Takes an Unexpected Turn</i> (released December 2002)
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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)

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.

The **European Union** is the membership as of May 1, 2004: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta,

Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

'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

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.