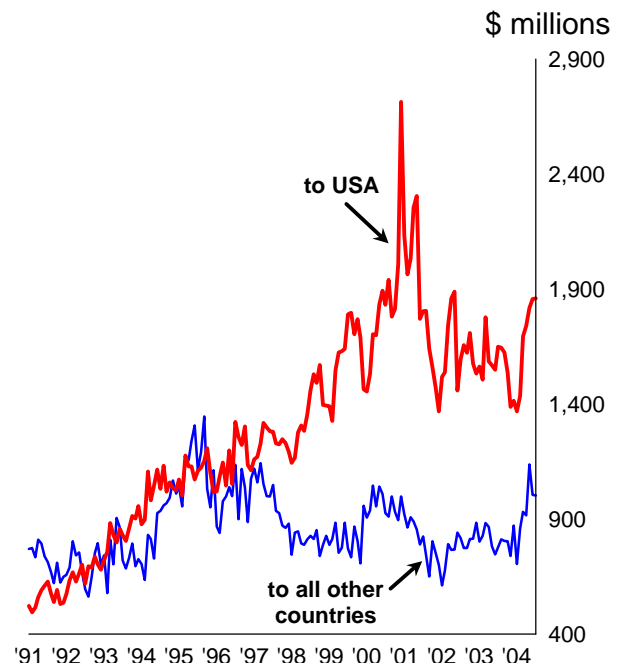


## Exports ♦ July 2004

- For the third straight month, BC origin exports experienced a double-digit increase, rising 17.9% in July compared to the same month a year earlier. The strong growth over the last few months has more than made up for a poor performance in the first quarter. Year-to-date, the value of exports is up 8.6% compared to the first seven months of 2003.
- The combination of strong demand and a transportation shortage have pushed up the price of softwood lumber, which has led to a significant increase in the value of BC lumber exports. Shipments of softwood lumber to the United States have jumped 37.3% in the first seven months of 2004 compared to the same period last year. This is despite the combined countervailing and anti-dumping duties of 27.2% assessed on imports of Canadian softwood lumber into the United States. The effects of hurricanes in the Southern United States have added to the demand for building materials and lumber prices have continued their meteoric rise, which will likely result in further increases in softwood lumber exports in the months to come.
- One of the reasons for the lack of available transportation to ship goods is the booming Chinese economy and the corresponding demand for raw materials. Products from BC have proved to be no exception, as exports to China have soared 55.6% year-to-date in 2004.
- China has also contributed to the rise in metal prices, which has helped boost BC exports of metallic mineral products 30.6% so far in 2004. International shipments of copper (+40.0%), aluminum (+31.0%), and zinc (+14.7%) have all recorded substantial growth, while the value of exports of molybdenum ores and concentrates is up 149.1%.
- International shipments of coal have risen 5.1%, but other energy exports from BC are well down from last year. Falling prices for natural gas and electricity are the main reason for the decline. The value of electricity exports has dropped 19.6%, while natural gas shipments are down 20.2%.

*Rising commodity prices have helped boost BC origin exports so far in 2004*

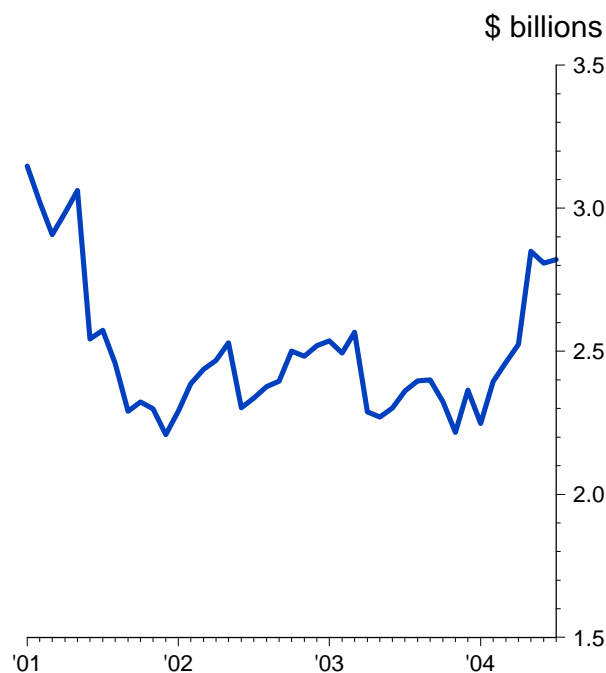


## SEASONALLY ADJUSTED EXPORTS

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.

- BC exports adjusted for seasonal variation edged up 0.4% in July as strong growth in energy products (+10.0%) and industrial and consumer goods (+7.0%) offset a decline in shipments of forest products (-5.4%).
- Exports to the United States were virtually unchanged from the value recorded in June, while shipments to all other countries climbed 1.3%.

*Seasonally adjusted BC exports have levelled off after a strong growth spurt*



## BC Exports, Seasonally Adjusted

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Jul 2002	190	279	1,093	341	432	2,336	1,518
Aug	206	257	1,129	354	430	2,376	1,575
Sep	192	310	1,080	373	440	2,395	1,618
Oct	205	383	1,100	349	464	2,501	1,675
Nov	201	393	1,096	350	444	2,483	1,659
Dec	219	377	1,132	361	432	2,519	1,667
Jan 2003	218	400	1,110	348	459	2,536	1,670
Feb	215	393	1,083	343	462	2,494	1,633
Mar	204	561	1,030	334	438	2,567	1,738
Apr	192	374	952	327	443	2,288	1,457
May	178	399	973	330	391	2,270	1,503
Jun	181	443	961	323	394	2,301	1,552
Jul	203	411	984	321	442	2,362	1,587
Aug	188	420	1,019	310	459	2,396	1,576
Sep	186	378	1,076	312	448	2,400	1,590
Oct	169	378	1,042	307	428	2,324	1,522
Nov	171	311	1,026	292	416	2,216	1,466
Dec	204	371	1,002	308	479	2,364	1,513
Jan 2004	167	320	1,019	304	438	2,248	1,472
Feb	182	336	1,034	329	514	2,394	1,510
Mar	176	353	1,144	313	475	2,461	1,601
Apr	178	334	1,172	318	521	2,524	1,633
May	184	401	1,345	348	569	2,849	1,721
Jun	196	384	1,348	355	525	2,808	1,813
Jul	200	422	1,276	360	562	2,820	1,812

## NAFTA Panel Finds in Favour of Canada in Softwood Lumber Dispute

The lengthy softwood lumber trade dispute between Canada and the United States may finally be nearing an end. The NAFTA panel that was set up to investigate whether or not Canada's softwood lumber exports to the United States pose a threat of injury to the American industry has found definitively in Canada's favour. This decision is a critical victory for Canada since US law requires that a threat of injury must exist for duties to be levied.

*Canada has scored a decisive victory in the softwood lumber dispute with the United States*

Following an investigation initiated by a petition from the American lumber lobby, the United States Department of Commerce (USDOC) assessed a combined countervailing and anti-dumping duty of 27.2% on imports of softwood lumber from Canada. This action resulted in a slew of Canadian challenges under Chapter 19 of the North American Free Trade Agreement (NAFTA), as well as challenges before the World Trade Organization (WTO). The results of these challenges have been mixed, but both the WTO and NAFTA agree that the USDOC erred in its methods of calculating duties. They also both agree that the US International Trade Commission (ITC) did not sufficiently prove that the US lumber industry has been harmed by imports of Canadian lumber, which essentially makes all prior rulings on countervailing and anti-dumping duties moot. If the ITC cannot prove injury, it is compelled to remove the duties on Canadian softwood lumber.

*The most recent NAFTA ruling makes the issues of subsidization and dumping moot—without injury, there cannot be duties*

The NAFTA panel used some strong language in its latest finding, even going so far as to suggest the ITC was undermining the dispute resolution process:

The Commission has made it abundantly clear to this Panel that it is simply unwilling to accept this Panel's review authority under Chapter 19 of the NAFTA and has consistently ignored the authority of this Panel in an effort to preserve its finding of threat of material injury. This conduct obviates the impartiality of the agency decision-making process, and severely undermines the entire Chapter 19 panel review process.<sup>1</sup>

The Panel further stated that since the ITC has failed to bring new evidence before the Panel to support its claims, it "would be an exercise in futility" to remand the issue yet again in that it would amount to "an 'idle and useless formality,' as it would not result in anything but another insupportable affirmative threat of material injury finding." In light of its findings, the Panel took the un-

*The NAFTA panel ruled that it "would be an exercise in futility" to issue another remand to the US International Trade Commission*

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<sup>1</sup> The entire text of the Panel's decision is available online at [http://www.nafta-sec-alena.org/app/DocRepository/1/Dispute/english/NAFTA\\_Chapter\\_19/USA/ua02072e.pdf](http://www.nafta-sec-alena.org/app/DocRepository/1/Dispute/english/NAFTA_Chapter_19/USA/ua02072e.pdf)

usual step of directing the ITC to, within ten days, “make a determination consistent with the decision of this Panel that the evidence on record does not support a finding of threat of material injury.”

To date, Canadian forest companies have paid approximately \$US 2.6 billion in duties that, were the United States to accept the NAFTA panel’s decision, should now be returned to Canada. However, the US government still has the option of launching an extraordinary challenge, which could drag the dispute out for several more months. The American lumber industry remains adamant that the fight is not yet over and insists that it will push for an extraordinary challenge.

*An extraordinary challenge by the United States could still drag out the dispute over several more months*

Technically, an extraordinary challenge is only to be used when it is felt that there is a major conflict of interest on the panel, or if the panel breaks the rules, or exceeds its authority. Nevertheless, the American lumber lobby is determined to press on with the challenge and attack the NAFTA dispute settlement process. It is clear from the evidence cited in the NAFTA panel’s latest decision that it has anticipated reluctance on the part of the United States to accept their findings and has recognized the likelihood of an extraordinary challenge. In a concurring opinion, American panellist Mark Joelson states, “For anyone to argue that the Panel’s proceedings have lacked due process, as to either the parties or the agency, is untenable. Due process is not endless process.” He summarizes his decision as follows:

*“Due process is not endless process.”*

The Commission has made it plain by its actions and words that it is disinclined to accept the Panel’s review authority under Chapter 19 in this case. Given this situation and the extended amount of time which has already been consumed by this proceeding, for the Panel to postpone finality by issuing yet another open-ended remand instruction to the Commission would be to allow the Chapter 19 process to become a mockery and an exercise in futility.

Indeed, if the United States refuses to accept the authority of the Panel, the NAFTA itself could be in danger. In recognition of the potential serious consequences, the Canadian government is sending strong messages to its American counterpart that it fully expects that the United States will live up to its commitments and remove the duties from Canadian softwood lumber. Prime Minister Martin spoke frankly to a business conference in Sun Valley, Idaho, stating, “you are an extremely litigious society and you seem to be able to find ways around what were supposed to be binding settlements. And I can tell you it is beginning to grind

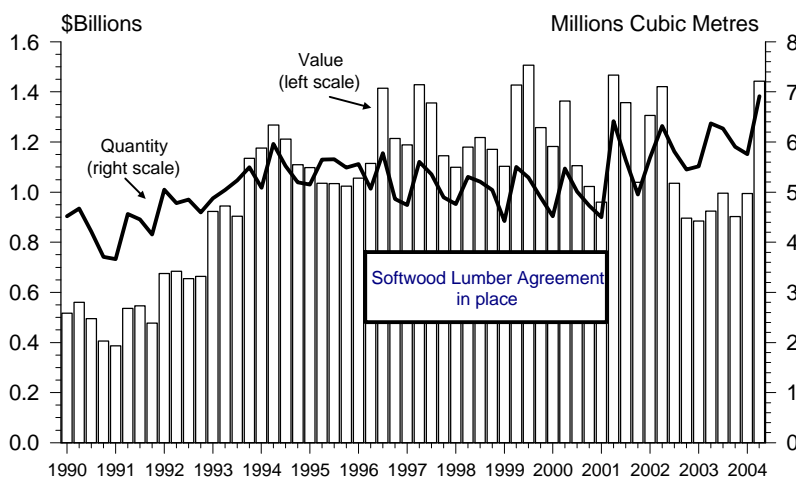
and it's going to hurt the North American economy if we don't deal with it."<sup>2</sup> Despite the tough talk, there seems to be an acceptance among the Canadian side in the dispute that the Americans will not give in with an election just months away.

The lingering dispute has had a significant effect on the Canadian lumber industry. In British Columbia alone, there have been thousands of layoffs in the forest sector and a number of mill closures since the dispute began.

In an effort to stay in business, forest companies in BC boosted efficiency by closing inefficient mills and shifting production to those that were more efficient, then ramped up production significantly at those mills to take advantage of economies of scale. Despite strong demand for lumber in the United States, the increased supply in the marketplace resulted in depressed prices. Until recently, quantities of softwood lumber shipped to the United States were up significantly from the volumes exported during the term of the *Softwood Lumber Agreement*, but revenues were down due to low prices. In recent months, heavy demand for building materials has resulted in substantially higher prices for wood and BC lumber manufacturers have benefited with export values not seen in about two years.

*The Softwood Lumber Agreement was signed in May 1996 and expired at the end of March 2001. It put quotas on the amount of Canadian timber that could be exported to the United States duty-free.*

### The value of exports of softwood lumber\* from BC to the US fell while quantities shipped climbed



\*Excluding siding

*While quantities of lumber shipped to the US increased, prices fell, which resulted in a drop in the value of lumber exports. More recently, high demand for building products has boosted the price of lumber and BC lumber producers are reaping the benefits.*

Ironically, once the tariffs are eventually removed, the Canadian industry will be left in a much stronger position and will be even more competitive with its American counterparts. The gains in

<sup>2</sup> As quoted in Steve Mertl, "Canada to Step up Pressure on U.S.," *Victoria Times Colonist*, September 2, 2004, p. C1.

efficiency have reduced costs and without the anchor of a 27.2% duty, Canadian forest companies should be able to thrive. However, if history has taught us anything, it is that Canada may have won this battle, but there is nothing to prevent the American lumber lobby from once again launching an attack on Canadian lumber. The current dispute is the fourth in the last two decades and the rhetoric from the American lumber lobby indicates that it won't be the last.

## Other Trade News

On the same day that the NAFTA panel brought down the "final" word in the softwood lumber dispute, the WTO gave permission to Canada and several other countries, including the European Union, to impose trade sanctions on the United States for refusing to eliminate an unfair trade law. The law, commonly referred to as the Byrd Amendment, stipulates that any punitive duties it collects from foreign trade be distributed to the companies that filed the complaints against the foreign exporters. In effect, the result of this measure is to give a double benefit to the American companies by not only punishing their rivals, but also providing them with a financial gain via their competitors' fines. The WTO previously ruled that the Byrd Amendment was illegal and ordered the United States to drop the measure by the end of 2003; however, the United States Congress has yet to act on repealing the law despite calls by President Bush to do so. The complainants are urging the United States to live up to its WTO obligations and are holding off exercising their retaliatory rights at this time with the hope that the US government will succumb to pressure and rescind the Byrd Amendment.

*The WTO has given authorization for trade sanctions against the United States if the Byrd Amendment is not repealed*

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

<b>04-07</b>	<i>NAFTA Panel Finds in Favour of Canada in Softwood Lumber Dispute</i> (released September 2004)	<b>03-04</b>	<i>Exports and the Rising Dollar</i> (released June 2003)
<b>04-06</b>	<i>Canada's Trade with Greece</i> (released August 2004)	<b>03-03</b>	<i>Canada Talks Trade With Turkey</i> (released May 2003)
<b>04-05</b>	<i>Hollywood North Thrives in 2003</i> (released July 2004)	<b>03-02</b>	<i>Rising Log Exports Fuel Controversy</i> (released April 2003)
<b>04-04</b>	<i>Port of Prince Rupert: Down, But Not Out</i> (released June 2004)	<b>03-01</b>	<i>Review and Outlook for BC Exports</i> (released March 2003)
<b>04-03</b>	<i>Expanded European Union Could be Both Good and Bad for BC</i> (released May 2004)	<b>02-12</b>	<i>Team Canada Returns to Europe</i> (released February 2003)
<b>04-02</b>	<i>BC's Animal Agriculture Exports Facing Trade Restrictions</i> (released April 2004)	<b>02-11</b>	<i>Canada Courts the European Union for Freer Trade</i> (released January 2003)
<b>04-01</b>	<i>China Offers Considerable Opportunities for Trade</i> (released March 2004)	<b>02-10</b>	<i>Lumber Battle Takes an Unexpected Turn</i> (released December 2002)
<b>03-12</b>	<i>Rising Commodity Prices Could Signal Turnaround for BC Exports</i> (released February 2004)	<b>02-09</b>	<i>Canada Looking to Shed Light on Trade With the Dark Continent</i> (released November 2002)
<b>03-11</b>	<i>The Lows of High Tech Trade</i> (released January 2004)	<b>02-08</b>	<i>Canada's Share of US Softwood Lumber Market Slipping</i> (released October 2002)
<b>03-10</b>	<i>Is Global Free Trade Possible?</i> (released December 2003)	<b>02-07</b>	<i>FTAA: Free Trade for the Western Hemisphere?</i> (released September 2002)
<b>03-09</b>	<i>Relatively Few Small Businesses in BC are Exporters</i> (released November 2003)	<b>02-06</b>	<i>The Changing Face of BC Exports</i> (released August 2002)
<b>03-08</b>	<i>Where's the Beef?</i> (released October 2003)	<b>02-05</b>	<i>Japan's Economic Woes Translate to Reduced Trade for BC</i> (released July 2002)
<b>03-07</b>	<i>A Summary of the NAFTA Panels' Decisions on Lumber Duties</i> (released September 2003)	<b>02-04</b>	<i>Team Canada Promotes Trade With Mexico</i> (released June 2002)
<b>03-06</b>	<i>Natural Gas Heats Up British Columbia's Exports</i> (released August 2003)	<b>02-03</b>	<i>Chile Warms Up to Trade With Canada</i> (released May 2002)
<b>03-05</b>	<i>Value Added Wood Production in BC Lagging Rest of Canada</i> (released July 2003)	<b>02-02</b>	<i>The Threat of American Protectionism</i> (released April 2002)

## 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

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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.