

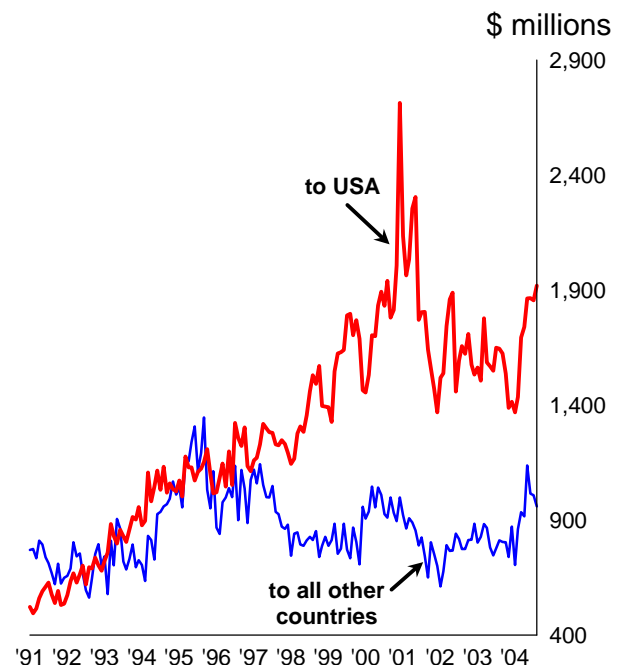
Exports ♦ August 2004

- BC origin exports experienced a double-digit increase for the fourth consecutive month in August, rising 17.2% compared to the same month a year earlier. The strong growth over the last few months has pushed the value of exports up 10.0% year-to-date compared to the first eight months of 2003.
- The value of softwood lumber exports continued to soar in August. So far in 2004, softwood lumber exports to the United States have jumped 41.1% compared to the January to August period in 2003. Shipments this year are almost \$1 billion higher than in the same period last year and the strong demand for lumber in the face of hurricane problems in the southern US suggests that they will likely continue to climb throughout the rest of the year. The price of lumber is up significantly due to a combination of strong demand and a tight transportation network that is causing delivery problems. The fact that BC's softwood lumber industry is still saddled with punishing duties on exports to the US makes the growth all the more remarkable. On the negative side for the lumber industry, the US has stated that it will proceed with an extraordinary challenge of the recent NAFTA ruling in Canada's favour. This could potentially delay the removal of duties on Canadian lumber by several months.
- Rising metal prices have helped boost BC exports of metallic mineral products 31.1% so far in 2004. International

shipments of copper (+43.0%), aluminum (+30.8%), and zinc (+16.9%) have all recorded substantial growth, and the value of exports of molybdenum ores and concentrates has more than doubled (+115.8%).

- The value of energy exports has slumped 9.1% compared to the first eight months of 2003. Sharp declines in the value of shipments of natural gas and electricity are responsible for much of the drop. The value of electricity exports has dropped 23.2%, while natural gas shipments are down 13.6%.
- Exports of fish products have slipped 10.2% so far this year, due mostly to a significant dip in salmon shipments.

Strong growth in the value of exports to the US is helping drive the growth in total exports

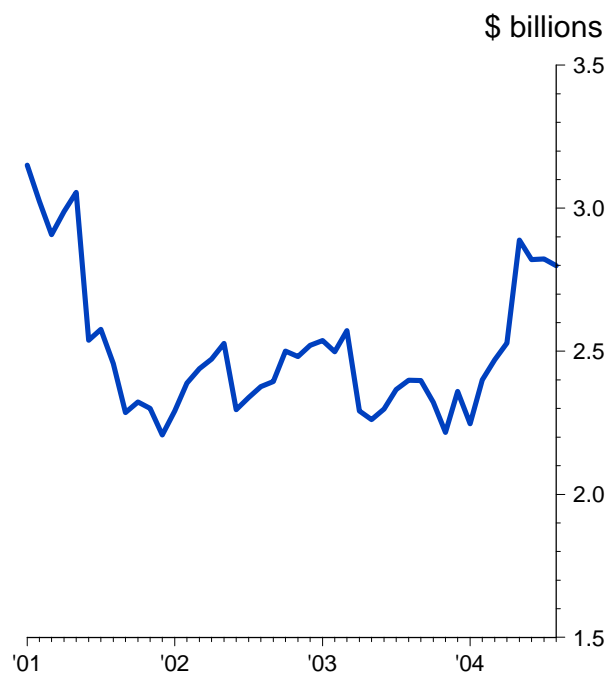


SEASONALLY ADJUSTED EXPORTS

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.

- After recording extremely robust growth earlier in the year, seasonally adjusted BC exports have slid more recently, including a 0.8% drop in August. Energy products (+7.3%) were the only major commodity group to experience export growth in August.
- In contrast to overall exports, shipments to the United States climbed 0.9% on the strength of increased shipments of energy products (+5.1%) and rising forest product exports (+2.5%).

After extraordinary growth earlier in the year, BC exports (adjusted for seasonality) have slipped in recent months



BC Exports, Seasonally Adjusted

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Aug 2002	206	255	1,128	356	430	2,376	1,574
Sep	193	309	1,079	372	441	2,394	1,620
Oct	205	383	1,099	349	464	2,500	1,674
Nov	200	393	1,095	350	444	2,481	1,657
Dec	219	372	1,136	361	431	2,521	1,669
Jan 2003	218	401	1,111	349	458	2,537	1,671
Feb	214	394	1,085	343	463	2,498	1,634
Mar	204	565	1,032	334	437	2,572	1,742
Apr	192	377	954	327	442	2,291	1,458
May	177	389	975	329	390	2,261	1,491
Jun	181	447	955	322	393	2,298	1,551
Jul	204	419	980	319	444	2,366	1,593
Aug	188	420	1,018	314	459	2,399	1,579
Sep	187	377	1,075	312	448	2,398	1,590
Oct	169	377	1,041	307	428	2,322	1,520
Nov	171	311	1,026	292	416	2,216	1,465
Dec	205	364	1,006	308	479	2,360	1,513
Jan 2004	167	320	1,019	305	436	2,247	1,472
Feb	182	336	1,037	329	516	2,400	1,512
Mar	176	355	1,150	314	476	2,470	1,605
Apr	179	337	1,173	318	521	2,529	1,635
May	185	438	1,350	347	570	2,889	1,756
Jun	196	397	1,350	353	524	2,820	1,818
Jul	202	432	1,274	361	553	2,822	1,812
Aug	188	464	1,256	341	550	2,799	1,828

Border Congestion Threatens Trade

Trade plays a crucial role in the economy of British Columbia and transportation issues that threaten the movement of goods are a cause for concern. Almost \$77 billion worth of commodities were transported through British Columbia customs ports in 2003, including goods produced within the province, merchandise produced in other provinces, but shipped through BC, and commodities imported into the country that entered via British Columbia. This figure is actually well down from the peak of just under \$87 billion shipped through BC ports in 2000, but is substantially higher than the less than \$40 billion moved through BC customs ports in 1990.

BC customs ports handled almost \$77 billion worth of merchandise in 2003

That kind of increase in volume of goods passing through BC ports has put a strain on the transportation system. Even prior to the terrorist attacks of September 11, 2001, congestion at border crossings throughout Canada was a problem. The increased security measures implemented since then have further exacerbated the situation, causing costly slowdowns. The difficulties particularly affect goods transported by truck, which often face lengthy delays at the border, which in turn can add significantly to the cost of doing business. For companies with just-in-time inventory systems, delays in getting parts or raw materials can result in lost production or increased inventory costs. Continued problems with border waits could result in the decision to relocate manufacturing facilities to the United States, rather than in Canada, in order to avoid the need for crossing the border, a risk recognized by Federal Industry Minister David Emerson. Speaking to the Canadian Chamber of Commerce in Calgary, he said, "If you see risk at that border, you're going to go where that risk is going to hurt you less and that, in too many cases, is going to mean investment going into the States."¹

Increased security measures have exacerbated border congestion

According to a study published by the Institute for Research on Public Policy, "Almost three years have elapsed since the events of 9/11, key border crossing points are seriously congested and transit times (and the associated transportation costs) are still unacceptably high. Unless these issues are addressed quickly, there could be serious long-term damage to the Canadian economy."²

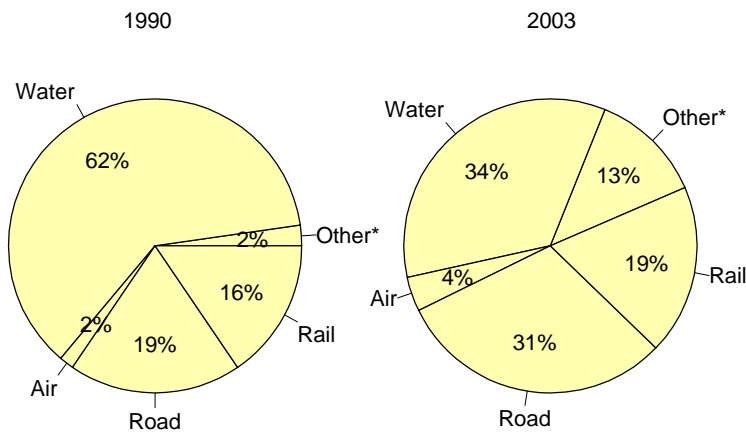
In 2003, approximately two-thirds (66%) of goods exported from British Columbia were destined for the United States. Almost half (46%) of those goods were transported by truck. Overall, almost a third (31%) of all commodities exported from British Columbia

¹ As quoted in "Emerson now focusing on 'border risk'," *Vancouver Sun*, September 21, 2004, p. A26.

² Bonsor, Norman, *Fixing the Potholes in North American Transportation Systems*, IRPP Choices, vol. 10, no. 8, August 2004, p. 3.

(regardless of destination) were shipped by truck. This is up substantially from 1990 when only 19% of BC origin exports were transported over road. In that year, the large majority (62%) of BC exports were transported over water. The reason for the change is the significant increase in trade with the United States due to the Canada-US Free Trade Agreement and the subsequent North American Free Trade Agreement. In 1990, less than half (42%) of BC exports were destined for the United States. The proximity of the United States to Canada makes road and rail transport the most economical options, whereas for shipments headed overseas, transport by boat is usually the best method.

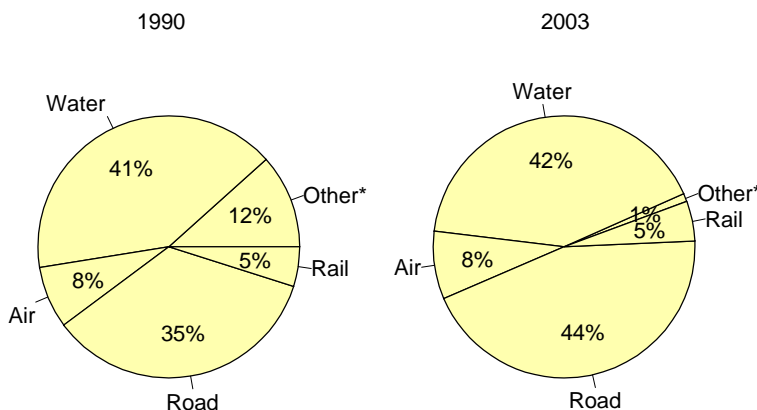
British Columbia Origin Exports by Mode of Transport



BC origin exports are increasingly being shipped by truck

* Other = powerlines and pipelines

Total Imports Cleared Through British Columbia Customs Ports by Mode of Transport



More imports are entering the province by truck as well

* Other = powerlines and pipelines

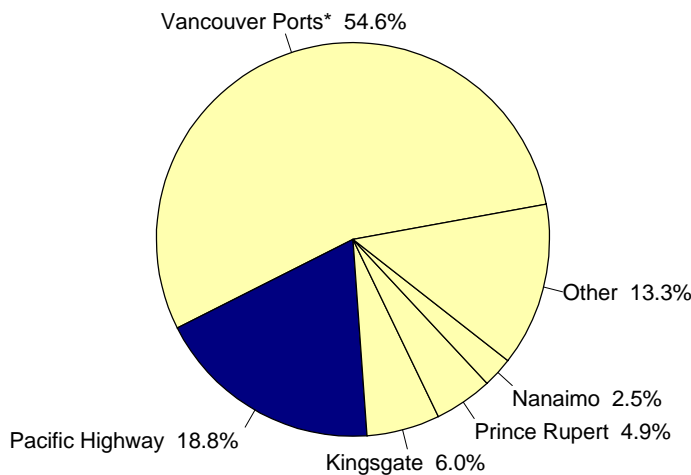
Compared to exports shipped south, a far greater percentage of imports from the United States (73%) are transported into BC by

truck. This is why, despite the fact the United States was the origin of only 37% of the imports going through BC customs ports in 2003, a larger percentage of overall imports (44%) was transported by truck.³ The other dominant mode of transport for imported goods was by ship (42%).

The busiest customs ports in the province are in the Lower Mainland, particularly the ports in Vancouver (including the airport and the seaport) and the Pacific Highway crossing into Blaine, Washington.

Busiest BC Customs Ports, 1990

(By Value of Exports and Imports Shipped Through Ports)

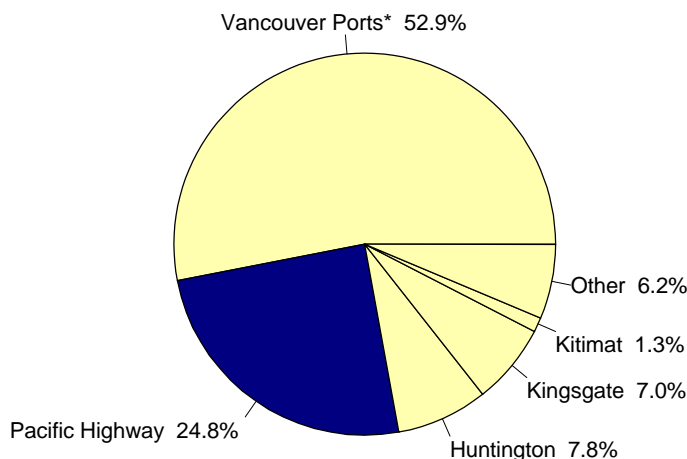


Customs ports in the Lower Mainland experience the most traffic

*Vancouver ports = Vancouver Marine and Rail, Vancouver Main Long Room, Vancouver International Airport, Vancouver United Terminals, and Vancouver Mail Centre

Busiest BC Customs Ports, 2003

(By Value of Exports and Imports Shipped Through Ports)



Traffic at the Pacific Highway crossing has risen substantially in the last decade

*Vancouver ports = Vancouver Marine and Rail, Vancouver Main Long Room, Vancouver International Airport, Vancouver United Terminals, and Vancouver Mail Centre

³ Some goods imported from overseas origins may also be transported by truck if they are first shipped to a United States port.

The Pacific Highway crossing is one of the busiest in the country with about a quarter of all goods entering or leaving the province moving through that port. The value of goods passing through the Pacific Highway port increased from \$7.5 billion in 1990 to \$19.1 billion in 2003. The substantial increase reflects the rising volume of truck traffic crossing the border in both directions and emphasizes the mounting concerns regarding border congestion.

However, it is not just delays at truck crossings that are hindering trade. Trucking capacity in general cannot keep up with demand. There is currently a shortage of drivers and the situation is being exacerbated by heavy demand on rail and marine transport. Demand for shipping to and from Asia, particularly China, is overloading the transportation network. On top of that, high prices for commodities such as lumber have boosted exports, which are adding to the burden on rail transportation. This has exporters scrambling for alternative transportation, such as trucks. While this may be a temporary phenomenon resulting from a unique combination of events, it does point to deficiencies in transportation capacity that could result in further costs to the economy.

Supply of transportation is currently exceeded by demand, causing shipping delays

Ironically, if the demand for more trucks is met, the situation at the border could become worse. There simply isn't the necessary infrastructure in place to handle the growth in traffic. The small number of crossings, combined with a shortage of staff, could increase wait times significantly and costs will rise as a result. According to the study by the Institute for Research on Public Policy, crossing the border increases costs by as much as 10 to 15 percent.⁴ Longer wait times could escalate these costs even further.

As if these challenges aren't enough for Canadian exporters, the US Customs and Border Protection (CBP) agency has implemented a new policy effective October 1 that requires the tariff classification of all goods in a cargo shipment regardless of monetary value. Previously, goods valued at less than \$2,000 were exempt from the need for classification. Now even items valued at less than one dollar need to have a tariff classification. This could mean even further delays in clearing customs as trucks are held up due to a lack of necessary information. The longer wait times at the border and increased regulatory requirements will likely increase costs for exporters.

US customs procedures are changing, which could lengthen border waits further

These problems at the border have the potential to seriously affect trade for both BC and Canada. As a small economy dependent on trade, any impediment to the free flow of goods with BC's trading partners can have a serious impact on the province's economic performance.

⁴ Bonsor, p.16.

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

04-08	<i>Border Congestion Threatens Trade</i> (released October 2004)	03-05	<i>Value Added Wood Production in BC Lagging Rest of Canada</i> (released July 2003)
04-07	<i>NAFTA Panel Finds in Favour of Canada in Softwood Lumber Dispute</i> (released September 2004)	03-04	<i>Exports and the Rising Dollar</i> (released June 2003)
04-06	<i>Canada's Trade with Greece</i> (released August 2004)	03-03	<i>Canada Talks Trade With Turkey</i> (released May 2003)
04-05	<i>Hollywood North Thrives in 2003</i> (released July 2004)	03-02	<i>Rising Log Exports Fuel Controversy</i> (released April 2003)
04-04	<i>Port of Prince Rupert: Down, But Not Out</i> (released June 2004)	03-01	<i>Review and Outlook for BC Exports</i> (released March 2003)
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)
03-12	<i>Rising Commodity Prices Could Signal Turnaround for BC Exports</i> (released February 2004)	02-09	<i>Canada Looking to Shed Light on Trade With the Dark Continent</i> (released November 2002)
03-11	<i>The Lows of High Tech Trade</i> (released January 2004)	02-08	<i>Canada's Share of US Softwood Lumber Market Slipping</i> (released October 2002)
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)

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.