

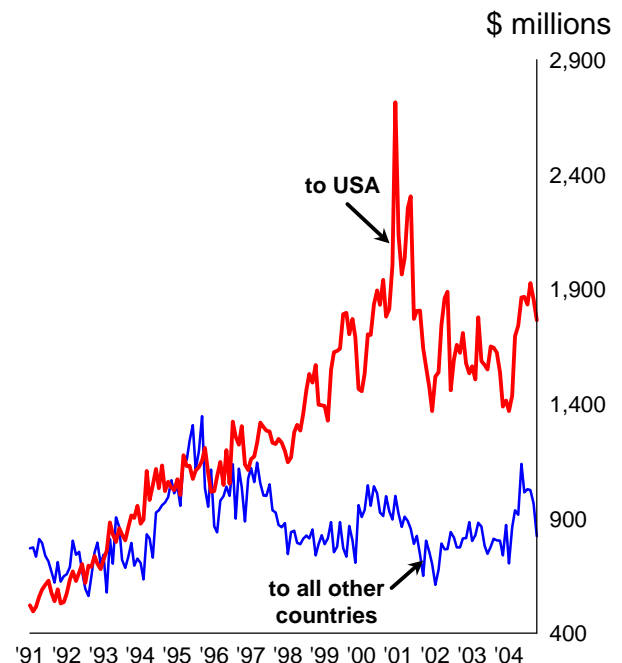
Exports ♦ October 2004

- The value of BC origin exports has climbed 11.0% year-to-date to October compared to the first ten months of 2003. Higher commodity prices sparked at least in part by demand from China have been one of the main contributors to rising exports.
- Despite duties of 27.2%, softwood lumber exports to the United States have soared 41.4% higher in January to October 2004 compared to the same ten-month period in 2003. A combination of increased demand and inflated prices has helped push up the value of lumber exports through most of the year. Lumber prices fell significantly in October, but are still well above last year's levels.
- International shipments of energy products have fallen 5.6% in value compared to the January to October period in 2003. With the exception of coal (+6.1%), energy products have experienced a reduction in demand and a corresponding decline in price. Natural gas shipments are down 7.4%, while electricity exports have plunged 25.2%.
- The booming Chinese economy and China's demand for raw materials have driven up commodity prices for metallic mineral products, which has been a blessing for BC's mining sector. Exports of metallic mineral products are up 30.3% year-to-date, compared to the same period in 2003. Copper shipments have climbed 42.0%, alumi-

num has risen 16.8% and zinc shipments are up 16.1%. Exports of molybdenum have skyrocketed 138.9%.

- The impact that Asia is having on BC's economy is clearly shown in the export figures. BC origin exports to China (+49.7%), Hong Kong (+66.2%), South Korea (+16.3%) and India (+32.2%) have all experienced double digit rates of increase. Shipments to Taiwan (+7.4%) have also expanded significantly, while exports to Japan have had a modest 2.3% boost.
- Exports to other major destinations have also jumped, with shipments to the US rising 8.3% and exports to the European Union up 16.1%.

BC origin exports to both the US and the rest of the world are well ahead of last year's pace



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 expanding rapidly from February through to May, seasonally adjusted BC exports have decreased significantly in recent months, including a 6.5% drop in October. Falling prices for lumber have likely contributed to the 6.4% decline in shipments of forest products. Industrial and consumer product shipments plunged 28.1% in October.
- Shipments to the US slipped 1.1% in October due mostly to a 9.8% slump in exports of forest products.

BC exports (adjusted for seasonality) have slipped significantly since peaking in May



BC Exports, Seasonally Adjusted

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Oct 2002	202	366	1,101	350	466	2,485	1,657
Nov	199	405	1,099	350	444	2,498	1,676
Dec	219	364	1,136	361	431	2,511	1,660
Jan 2003	218	402	1,113	349	458	2,540	1,676
Feb	214	400	1,083	343	465	2,504	1,640
Mar	205	565	1,041	334	437	2,583	1,752
Apr	193	372	954	326	443	2,288	1,457
May	178	391	974	329	391	2,264	1,496
Jun	183	454	952	322	394	2,304	1,558
Jul	204	408	974	318	442	2,345	1,579
Aug	188	416	1,009	312	455	2,381	1,573
Sep	186	386	1,071	312	447	2,402	1,577
Oct	164	374	1,046	308	431	2,323	1,517
Nov	171	302	1,033	293	416	2,215	1,465
Dec	204	369	1,008	308	478	2,366	1,518
Jan 2004	167	325	1,023	304	436	2,256	1,481
Feb	182	321	1,037	329	518	2,388	1,498
Mar	178	352	1,156	315	477	2,477	1,612
Apr	180	339	1,177	318	522	2,536	1,642
May	186	434	1,350	348	571	2,890	1,759
Jun	198	396	1,342	353	526	2,815	1,815
Jul	203	422	1,267	359	568	2,819	1,798
Aug	191	451	1,258	344	576	2,821	1,804
Sep	200	397	1,258	340	585	2,780	1,786
Oct	208	457	1,177	336	420	2,598	1,767

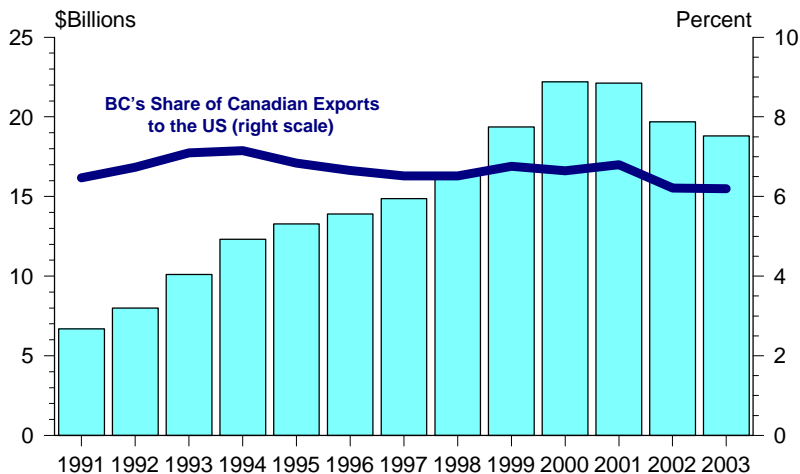
Legitimate Border Threat or Reefer Madness?

Canada's intention to decriminalize possession of small amounts of marijuana is not going over very well in Washington and the United States is warning that the move could result in a crack-down at the border, which could lead to congestion and threaten trade. With increased security measures since 9/11 and recent transportation shortages,¹ there are already stresses showing at Canada-US border crossings and the US suggests that decriminalizing marijuana will exacerbate this further. According to US ambassador Paul Cellucci, "If people think it's easier to get marijuana in Canada, then our people at the border are going to be on the lookout and I think they will stop more vehicles, particularly vehicles driven by young people, whether they're citizens of Canada or the United States."²

The US is suggesting there could be further border congestion if Canada goes ahead with its new pot laws

With 86% of all Canadian exports destined for the United States, any threat to trade relations between the two countries could have serious economic consequences for Canada. Although British Columbia is less dependent on trade with the US, the province still ships two-thirds (66%) of its exports south of the border. Of course, this does not include underground trade in illegal goods, such as marijuana, which, if one is to believe some of the hype, is substantial.

BC exports close to \$20 billion worth of goods to the United States each year



Approximately two-thirds of BC origin exports are shipped to the United States

However, evidence suggests that American claims of potent BC Bud and Quebec Gold flooding into their country are highly exaggerated. According to a report prepared jointly by the Canadian

¹ See "Border Congestion Threatens Trade" in the August 2004 edition of *Exports* for further discussion on these issues.

² As quoted in "Pot law will snarl U.S. border, says envoy," *Victoria Times-Colonist*, November 10, 2004, p. A5.

and US governments, only 2% of marijuana seized at US borders originates in Canada.³ Mexico is by far the source of the majority of marijuana seized at the border. Even taking into account stricter security at the Mexican border, which may result in a higher seizure rate, the amount of pot smuggled in from Mexico likely dwarfs that of Canadian-grown marijuana. However, the largest source of marijuana consumed in the United States is the US itself. A significant amount of the marijuana produced in the US even finds its way into Canada, although traffic heading south generally outweighs shipments of the product going north.

Canada has been the source of only 2% of the marijuana seized at US borders

Despite evidence to the contrary, there is still a perception in the US that Canada is a significant supplier of marijuana to Americans and the current drive to decriminalize possession of small amounts of the substance is seen as a precursor to increased smuggling of the product over the border. Some find it difficult to see the logic of this concern, since the new law would not legalize possession of the drug, but rather would make possession of small amounts a non-criminal offence subject to fines rather than imprisonment. Canadian officials point out that the law will also increase the punishment for running grow operations and, therefore, could actually result in a reduction in marijuana production. The main idea behind the law would be to reallocate resources away from prosecuting occasional users for minor offences and toward those producing and trafficking the drug.

The proposed new marijuana laws are designed to allocate resources toward prosecuting producers and traffickers of the drug, rather than the occasional user

The American government's protests over Canada's intentions to decriminalize cannabis possession are even more confounding when one considers that there are several U.S. states that have laws governing marijuana possession that are as liberal as the one currently under consideration in Canada. Not only that, but in most of these states these laws have been in effect since the 1970s. Some of the states even border Canada, including New York, Minnesota, Ohio and Maine.⁴

The consequences of an American overreaction that leads to increased border congestion could be severe for Canada. In 2003, just over half (51%) of Canada's \$303.6 billion in merchandise shipments to the United States were transported by truck. For BC, the proportion moving by truck was slightly less, but again, almost half (46%) of the \$18.8 billion worth of goods exported from BC to the US were transported by truck. Increased border delays would add to shipping costs and could cause some manufacturers to relocate south of the border in order to avoid the problem, or could result in businesses in the United States finding new suppliers outside Canada.

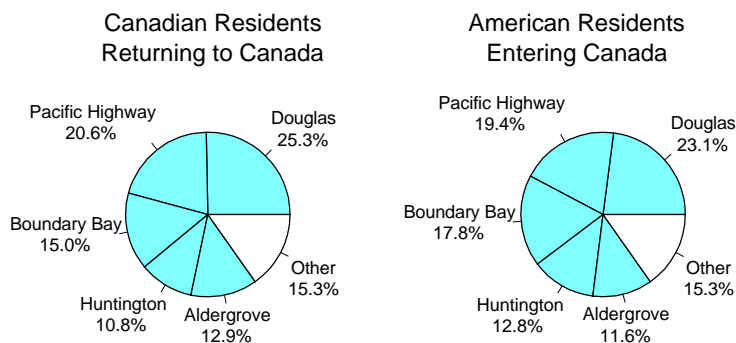
About half of all goods exported from Canada to the US travels by truck

³ "United States-Canada Border Drug Threat Assessment," October 2004, p. 3.

⁴ Alaska also decriminalized marijuana possession in the 1970s, but has apparently re-criminalized it since then.

There could also be a negative effect on tourism, particularly same-day travel. In BC, most same-day automobile and bus travel to and from the United States crosses the border at one of the customs ports in the Lower Mainland. If American customs agents start to do more thorough inspections under the expectation of increased drug traffic, thereby clogging these main border checkpoints, it could lead to a reduction in travellers from both directions. Canadians may be loath to sit in line for a lengthy period for a cross-border shopping expedition and Americans may also hesitate to take short trips across the border if it will mean a significant delay on the return trip.

Lower Mainland Border Crossing Points Tend to Handle the Bulk of Same-Day Car and Bus Travel

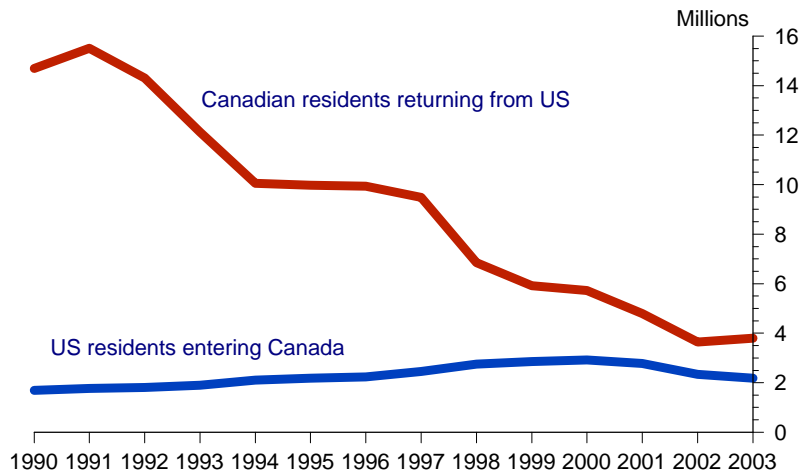


85% of same-day car and bus travel between BC and the US crosses through Lower Mainland customs ports

Ironically, in terms of tourism, it could be the United States that would suffer the most from a border crackdown. Historically, there have been far more Canadians making one-day trips to the US than there have been Americans travelling north on a same-day trip. This is particularly true for British Columbia. As the Canadian dollar depreciated, the number of Canadians driving or bussing south for a day plummeted, while American travel to Canada climbed at a slower pace, falling more recently as the loonie gained significant ground against the greenback. While the number of Canadians taking quick trips to the US has not appreciably grown in synch with the rising Canadian dollar, it is likely that the higher dollar will entice Canadians to return to the US for cross-border shopping or other reasons eventually. However, increased hassles at the border may keep those Canadians home, which would be bad news for American border towns such as Bellingham or Blaine in Washington State where merchants depend on significant business from Canadians. These communities are only recently starting to regain some of their Canadian customers who disappeared when the loonie plunged to previously unseen depths.

More scrutiny at the border by US customs agents could cause long line-ups and deter Canadians from making same-day trips to the US

Travellers crossing the BC border on a same-day trip are more often returning Canadians than Americans



There are more Canadians returning home from same-day trips to the US crossing through BC customs points, than there are Americans entering the country on same-day travel

Not only could a border crackdown harm tourism-related business in the United States, but it could also cause injury to businesses that rely on timely shipments from manufacturers in Canada. In the long run these businesses may be able to find alternate suppliers, but there would likely be some short-term costs incurred. In other words, while Canadian businesses may suffer most of the negative consequences of increased congestion at the border, their American counterparts will also be subject to increased costs and/or lost business.

With Canada and the United States sharing the longest undefended border in the world and with over \$700 billion in annual two-way commodity trade between the two countries, it is important that both the Canadian and American governments keep each other apprised of changes in laws that have the potential to affect that relationship. However, in the end Canada must craft legislation that serves the best interest of Canadians. As Prime Minister Martin stated, "Canada will make its own laws, pure and simple."⁵ One can only hope that the US government will recognize that it is in the best interest of both Canadians and Americans to maintain efficient operations at the border and that they will not succumb to "reefer madness."

⁵ As quoted in "We'll make pot laws, Martin tells Cellucci," *National Post*, November 11, 2004, p. A6.

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

04-10	<i>Legitimate Border Threat or Reefer Madness?</i> (released December 2004)	03-07	<i>A Summary of the NAFTA Panels' Decisions on Lumber Duties</i> (released September 2003)
04-09	<i>Canada is Hoping Trade with Brazil will Take Off</i> (released November 2004)	03-06	<i>Natural Gas Heats Up British Columbia's Exports</i> (released August 2003)
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)

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.