

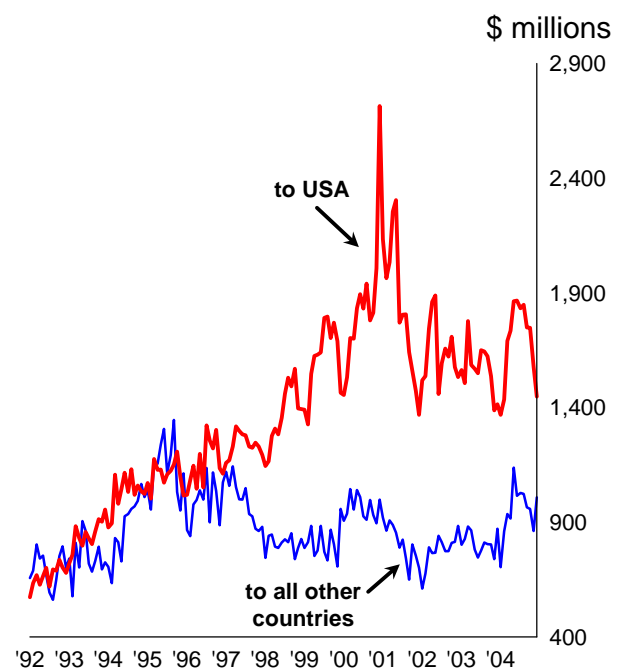
Exports ♦ December 2004

- After three consecutive years of decline, the value of BC origin exports turned the corner in 2004, rising 10.7% compared to 2003. Rising commodity prices driven, at least in part, by demand for raw materials from China's burgeoning industrial sector, were responsible for much of the increase in the value of shipments.
- The effect of commodity price inflation is most visible with regard to BC exports of metallic mineral products, which climbed 36.5% from 2003 to 2004. Exports of molybdenum ores and concentrates increased by more than two and a half times (+156.5%), while shipments of copper jumped 38.2%, exports of aluminum rose 26.8% and zinc shipments climbed 17.5%.
- The forest sector fared well in 2004, despite the burden of punishing duties of 27.2% on softwood lumber exports to the United States. Shipments of solid wood products increased 22.1%, while exports of pulp and paper grew 5.8%. Softwood lumber exports to the United States increased 38.3% despite the duties due to a combination of higher prices and strong demand.
- The value of energy exports dipped 6.3% in 2004 due to waning demand for natural gas and electricity. Natural gas shipments fell 9.9%, while electricity transmissions dropped 31.1%. Coal was the one energy product to see significant growth in exports in 2004,

with international shipments rising 8.4%.

- With few exceptions, BC origin exports to most international destinations expanded in 2004. Shipments to Pacific Rim countries grew 16.9%, including 51.6% growth in shipments to China, a 55.8% jump in exports to Hong Kong and a 21.6% leap in merchandise exports to India. BC's largest market, the United States, saw robust export growth of 7.2%, while shipments to Mexico, Canada's other partner in NAFTA, skyrocketed 61.5%. BC exports to the European Union climbed 15.7%, including a 12.1% increase in shipments to the United Kingdom and 14.0% growth in exports to Germany.

BC commodity exports expanded considerably in 2004



SEASONALLY ADJUSTED EXPORTS

BC exports (adusted for seasonality) slipped 1.3% in December

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.

- Seasonally adjusted BC exports fell 1.3% in December as solid growth in shipments of industrial and consumer products (+12.5%, led by metals and chemical products) was not enough to offset significant declines in exports of energy (-11.4%), machinery, equipment and automobiles (-6.1%) and agriculture and fish products (-10.7%).
- A 23.0% drop in shipments of energy products contributed to a 2.6% slump in shipments to the US in December.



BC Exports, Seasonally Adjusted (\$Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Dec 2002	222	385	1,171	371	434	2,583	1,681
Jan 2003	221	401	1,119	353	451	2,545	1,676
Feb	212	391	1,086	338	460	2,486	1,638
Mar	206	561	1,034	333	441	2,575	1,752
Apr	192	381	967	332	440	2,312	1,453
May	179	376	943	323	396	2,217	1,486
Jun	182	416	933	316	396	2,242	1,545
Jul	196	421	975	315	435	2,341	1,566
Aug	188	432	999	312	452	2,382	1,579
Sep	192	411	1,072	308	452	2,434	1,582
Oct	162	374	1,036	308	422	2,301	1,511
Nov	168	309	1,060	297	437	2,271	1,468
Dec	212	369	1,034	322	474	2,410	1,551
Jan 2004	170	324	1,046	306	449	2,295	1,492
Feb	180	338	1,042	325	503	2,388	1,509
Mar	183	356	1,163	317	480	2,499	1,624
Apr	186	333	1,198	319	520	2,556	1,651
May	192	424	1,314	346	569	2,845	1,767
Jun	204	381	1,322	348	534	2,790	1,815
Jul	201	411	1,274	352	566	2,803	1,798
Aug	196	408	1,271	342	580	2,796	1,752
Sep	197	313	1,247	337	567	2,661	1,695
Oct	210	431	1,179	343	557	2,720	1,754
Nov	210	434	1,126	345	514	2,628	1,674
Dec	188	384	1,120	324	578	2,594	1,630

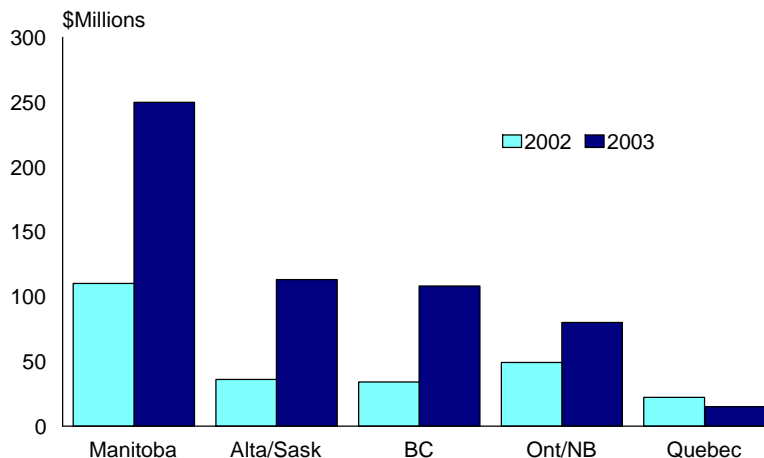
The Internet Pharmacy Debate

The increase in Americans seeking to import packaged pharmaceuticals from Canada has Canadians concerned about possible price increases and supply shortages. Federal Health Minister Ujjal Dosanjh has made it clear that Canada can not be a drugstore for the United States and has threatened to bring in new legislation governing Internet pharmacies as a measure to protect Canada's drug supply.

This issue has gained prominence in recent years as a large number of Internet pharmacies have sprung up in Canada and sales to American customers have skyrocketed. In addition, there are several US politicians who are promoting the legalization of packaged pharmaceutical imports as a way of making the drugs more affordable for American citizens.

The recent drive by US politicians to legalize pharmaceutical imports from Canada has sparked concern in Canada over its drug supply

Canadian Internet Pharmacy Sales to US Residents Surged in 2003



Source: IMS Health Canada

Sales to American consumers by Canadian Internet pharmacies have soared in recent years

According to IMS Health Canada, a company that compiles health information data for Canadian pharmaceutical companies and other health care stakeholders, sales of pharmaceuticals through Internet pharmacies in Canada to United States residents more than doubled in 2003 to between \$566 and \$605 million, compared to \$251 million in sales in 2002.¹ The Internet pharmacy business in Canada has grown from virtually nothing in just the last five years to a multi-million dollar industry. Most of the pharmacies are concentrated in the provinces west of Ontario, particularly Manitoba, which employs roughly half of those working in the industry. However, the business has been expanding in BC as well, as Internet pharmacies in British Columbia brought in about

Pharmaceutical sales to Americans through Canadian Internet pharmacies more than doubled in 2003

¹ Source: IMS Health Canada, "Retail Prescriptions Grow at Record Level in 2003." (http://www.imshealthcanada.com/htmen/1_0_9.htm) Accessed February 3, 2005.

a fifth of the revenue from sales to American consumers in 2003, which is well up from just over 13% of market share in 2002.

In addition to those Americans who buy drugs from Internet pharmacies, there are others, particularly those living close to the Canada-US border, who make cross-border trips to stock up on Canadian drugs. There is no reliable estimate available of the volume of these drug purchases, but combined with those from Internet pharmacies, the numbers are starting to add up.

The growth in purchases of packaged pharmaceuticals through the Internet and the instance of cross-border excursions to buy drugs has been driven by the relative difference in prices paid by Canadian and American consumers. IMS Health Canada estimates that if the Americans buying drugs from Canadian Internet pharmacies had purchased the approximately Cdn\$600 million worth of drugs in their own country instead of through the Internet, it would have cost them US\$1.1 billion. Most of these American consumers do not have health insurance that covers the cost of drugs and achieving a savings of 50% or more on their pharmaceutical costs may make the difference between being able to afford those medications and having to do without.

Currently, it is illegal in the United States for anyone other than drug companies to import packaged pharmaceuticals, but there is a push by some groups, including American seniors and several politicians, to change that legislation and legalize drug imports. The issue has resulted in questions being raised about the safety of drug imports for Americans and about supply and cost issues for Canadians.

While most of the fears about the safety of drugs purchased from Canadian pharmacies are overblown, there are some legitimate concerns that should be considered. For instance, some drugs manufactured in Canada have a different composition than those made in the US, so there could be a danger of adverse reactions if the drugs are taken in combination with other medications. There is also the issue of the ethics of Canadian doctors prescribing medications without first seeing the patient. This is one practise that Health Minister Dosanjh has suggested is in violation of current regulations.

Dosanjh has expressed willingness to establish tough new rules for Internet pharmacies, even if those regulations end up killing the industry. His remarks have spurred some US governors to plead with the Canadian government to maintain the free flow of drugs across the border amid concern that restricting access to Canadian pharmaceuticals could leave many Americans without the medicines they need to survive. The fear in Canada is that if the US legalizes drug imports, the Canadian drug supply and/or Canada's regulated pricing system could be threatened.

Savings of as much as 70% are the driving force behind American purchases of Canadian drugs

The push in the US to legalize the import of retail drugs is raising concern about the supply and cost of drugs for Canadians

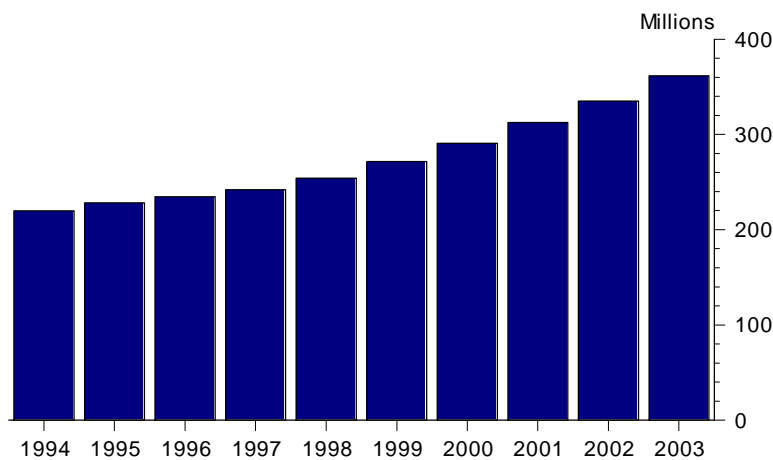
A C.D. Howe Institute study supports the concept that Canada's supply of drugs and low-price regime could be in danger, but suggests that price controls have minimal impact on drug prices in Canada. Rather, it says that it is the practise of price discrimination by American drug companies that is responsible for the gap in prices paid by Canadians and those paid by uninsured American consumers.² The authors postulate that Canadian provinces making bulk purchases have better leverage for getting price discounts from drug manufacturers compared to individual purchasers and that it is this bargaining power that is responsible for the price differential, rather than price controls. Apparently, the price control mechanism in place in Canada is rarely applied, although the authors concede that the very existence of the possibility of price controls being applied could have some affect on prices.

According to the study, even within the United States, drug companies charge different rates to different buyers. Uninsured consumers have very little buying power, so they end up paying the highest prices. Large corporations and Health Maintenance Organizations (HMOs) have more leverage and therefore pay less for drugs and the Federal government pays the least of all. The rate paid by the Federal government in the United States is comparable to that paid by the provincial governments in Canada.

The authors of the study suggest that if drug imports into the United States are legalized, drug companies will be forced to restrict the amount of drugs available to Canadians and raise prices to protect their profits. Not only would this prove to be an enormous burden on provincial health budgets, but it would also endanger Canadians' access to beneficial drugs.

Drug companies charge different amounts to different consumers to maximize their profit

Retail Prescriptions Dispensed in Canada



Source: IMS Health Canada

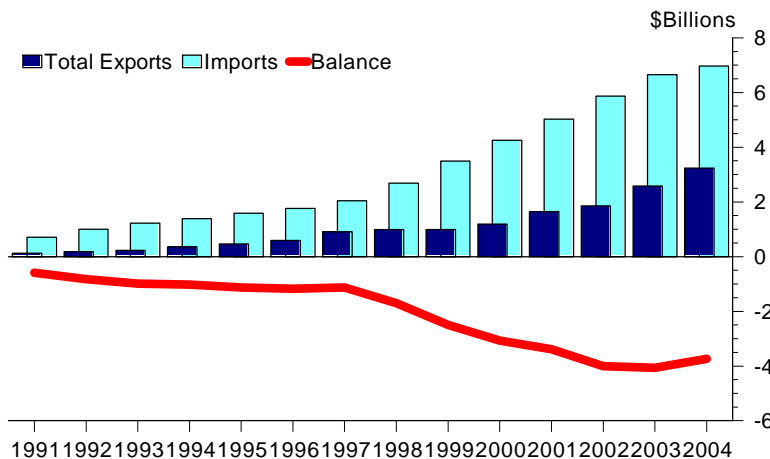
The demand in Canada for prescription drugs is rising as the population ages and new drugs become available

² Hollis, Aidan and Anis, Aslam, *Rx for Canada: Close the Internet Pharmacies*, C.D. Howe Institute Commentary, No. 205, October 2004.

As the population ages and as new treatments are discovered for old diseases, the demand for prescription drugs is rising. According to IMS Health Canada, the number of retail prescriptions dispensed in Canada has risen 64% in the last decade. The rise in prescriptions is mirrored by the increase in imports of retail pharmaceuticals. Although (legal) exports of packaged pharmaceuticals have also expanded, imports have increased to a far greater extent, such that Canada's deficit in trade in retail drugs has climbed significantly in the last decade.

Canadian Trade in Packaged Pharmaceuticals

(excluding Internet pharmacies and cross-border purchases by American residents)



Source: Statistics Canada

Canada has a significant deficit in trade of packaged pharmaceuticals – even if Canadian Internet pharmacies were included (of which sales are about a fifth of “legal” exports)

The rising demand for prescription drugs in Canada highlights the need to ensure an adequate supply is available at a reasonable cost. Already, several major US pharmaceutical manufacturers have blocked sales to Canadian pharmacies that export drugs to American patients, underlining the possibility that open trade in retail drugs could result in a supply shortage in Canada. However, American drug companies will have to walk a fine line with respect to restricted supply, because the Canadian Patent Act could allow generic manufacturers to break international copyrights if there are drug shortages. More likely, the cost of drugs in Canada would increase so that American drug manufacturers could protect their profits in the US.

While it is easy to empathize with those Americans who could be left without the medication they need if Canada shuts down Internet pharmacy exports, in the end, the purpose of the Canadian government is to look after the interests of Canadians. Similarly, the American government has to shoulder the responsibility of looking after its own citizens, whether that means implementing a national health care system, or regulating drug prices, or encouraging the use of generic drugs, or some other measure.

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

04-12	<i>The Internet Pharmacy Debate</i> (released February 2005)	03-09	<i>Relatively Few Small Businesses in BC are Exporters</i> (released November 2003)
04-11	<i>Canada's Trade With China</i> (released January 2005)	03-08	<i>Where's the Beef?</i> (released October 2003)
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)

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.