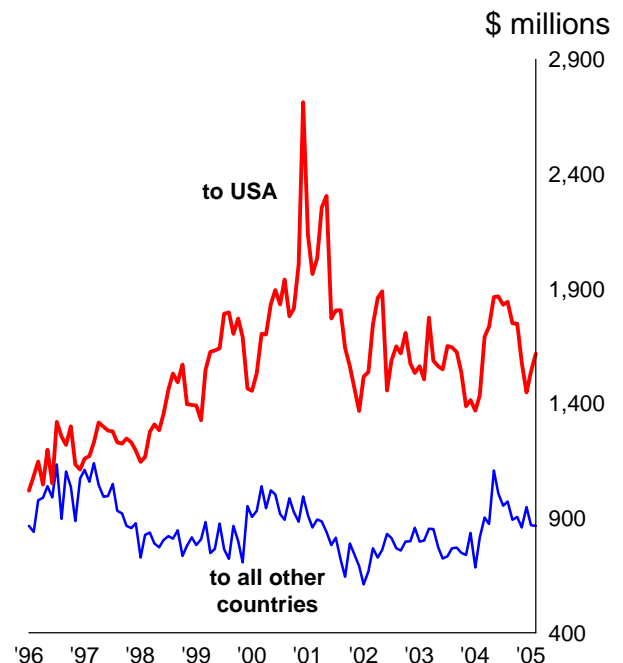


## Exports ♦ February 2005

- Over the first two months of 2005, BC origin exports experienced robust growth of 13.7% compared to the same two-month period in 2004. Commodity price inflation continues to be the driving force behind the increase, particularly for metals and energy products.
- The value of BC exports of metallic mineral products jumped 78.3% year-to-date to February compared to the first two months of 2004. Exports of copper ores and concentrates were up 131.5%, while shipments of molybdenum ores and concentrates more than quadrupled (+321.3%).
- Energy exports climbed 27.8% in the first two months of 2005, buoyed mainly by a 64.3% leap in shipments of coal. Exports of natural gas also experienced strong growth (+18.6%), while electricity transmissions increased 4.1%.
- There were mixed results in the forest sector as exports of solid wood products jumped 12.9%, but shipments of pulp and paper products edged down 0.3%.
- Softwood lumber exports to the United States continued to climb (+24.6%) despite the burden of punishing duties, but international shipments of pulp slipped 7.2% in the first two months of 2005. This was enough to offset strong growth in exports of newsprint (+5.6%) and paper and paperboard (+9.2%).
- Shipments of apparel and accessories have fallen 42.2% in the first two months of the year. The recent easing of global restrictions on textile exports and the subsequent influx of these goods into North America from China may be partially responsible for this drop.
- BC origin exports to India more than tripled in the first two months of 2005, reflecting the commitment to increase trade with that country as demonstrated by the recent Canadian trade mission to India.
- Exports to the United States (+12.6%), the European Union (+27.8%) and the Pacific Rim (+11.2%) all increased.

*Commodity price inflation is helping boost BC origin exports*



## SEASONALLY ADJUSTED EXPORTS

*BC exports (adjusted for seasonality)  
edged up in February*

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 edged up 0.7% in February as growth in exports of forest sector (+1.9%) and industrial & consumer products (+2.7%) offset declines in all other major commodity groups.
- Shipments to the United States rose 3.0% in February, as exports of energy climbed 6.0%, forest product shipments increased 3.0% and exports of machinery, equipment & automobiles, and industrial & consumer products each jumped 2.0%.



## BC Exports, Seasonally Adjusted (\$Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Feb 2003	214	395	1,081	341	432	2,463	1,631
Mar	205	562	1,027	333	413	2,540	1,745
Apr	193	382	971	332	437	2,315	1,453
May	178	375	935	324	381	2,192	1,477
Jun	182	411	937	316	353	2,199	1,537
Jul	195	415	979	315	404	2,308	1,560
Aug	187	425	1,002	312	419	2,345	1,580
Sep	192	415	1,048	308	421	2,384	1,582
Oct	161	371	1,041	307	370	2,251	1,513
Nov	167	310	1,066	296	433	2,272	1,468
Dec	213	373	1,037	317	443	2,383	1,560
Jan 2004	171	329	1,034	307	406	2,246	1,507
Feb	183	344	1,085	329	457	2,398	1,501
Mar	184	356	1,165	318	446	2,469	1,618
Apr	185	334	1,180	319	490	2,508	1,651
May	191	423	1,314	347	534	2,809	1,763
Jun	205	377	1,340	349	499	2,770	1,807
Jul	200	404	1,256	352	507	2,719	1,789
Aug	196	401	1,263	342	536	2,737	1,746
Sep	196	317	1,246	337	508	2,604	1,696
Oct	209	428	1,175	342	501	2,654	1,757
Nov	211	435	1,114	344	500	2,603	1,673
Dec	187	389	1,131	319	531	2,557	1,644
Jan 2005	190	434	1,143	330	555	2,653	1,714
Feb	184	432	1,165	319	569	2,671	1,766

## American Protectionism: Backfiring on All Cylinders

After facing a flurry of protectionist actions over the last few years, Canadian exporters can be excused for questioning the American commitment to free trade. Tiffs over softwood lumber, cattle and wheat have strained the relationship between Canada and the United States and have caused serious difficulties for Canadian producers of those products. However, Canadian companies are not the only ones feeling the effects of protectionist actions by the United States—Americans themselves are also suffering.

*The United States' move toward protectionism is bad news for Canadians, but may also be backfiring on Americans*

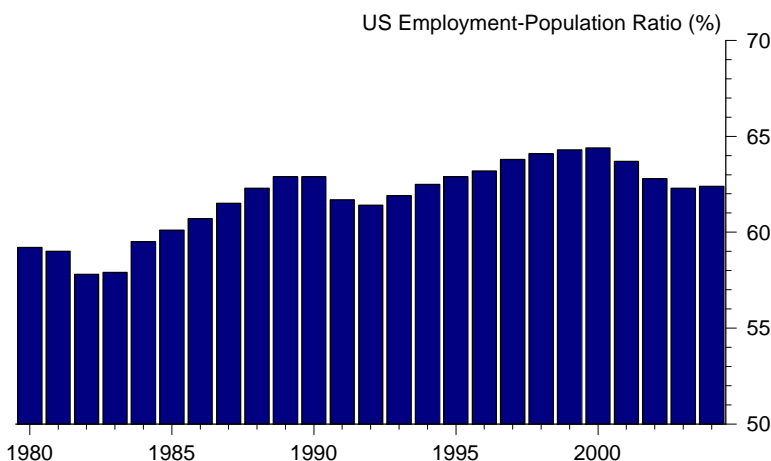
### Job movement fuels protectionist fervour

The migration of manufacturing jobs overseas and, more recently, high tech service jobs, has fuelled the resistance in the US to free trade. In the recent presidential election, offshoring became a major issue as Americans worried about losing high-paid service jobs to locales such as India. It has also been raised repeatedly in the media, particularly by CNN commentator Lou Dobbs, who seems to be on a personal crusade against outsourcing and the companies that engage in the practise. In an effort to stem the flow of manufacturing jobs out of the country, several protectionist measures have been implemented, not only against the Canadian industries already mentioned, but also against steel producers in Europe and Japan, and Chinese clothing producers, for example.

*The migration of selected jobs out of the country has been driving much of the protectionist sentiment in the US*

The question is, are these concerns valid and is protectionism a legitimate response? A quick look at current employment levels in the United States suggests that free trade has not resulted in the massive exit of jobs that anti-free trade crusaders claim is the case. Although there has been a decline in the employment to population ratio in the last few years, it is not much different than it was in the late eighties and early nineties.

### Free trade has not resulted in massive job loss in the United States as some protectionists claim



Source: US Department of Labor

*Free trade is not the job killer that many protectionists in the US claim*

As for whether or not protectionism is an appropriate reaction, economists tend to agree that it is bad economic policy and often has unintended consequences. It is true that free trade will often displace some workers such that individuals may be worse off, but the number of jobs created will almost always exceed those lost. Any kind of progress usually goes hand in hand with job displacement, but the longer it is put off, the more difficult the transition will be for those involved. Free trade works on the principle of comparative advantage, allowing countries to specialize in areas where they have an advantage due to things such as natural resource availability or an abundant supply of labour. Goods are therefore produced more efficiently at a lower cost. This reduces the cost of inputs for other industries and makes consumer goods less expensive, which in turn leaves more income remaining to spend on other things. This then creates more jobs as demand for those goods increases. Protectionist policies such as subsidies and tariffs subvert the positive effects of free trade by propping up inefficient industries and driving up prices. It may help small groups of producers, but it almost always results in higher prices for consumers and often has negative effects on other industries. This has been particularly evident with regard to many of the protectionist policies adopted by the United States in recent years.<sup>1</sup>

*Protectionism is bad economic policy that often backfires*

### **Lumber has been a splinter in Canada-US trade relations**

The softwood lumber dispute between Canada and the United States has dragged on for almost four years now and despite Canadian victories in several NAFTA and WTO decisions, there are no signs that the US government is prepared to back down. After a NAFTA panel found that Canadian lumber imports into the US did not injure the American industry, the US Department of Commerce launched an extraordinary challenge of the decision. This is an avenue of appeal that is rarely used and has never been successful. Since US and international trade law dictates that injury is a condition that must be met in order for duties to be imposed, a finding in favour of Canada should mean an end to the dispute, but based on the talk coming from the American side, this could be wishful thinking. Already there have been suggestions from the American government that a loss in the NAFTA decision will not necessarily result in a return of the monies paid by Canadian lumber producers. With approximately \$US 4 billion at stake,

*Despite NAFTA and WTO decisions in Canada's favour, the US is refusing to back down on softwood lumber duties*

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<sup>1</sup> In the interest of balance, it should be noted that the US is not alone in pursuing protectionist measures. The European Union is often held up as an example of rampant protectionism, particularly with respect to agricultural goods. Canada is not squeaky clean in this respect either, as its dairy and wheat marketing boards have been the target of subsidy complaints. The Canadian Wheat Board has been exonerated of this charge by both WTO and NAFTA panels, but Canada was forced to stop exports of subsidized dairy products to the United States after losing a WTO appeal.

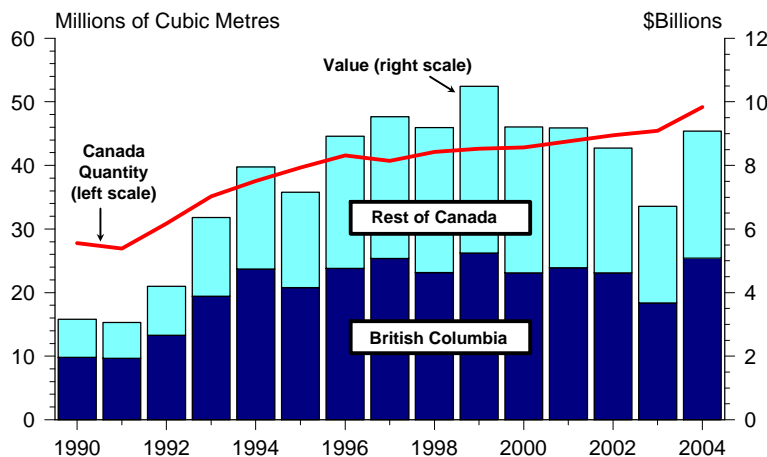
this has angered the Canadian side in the dispute and has made the likelihood of any kind of settlement even more remote.

Canada has floated a possible resolution to the dispute that would involve the imposition of some kind of export tax on Canadian lumber and would return all the duties paid to date. Although all the provincial governments appear to be onside with this proposal, there is strong opposition from some of the lumber manufacturers, particularly in Eastern Canada, where some producers are suggesting that Canada seems to be giving up on the fight just as victory is in sight.

Despite the discussion around a possible settlement, Canada has continued its fight in the courts and has also threatened possible retaliatory actions, going so far as to draw up a list of goods that could be subject to tariffs and applying to the WTO for authority to retaliate against the approximately \$US 4 billion in lumber tariffs.<sup>2</sup>

*Canada has asked the WTO for authority to impose retaliatory duties*

### Duties have not kept Canadian imports of softwood lumber out of the United States



Source: Statistics Canada

*Softwood lumber shipments to the United States have climbed, despite steep duties*

The dispute has cost the Canadian industry both financially and in terms of employment, but it has not had the desired outcome for American lumber producers. Not only have lumber shipments to the US not been reduced, but they have actually increased. Part of the reason for this is that larger Canadian companies have ramped up production to achieve economies of scale, which has put far

<sup>2</sup> Canada has already announced sanctions on imports of cigarettes, oysters and live swine from the United States in retaliation for the American government's failure to rescind the Byrd Amendment, which authorizes the distribution of monies collected from duties to affected industries in the US. The WTO found the amendment illegal back in 2002 and gave the US until the end of 2003 to strike down the legislation, but despite the urging of President Bush, the US Congress has refused to act. The European Union has also imposed duties on selected American goods to punish the US for failing to get rid of the Byrd Amendment.

more lumber on the market. This helped reduce prices for a time, but low mortgage rates and hurricane damage in the American southeast has increased housing starts and pushed up demand for lumber, which has boosted prices as well. The current situation is far more to the lumber industry's liking, but in the meantime, a large number of small, independent producers were forced out of business and it wasn't just Canadian mills that were going under. In fact, more small mills were closed in the US than in Canada. In addition to the harm that the dispute has inflicted on small American lumber producers, it is also increasing the costs of industries that use lumber as an input, such as the construction industry. Furthermore, it is harming American consumers by raising the price of these goods, particularly houses. With this in mind it can probably be effectively argued that the costs to Americans of the softwood lumber dispute have far outweighed any benefits.

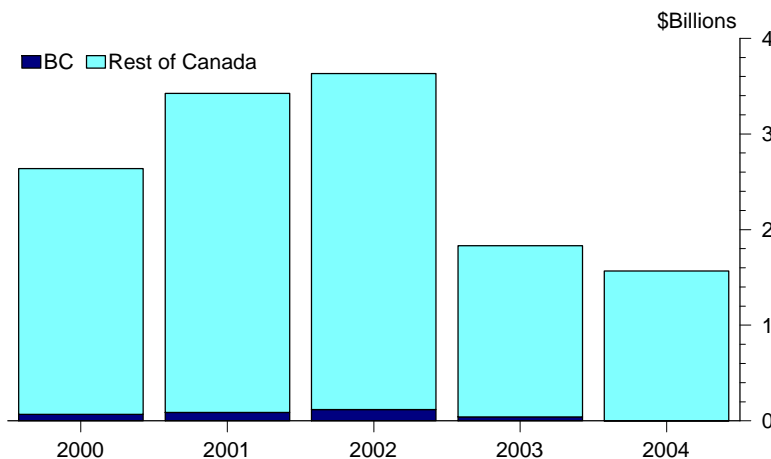
*The lumber dispute has probably caused more harm than benefit to the United States*

**The beef over Canadian cattle continues**

The US border has been closed to Canadian cattle and most cuts of beef for almost two years now since a cow infected with bovine spongiform encephalopathy (BSE) was discovered in Alberta. The US Department of Agriculture was set to reopen the border early in March, but at the request of a group of American ranchers, a Montana judge granted an injunction to prevent this from occurring. The US cattle producers cited the recent discovery of two more infected cows and suggested that allowing imports of Canadian cattle would endanger the US industry as well as American consumers. The US Department of Agriculture refutes this claim and is standing by its decision to open the border, stating that safeguards in place in Canada are more than sufficient to meet the requirements of minimum-risk.

*A Montana judge has prevented the US government from re-opening the border to Canadian live cattle*

**There has been a significant drop in shipments of beef and live cattle to the US due to border restrictions**



Source: Statistics Canada

*Live cattle exports from Canada have halted and beef exports are also well down as a result of border restrictions stemming from the discovery of a BSE-infected cow in Alberta in 2003*

The Canadian cattle industry is moving to find its own solution to the issue, by both increasing processing capacity in Canada and at the same time, launching a lawsuit to recover lost revenue resulting from unfair trade restrictions.

The attempt by the American cattle industry to prevent Canadian beef and cattle from crossing the border is being seen as a purely protectionist measure designed to keep both prices and profits high. So far the strategy has worked quite well to the benefit of American cattle ranchers, but to the detriment not only of American consumers, but also those in the meatpacking industry. The National Meat Association, which represents the meat processing industry in the US, has filed an emergency appeal of the Montana judgement. Their argument is that the restrictions on Canadian beef are putting many meatpackers out of business, not only due to high beef prices, but also because of a shortage of cattle to process. Many US processing plants previously augmented domestic supplies of cattle with imports from Canada. With the Canadian supply cut off, these plants are in danger of shutting down. On top of that, with the Canadian industry investing in its own processing plants, they may soon be facing increased competition from Canada.

*The refusal to allow Canadian cattle into the US has hurt American meatpackers and increased beef prices for American consumers*

### **Protectionism leaving sour taste with some American producers**

There are other goods from Canada that are subject to US duties, most notably wheat, but Canada is not the only target of US protectionism. For example, imports of cement from Mexico have been subject to anti-dumping duties for well over a decade, despite the fact that demand for the product in the US is larger than supply and the US industry is operating at full capacity. This has artificially raised the price of cement for both American industries using the product and American consumers.

Other examples where protectionism has backfired on the United States are sugar subsidies and steel tariffs. The US sugar industry has been protected for many years with significant subsidies as well as protective tariffs. As a result, the cost of sugar in the United States is well in excess of prices in other countries. Consequently, many manufacturers of hard candy, for which sugar is the main ingredient, have moved their operations to other countries, such as Mexico.

*US subsidies and tariffs have driven some industries out of the country in search of lower cost inputs*

In the case of steel, the short-lived tariffs imposed on the product in 2003 were removed when the European Union threatened \$2.2 billion in retaliatory duties, but not before thousands of American jobs were lost in industries that use steel as an input – far more than were saved in the steel-producing sector.

### **Protection for some, harm for many more**

Until the American government wises up to the deleterious effects of protectionism, or powerful lobby groups such as the lumber coalition are countered with a stronger voice from consumer

groups and other affected industries, it is possible that the types of trade disputes currently plaguing Canadian lumber producers, cattle ranchers and wheat farmers will continue to be a thorn in the side of Canada-US relations. These protectionist actions will benefit small groups of American producers; however, it will be at a significant cost not only to foreign competitors, but also other American industries and particularly the American consumer. Even for those industries that benefit in the short-term, the complacency offered by government subsidies could cause them serious long-term harm as foreign competitors continue to strive for efficiency gains and achieve a further competitive edge.

In the meantime, Canadian companies will have to continue to find ways to work around the challenges offered by the protectionist sentiment coming out of the United States, either by looking for new markets, making efficiency improvements or finding other ways to lessen their dependence on the United States, such as building more processing capacity in Canada, for example.

In a recent development that offers hope that the United States is starting to recognize the problems created by protectionism, the US International Trade Commission recently ruled that Canadian hog exports to the United States have not injured the American market. Since American and International trade law requires that the domestic market suffers injury before duties can be imposed, this means that anti-dumping duties amounting to 10.63% will be removed and duties paid to date should be returned. It is a clear victory for Canadian hog farmers and offers a ray of hope to other Canadian industries threatened by American protectionism.

*The removal of duties on live swine shipped to the United States offers hope to lumber producers and cattle ranchers*



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

<b>05-02</b>	<i>American Protectionism: Backfiring on All Cylinders</i> (released April 2005)	<b>03-11</b>	<i>The Lows of High Tech Trade</i> (released January 2004)
<b>05-01</b>	<i>Commodity Prices, Exchange Rates and Exports</i> (released March 2005)	<b>03-10</b>	<i>Is Global Free Trade Possible?</i> (released December 2003)
<b>04-12</b>	<i>The Internet Pharmacy Debate</i> (released February 2005)	<b>03-09</b>	<i>Relatively Few Small Businesses in BC are Exporters</i> (released November 2003)
<b>04-11</b>	<i>Canada's Trade With China</i> (released January 2005)	<b>03-08</b>	<i>Where's the Beef?</i> (released October 2003)
<b>04-10</b>	<i>Legitimate Border Threat or Reefer Madness?</i> (released December 2004)	<b>03-07</b>	<i>A Summary of the NAFTA Panels' Decisions on Lumber Duties</i> (released September 2003)
<b>04-09</b>	<i>Canada is Hoping Trade with Brazil will Take Off</i> (released November 2004)	<b>03-06</b>	<i>Natural Gas Heats Up British Columbia's Exports</i> (released August 2003)
<b>04-08</b>	<i>Border Congestion Threatens Trade</i> (released October 2004)	<b>03-05</b>	<i>Value Added Wood Production in BC Lagging Rest of Canada</i> (released July 2003)
<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)

## 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**

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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.