

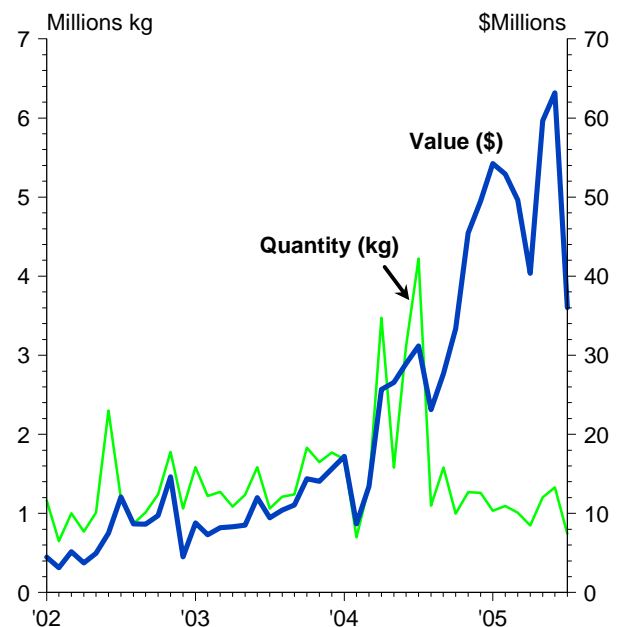
Exports ♦ July 2005

- Over the first seven months of 2005 the value of BC origin exports increased 4.0% compared to the same period a year earlier. Substantial increases in shipments of energy and metals were the main contributors to the increase.
- Exports of metallic mineral products climbed 34.1% over the January to July period of 2005 compared to the first seven months in 2004. The largest jump was for molybdenum ores and concentrates, which more than doubled (+134.8%), pushing it ahead of aluminum as the third most significant metallic mineral export from BC. There was also a significant increase in exports of copper ores and concentrates (+45.0%); however, unwrought aluminum shipments fell 6.9%.
- Soaring prices for natural gas and coal have helped boost the value of energy exports 33.9% year-to-date. Higher prices bumped shipments of natural gas up 14.4%, while a combination of inflated prices and higher demand have increased coal exports 79.7%. These jumps were more than enough to offset the drop in electricity (-2.9%) and other energy (-9.4%).
- Shipments of forest products have slipped over the first seven months of 2005 compared to the same period in 2004. Exports of pulp and paper products are down 9.9%, while solid wood product shipments have declined 4.4%. However, in the wake of Hurricane Katrina, it is likely that there will be

substantial demand for lumber products for use in the rebuilding effort, which should drive up lumber exports in the last quarter of 2005 and beyond.

- BC exports of apparel and accessories have plunged 27.6% so far in 2005, likely due to the relaxation of import quotas and the subsequent flood of goods from China.
- India is quickly becoming an important export destination for BC, with shipments to that country jumping 62.5% year-to-date. Shipments to Mexico have also seen a significant increase, climbing 28.4%. On the other end of the scale exports to Australia (-27.2%) and Hong Kong (-20.0%) have fallen sharply.

BC origin exports of molybdenum ores and concentrates have soared in the last year mostly due to rising prices for the product



SEASONALLY ADJUSTED EXPORTS

Exports (adjusted for seasonality) experienced a significant drop in July

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 origin exports adjusted for seasonality slumped 9.7% in July, erasing an 8.9% jump a month earlier. All major commodity categories experienced declines including forest products (-10.4%), which represent about 40% of BC exports.
- Shipments to the United States fell 3.6% in July, driven mainly by a drop in exports of energy products (-9.5%) and industrial and consumer goods (-10.1%).



BC Exports, Seasonally Adjusted (\$Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Jul 2003	201	398	971	313	408	2,292	1,566
Aug	188	418	1,019	306	421	2,352	1,574
Sep	185	403	1,064	308	416	2,376	1,595
Oct	162	394	1,054	305	381	2,295	1,537
Nov	170	308	1,055	291	416	2,239	1,476
Dec	204	360	1,034	314	442	2,354	1,541
Jan 2004	169	332	1,037	309	401	2,249	1,505
Feb	185	349	1,047	330	457	2,369	1,520
Mar	187	351	1,157	315	453	2,463	1,620
Apr	188	338	1,182	316	497	2,521	1,647
May	193	454	1,321	337	530	2,836	1,788
Jun	199	365	1,310	340	497	2,712	1,774
Jul	202	385	1,272	348	512	2,718	1,765
Aug	195	396	1,268	336	531	2,725	1,755
Sep	201	312	1,266	335	509	2,624	1,713
Oct	209	345	1,194	337	501	2,586	1,669
Nov	202	434	1,100	334	498	2,568	1,673
Dec	186	450	1,144	317	528	2,624	1,692
Jan 2005	189	441	1,143	329	551	2,653	1,703
Feb	183	422	1,176	333	553	2,667	1,747
Mar	180	448	1,135	332	510	2,605	1,749
Apr	184	492	1,121	350	517	2,664	1,762
May	186	457	1,122	347	530	2,641	1,668
Jun	212	610	1,123	351	579	2,875	1,791
Jul	173	580	1,007	350	486	2,596	1,726

Laying on the Lumber

“I have a background from my younger days in hockey. When somebody slammed you into the boards with undue force and aggression, you took their number. I think we’ve got to take their number.”

Industry Minister David Emerson

The NAFTA panel investigating the United States’ extraordinary challenge in the softwood lumber dispute with Canada has found that the complaint has no basis and has ordered that the tariffs be removed and the duties returned. That decision should have marked the end of this round of the softwood lumber saga, but in a move that may put the entire free trade agreement on thin ice, the United States has refused to admit defeat and is insisting that the ruling changes nothing. Neena Moorjani, speaking for the US Trade Representative, stated “We are, of course, disappointed with the decision, but it will have no impact on the antidumping and countervailing duty orders.” The explanation for the refusal to acknowledge the panel’s decision is that the ruling applies only to the 2002 finding of injury by the US International Trade Commission (ITC) and not to the revised November 2004 ITC determination.

The Canadian government and other interested parties on this side of the border are understandably vexed by the US government’s refusal to abide by the NAFTA ruling. Trade Minister Jim Peterson voiced the expectations of the Canadian government, saying, “This is a binding decision that clearly eliminates the basis for US-imposed duties on Canadian softwood lumber. We fully expect the United States to abide by this ruling, stop collecting duties and refund the duties collected over the past three years.”

Peterson is quite correct in saying that the decision is binding. Paragraph 9 of Article 1904 (Review of the Final Antidumping and Countervailing Duty Determinations) of the NAFTA agreement clearly stipulates this to be the case:

The decision of a panel under this Article shall be binding on the involved Parties with respect to the particular matter between the Parties that is before the panel.

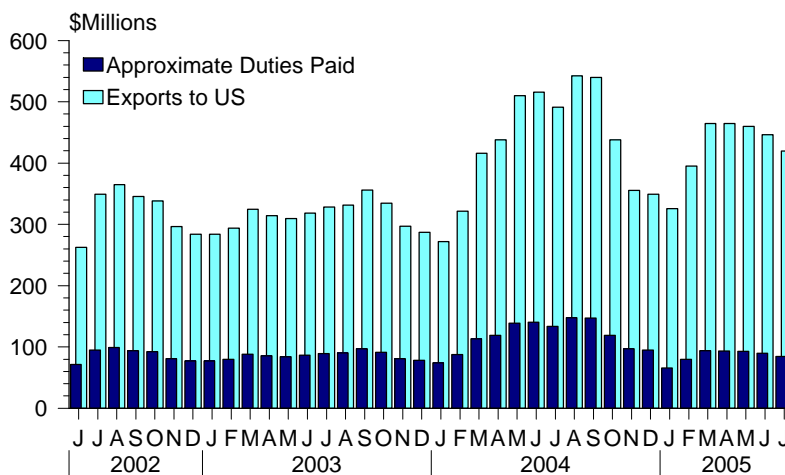
There doesn’t seem to be any room for another interpretation of the law in this case, yet the United States remains intractable in their refusal to abide by the panel’s decision. This has many trade experts concerned that the NAFTA itself could be in jeopardy, including several of the key participants in creating the deal. The US Ambassador to Canada, David Wilkins, has cautioned the Canadian side to stop their “emotional tirades” and tone down the rhetoric. He suggests that the only way to end the dispute is to negotiate a settlement. However, Canada has suspended all negotiations in light of the US government’s refusal to abide by the terms of NAFTA, suggesting that it does not make sense to negotiate an agreement with a party that is not willing to live up to the terms of agreements already in place.

NAFTA has once again found in favour of Canada in the softwood lumber dispute, but the United States is refusing to accept the ruling

The final NAFTA panel decision is binding, which means the US is obligated to remove the duties and return the money collected to date

Wilkins has classified the lumber dispute as a minor trade issue, but it is likely that most Canadians, particularly those in British Columbia, would take issue with that depiction. So far this year, exports of softwood lumber to the United States have comprised over 16% of the value of BC's total commodity exports and 25% of the value of BC's commodity exports to the United States. And while it is true that less than three per cent of Canada's total commodity exports to the US are comprised of softwood lumber, the potential implications that the US refusal to abide by the NAFTA ruling have for the NAFTA agreement itself are hardly a trivial matter.

Duties collected on BC origin exports of softwood lumber
to the United States have been adding up



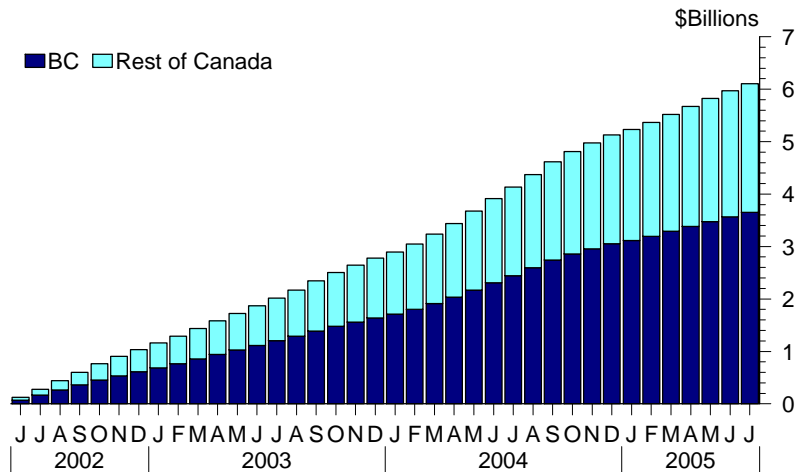
Softwood lumber makes up about one quarter of the total value of BC exports to the United States

Source: Statistics Canada for exports, BC Stats for estimated duties paid

The softwood lumber dispute has dragged on for over four years now and Canadian lumber companies have been posting bonds to cover countervailing and anti-dumping duties since May 22, 2002. The cumulative total of these duties has likely exceeded \$Cdn 6 billion.¹ This is approximately equivalent to the value of total Canadian exports to China, Canada's fourth-largest export destination, in 2004. It is difficult to agree that this is a "minor trade issue" when numbers of that magnitude are involved.

¹ The \$6 billion figure is a BC Stats estimate based on the value of softwood lumber exported to the United States. It is calculated using the average anti-dumping duty of 8.43% to December 2004 and 3.78% thereafter. Some firms may have paid higher or lower duties than these figures, so the numbers quoted here should be considered estimates.

Cumulatively, duties paid on Canadian softwood lumber exports to the United States have reached approximately \$6 billion



Source: BC Stats

Cumulative duties paid on softwood lumber exports to the United States amount to about \$Cdn 6 billion

The intransigence on the part of the US government with regard to this issue has resulted in calls for various retaliatory measures, ranging from tariffs on various American products, such as Californian wine, to export taxes on energy products, to holding up approvals for sales of energy-producing companies to American interests. The federal government has already ruled out export taxes, but has applied to the World Trade Organization (WTO) for permission to apply retaliatory tariffs and also has launched a lawsuit in the US Court of International Trade, hoping the court will order the duties removed and the monies refunded. However, a recent decision by the WTO may have ended Canadian hopes for permission to impose tariffs.

The WTO ruled that the United States were in compliance with international law when it imposed duties on imports of Canadian softwood lumber. The full details of the ruling are yet to be made public, but the Canadian side of the dispute has characterized it as a "setback." Nevertheless, Canada insists that the NAFTA ruling supersedes the WTO decision and that the US is still bound to lift the duties and return the approximately \$Cdn 6 billion that has been collected so far. It would seem that Canada is on solid ground on this issue, since NAFTA is entrenched in US law and the decisions by the NAFTA panels have been based on US law. In other words, the panels have found that the US government has breached US law by imposing the duties.

However, trade officials in the US have suggested that the WTO decision makes the ruling by NAFTA moot. Although a convenient negotiating tactic, this suggestion is surprising, since it basically implies that international law can trump American law, which is in direct opposition to what has been said prior to the release of the WTO ruling. Considering that the United States has yet to repeal the *Byrd Amendment*, which was deemed illegal by

A recent WTO decision may have ruled out the possibility of retaliatory tariffs

Canada is hoping to prove that the United States is breaking its own laws by continuing to apply duties on Canadian softwood lumber in contravention to the ruling by the NAFTA panel

The Byrd Amendment stipulates that all anti-dumping and counter-vailing duties from goods imported into the US are to be distributed to the companies that initiated the complaint

the WTO almost three years ago, it also seems hypocritical. It is even harder to swallow when one considers that the WTO has consistently ruled that the methods used to calculate the duties have been faulty, yet the US has failed to fully comply with their instructions. A WTO ruling that said just that is being appealed by the United States.

The refusal of the United States to accept defeat does not bode well for a speedy resolution to the dispute, but there are a couple of events that may shift things in Canada's favour. First is the news that International Paper, one of the key members of the US Coalition for Fair Lumber Imports and the world's largest forest products company, is intending to sell off the milling side of its business, including the timberlands operations. If this happens, the Coalition will lose a significant source of funding, particularly if a Canadian company purchases the assets. The lobby group could lose a lot of its power as a result.

Hurricane Katrina is another potential catalyst for a resolution to the dispute. While the tragic aftermath of the hurricane may have temporarily taken the focus away from trade issues, this should not last long. Once reconstruction begins, there will be an enormous demand for building materials. In addition to softwood lumber from Canada, the United States has also imposed substantial duties on cement from Mexico. It is doubtful that there will be much of an appetite for a continuation of duties on these building materials in the face of already substantial costs involved in reconstruction. In fact, officials from the United States and Mexico are planning to meet to discuss an end to the cement tariffs. This may not be enough to sway the US lumber lobby, which has already insisted that the duties should be removed on donated lumber only, but it could make more American consumers aware of the folly of the duties, particularly since the American press is more likely to make the increased costs a news item.

The likely sale by International Paper of its milling and timberland operations could hurt the US lumber lobby and help Canada

The need for building materials in the aftermath of the devastation caused by Hurricane Katrina could hasten efforts to end the dispute

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

05-07 <i>Laying on the Lumber</i> (released September 2005)	04-04 <i>Port of Prince Rupert: Down, But Not Out</i> (released June 2004)
05-06 <i>Removal of Textile Quotas Tailor-Made for Protectionist Fervour</i> (released August 2005)	04-03 <i>Expanded European Union Could be Both Good and Bad for BC</i> (released May 2004)
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04-05 <i>Hollywood North Thrives in 2003</i> (released July 2004)	03-02 <i>Rising Log Exports Fuel Controversy</i> (released April 2003)

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

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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.