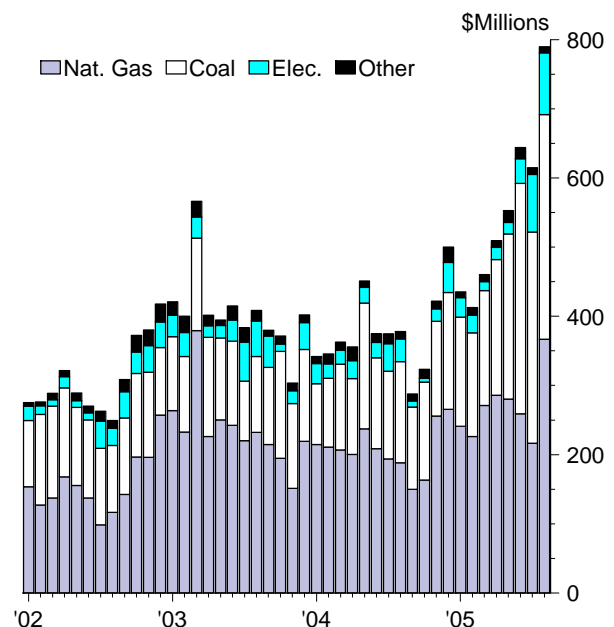


Exports ♦ August 2005

- August was a strong month for BC origin exports. Compared to the same month in 2004, exports rose 9.1%, which contributed to a 5.4% increase in exports year-to-date compared to the first eight months of 2004. Soaring exports of energy products, along with strong growth in shipments of metals, have been the main reasons for the overall growth in exports.
- There has been a 30.9% jump in international shipments of metallic mineral products in the January to August period of 2005 compared to the first eight months of 2004. Exports of molybdenum ores and concentrates have more than doubled (+134.7%), pushing that commodity ahead of aluminum as the third most significant metallic mineral export from BC. Shipments of unwrought aluminum have slipped 4.9%, but exports of copper ores and concentrates are up 39.9%.
- Soaring prices have helped boost the value of energy exports 48.1% year-to-date. Demand from countries such as China has helped inflate the price of coal, which has led to an 85.9% jump in the value of coal exports from BC. Natural gas shipments have also benefited from higher prices, with exports climbing 29.3%. Electricity transmissions across the border skyrocketed 167.6% in August compared to the same month last year, which contributed to a 44.2% year-to-date increase in electricity exports.
- Forest products have not fared well so far this year in terms of exports. The value of pulp and paper shipments has fallen 8.7%, while exports of solid wood products are down 6.7%. However, it is likely that in the wake of Hurricane Katrina, 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.
- India is quickly becoming an important trade partner for BC with exports to India climbing 79.4% over the first eight months of 2005. Exports to NAFTA trade partner Mexico have also grown significantly, rising 31.2%.

High demand and inflated prices are driving up the value of BC energy exports

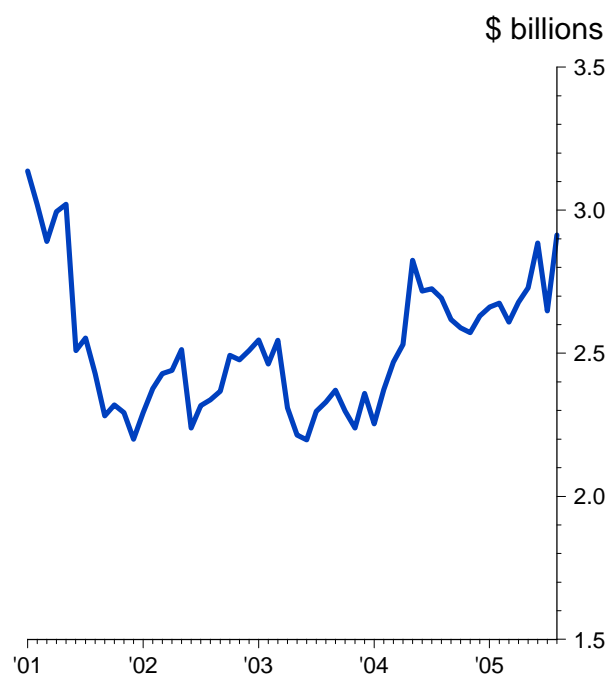


SEASONALLY ADJUSTED EXPORTS

*Exports (adjusted for seasonality)
rebounded in August*

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 rebounded in August climbing 10.0% and more than offsetting an 8.2% drop a month earlier. The rise was due mainly to a 24.8% jump in exports to countries other than the United States. Shipments to the US edged up 2.6% in August.
- Energy exports were the main contributor to the overall increase, soaring 22.3% in August, mainly due to a substantial increase in electricity exports.



BC Exports, Seasonally Adjusted (\$Millions)

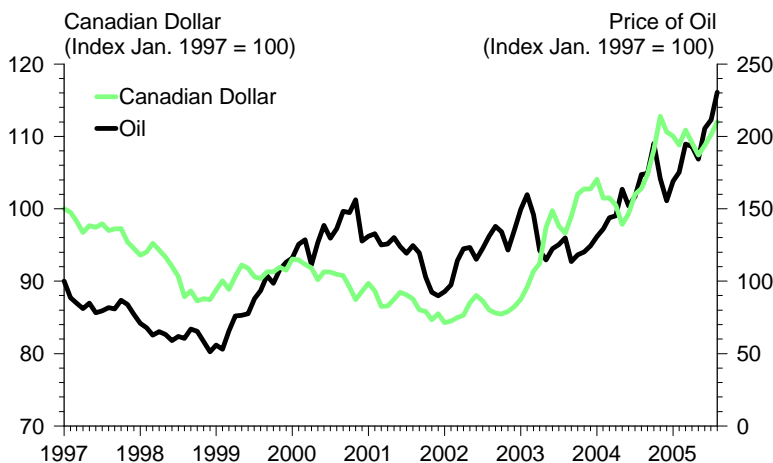
Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Aug 2003	183	404	1,015	306	421	2,329	1,564
Sep	184	402	1,059	308	417	2,371	1,597
Oct	163	395	1,054	305	381	2,298	1,542
Nov	170	308	1,054	291	416	2,239	1,477
Dec	204	361	1,037	314	443	2,360	1,545
Jan 2004	170	333	1,040	309	401	2,253	1,507
Feb	186	351	1,049	330	457	2,373	1,520
Mar	188	352	1,161	315	453	2,469	1,622
Apr	190	343	1,187	315	495	2,531	1,648
May	195	440	1,323	337	530	2,825	1,768
Jun	198	378	1,303	340	497	2,717	1,780
Jul	203	394	1,269	349	511	2,725	1,765
Aug	188	375	1,265	336	531	2,693	1,746
Sep	201	312	1,260	336	510	2,618	1,715
Oct	210	346	1,194	337	502	2,589	1,676
Nov	202	435	1,101	335	499	2,572	1,678
Dec	186	452	1,146	317	529	2,630	1,696
Jan 2005	190	443	1,148	329	551	2,661	1,709
Feb	184	425	1,180	333	553	2,675	1,750
Mar	181	450	1,138	332	509	2,609	1,749
Apr	185	500	1,126	350	516	2,678	1,766
May	188	541	1,122	349	529	2,729	1,743
Jun	210	630	1,117	352	576	2,885	1,801
Jul	176	634	998	353	487	2,648	1,766
Aug	205	776	1,072	350	510	2,913	1,813

Booming Energy Sector May Give Rise to “Dutch Disease” for Other Exporters

High prices and strong demand for energy products such as petroleum, natural gas and coal are providing a windfall for Canadian producers of those goods, but the escalatory effect this is having on the Canadian dollar is creating difficulties for exporters of other manufactured goods. The emergence of the “petro-dollar” has generated concern that Canada may fall victim to “Dutch disease.”

Dutch disease was a term first coined when the Netherlands discovered natural gas in the North Sea in the 1970s. The sudden revenue influx into the Netherlands drove up the value of the guilder, which hurt exporters of non-energy goods and sent unemployment rates soaring. The sharp rise in the price of oil and other energy commodities in recent months and the corresponding spike in the value of the Canadian dollar have sparked fears that Canada is in danger of following in the same path.

The Canadian dollar is rising more or less in synch with the price of oil, prompting the label “petro-dollar”



“Dutch disease” refers to a situation where the discovery of a natural resource causes a country’s currency to appreciate, which in turn harms exporters of manufactured goods

As the price of oil soars in the face of supply shortages caused by various global incidents, including hurricane Katrina, Canada’s dollar has followed suit and is quickly becoming known as a petro-dollar

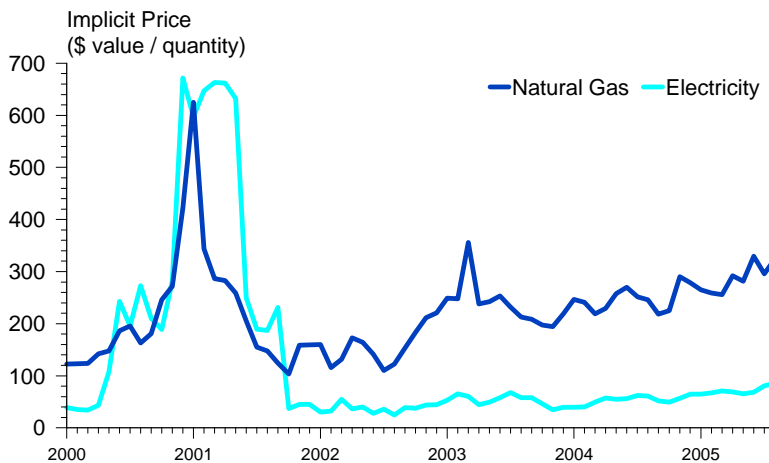
Many business leaders, particularly those in Central Canada, the nation’s manufacturing hub, are not happy with the Bank of Canada’s decision to raise interest rates in the face of an already high dollar. According to a poll performed by COMPAS, the majority (68%) of business leaders surveyed believed that Canada’s export sector will be seriously harmed by the rising dollar.¹ There were not many who agreed with Bank of Canada Governor David Dodge that higher commodity prices benefit all regions of the country or that manufacturers are adjusting well to the higher

¹ Serious Risk of Dutch Disease—Falling Traditional Exports, Rising Inflation, Intensified Ottawa-Edmonton Conflict; Governor Dodge Far Too Optimistic, Ottawa Gets Bad Grades: A BDO Dunwoody/Chamber Weekly CEO/Business Leader Poll by COMPAS in the Financial Post for Publication October 3, 2005.

value of the dollar. Also, 57% believed that Canada is in danger of catching Dutch disease, or has already started to catch it.

In addition to strong inflation in the cost of oil, prices for other energy products have also increased. While the price of natural gas is a long way from its peak during the California energy crisis of late 2000—early 2001, it has continued to trend upward with BC exports of the resource valued at about \$300 per thousand cubic metres in recent months, compared to just over \$100 a few years ago. However, electricity prices have stabilized since 2001 and have seen far less inflation compared to other energy goods. As a result, exports of electricity have declined in importance as a percentage of overall energy exports from BC.

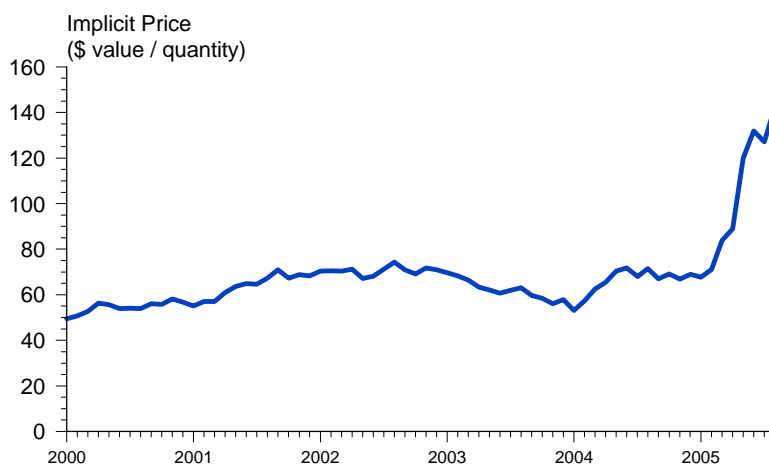
Whereas electricity prices stabilized after the shock of 2000-2001, natural gas prices have trended up



Data source: Statistics Canada - Price based on BC exports

Natural gas prices have been trending up over the last few years, but the price of electricity has been much more stable

Coal prices have also shot up in the last year



Data source: Statistics Canada - Price based on BC exports

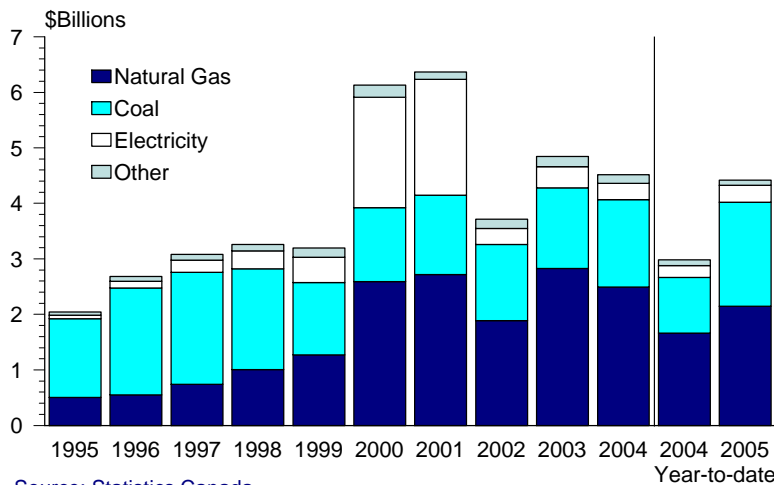
A renewed demand for coal has doubled the price in just the last year

Coal, once the most important BC energy export, has undergone a revival of sorts as prices have doubled in the last year in response to rising demand from countries such as China. As a result, the year-to-date value of exports of coal has increased by approxi-

mately 86% compared to the same period in 2004. In fact, the value of coal exports from January to August in 2005 is already higher than that for all of 2004.

While Alberta has been the primary beneficiary of inflation in the energy sector due to its substantial reserves of oil and natural gas, British Columbia has also experienced significant growth in the value of energy exports. So far to August of this year, the value of international shipments of energy products has jumped by 48% compared to the same eight-month period in 2004.

Higher prices for natural gas and coal are providing
a boost to BC's energy sector



The value of BC's energy exports has grown considerably in the last year as a result of increased demand and rising prices

The rise in energy prices may be a boon to BC's energy sector, but other industries could experience serious problems if the dollar continues to climb in step with the price of oil and other energy goods. For example, according to a 2004 study by PricewaterhouseCoopers for the Council of Forest Industries, each one-cent gain relative to the American dollar costs BC's forest industry \$150 million in annual sales.²

The rising dollar could have negative consequences for non-energy product exporters

Other exporting industries, particularly those in the manufacturing sector, face similar challenges resulting from the appreciating dollar, but even those businesses that cater mostly to the domestic market are experiencing problems as the jump in energy prices has had a detrimental effect on consumer confidence. The soaring price at the pump has caused a slump in consumer sentiment, which could be bad news for retailers. The drop in confidence may be short-lived, as consumers will eventually adjust their energy consumption patterns leaving them with more money to spend on other items, but with the holiday season fast approaching, it could be too late for retailers who are dependent on seasonal sales to make a profit.

² As quoted in "Rising dollar expensive for forestry, paper firms," *The Vancouver Sun*, October 29, 2004.

For manufacturers in the forest sector and elsewhere, it will be necessary to make productivity improvements and adopt other cost-saving measures that will allow them to continue to compete despite an increasingly unfavourable exchange rate. However, at some point manufacturers could find that there are no more cost-savings to be found. When that happens, further appreciation of the dollar could place those manufacturers at a severe disadvantage compared to their global competitors and may end up putting them out of business. The de-industrialization brought on by a dollar inflated due to high energy prices would be a classic case of Dutch disease. The worst case scenario would be that either the energy reserves eventually run out or prices fall and Canada is left without a strong manufacturing sector and no surplus revenues from the energy sector to compensate for reduced manufacturing output.

While the debate rages on whether or not Dutch disease is a legitimate phenomenon, Canadian manufacturers can take solace in the fact that the slump in manufacturing in the Netherlands was short-lived and that it remains an industrial nation with a strong manufacturing sector. Canada's manufacturing sector is fairly diversified and has already started to improve productivity, which seems to indicate that the effects of Dutch disease will not be fatal.

Manufacturers in Canada will be forced to find cost savings if they are to continue to remain competitive despite a higher dollar

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

05-08	<i>Booming Energy Sector May Give Rise to "Dutch Disease" for Other Exporters</i> (released October 2005)	04-05	<i>Hollywood North Thrives in 2003</i> (released July 2004)
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)
05-05	<i>Comparative Trade Numbers Don't Add Up</i> (released July 2005)	04-02	<i>BC's Animal Agriculture Exports Facing Trade Restrictions</i> (released April 2004)
05-04	<i>South Korea Seeks Trade Deal with Canada</i> (released June 2005)	04-01	<i>China Offers Considerable Opportunities for Trade</i> (released March 2004)
05-03	<i>Any BC Port in a Trade Storm</i> (released May 2005)	03-12	<i>Rising Commodity Prices Could Signal Turnaround for BC Exports</i> (released February 2004)
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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)
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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)

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

(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.