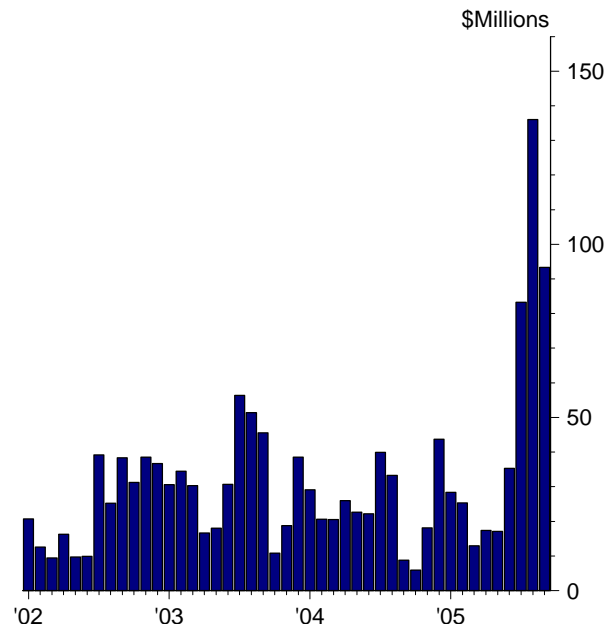


Exports ♦ September 2005

- A spike in shipments of energy products in the wake of Hurricanes Katrina and Rita helped drive the value of exports up 14.4% in September compared to the same month in 2004. This contributed to 7.0% jump in exports year-to-date compared to the first three quarters of 2004.
- Energy product exports soared in September, climbing 175.5% compared to the same month a year earlier, which contributed to a 60.1% difference in the value of shipments over the first three quarters compared to the January to September period in 2004. Electricity exports have experienced the largest boost, to more than double the value exported in the first three quarters of 2004 (+101.5%). This includes a more than ten-fold jump (+965.1%) in September relative to the same month in 2004. Natural gas (+41.1%) and coal (+89.7%) shipments have also experienced substantial gains over the first three quarters.
- The other major contributor to the overall increase in the value of BC origin exports is metallic mineral products. International shipments of these goods climbed 34.2% over the first three quarters relative to the first nine months of 2004. Molybdenum ores and concentrates have seen the largest jump, more than doubling (+129.4%) from the value shipped in the first three quarters of 2004. Exports of copper ores and concentrates are also far higher than last year, rising 61.4%.
- Lumber shipments plunged in September, dropping 27.2% relative to September 2004, which helped drive down year-to-date exports 10.3% lower than the first nine months of 2004. However, it is likely that in the wake of the hurricane damage experienced in the southern United States 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.
- Pulp and paper exports continue to lag behind last years pace, slipping 8.5% over the first three quarters. Newsprint is one of the few bright spots (4.0%) in the pulp and paper sector.

Exports of electricity have soared in recent months

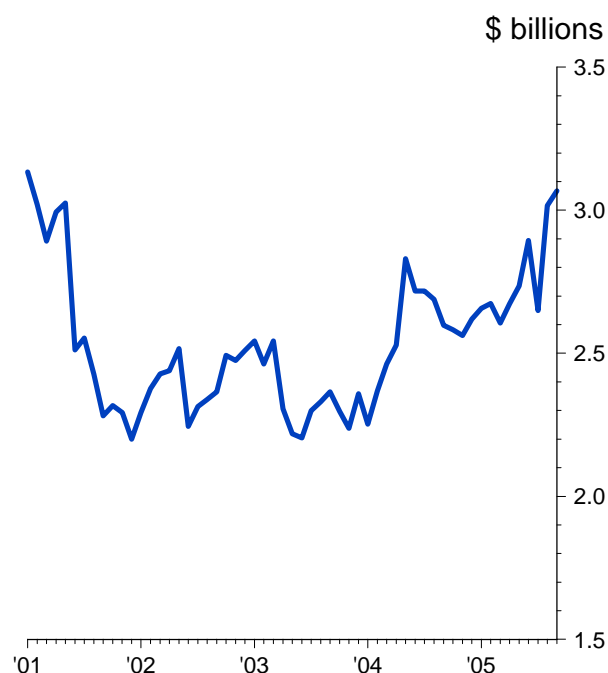


SEASONALLY ADJUSTED EXPORTS

*Exports (adjusted for seasonality)
continued to climb in September*

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 climbed 1.7% in September, mainly on the strength of rising exports of energy (+4.8%) and industrial and consumer goods (+6.5%).
- The overall increase was due to a 2.9% jump in exports to the United States, as shipments to other destinations edged down 0.2%. Soaring exports of energy (+13.6%) in the wake of Hurricanes Katrina and Rita drove the increase, as all other major commodity groups saw a decline in exports.



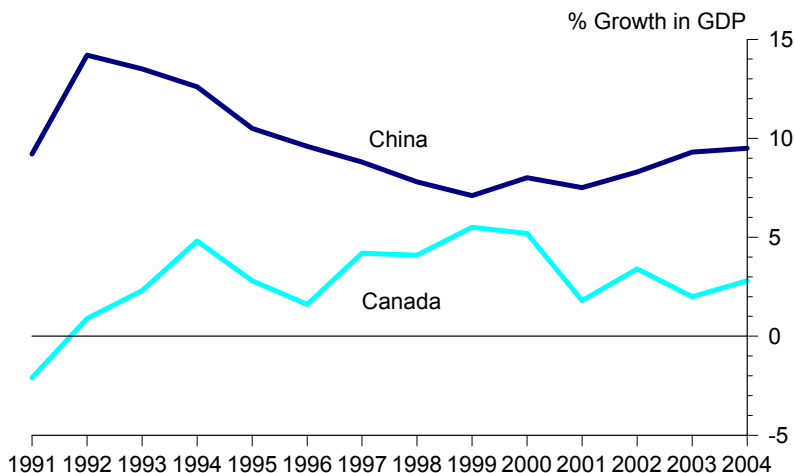
BC Exports, Seasonally Adjusted (\$Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Sep 2003	185	400	1,056	309	415	2,365	1,597
Oct	163	395	1,053	304	382	2,297	1,543
Nov	170	308	1,053	291	417	2,238	1,477
Dec	204	360	1,036	314	443	2,358	1,544
Jan 2004	170	332	1,041	310	400	2,252	1,508
Feb	186	350	1,047	330	456	2,369	1,519
Mar	188	349	1,160	315	452	2,463	1,617
Apr	190	340	1,188	316	496	2,529	1,644
May	195	438	1,328	338	531	2,830	1,763
Jun	198	383	1,308	340	490	2,718	1,783
Jul	203	398	1,270	349	497	2,717	1,768
Aug	187	378	1,265	336	523	2,689	1,750
Sep	200	311	1,255	335	497	2,598	1,718
Oct	210	346	1,194	337	495	2,582	1,676
Nov	202	434	1,101	334	491	2,562	1,679
Dec	186	451	1,146	316	520	2,619	1,696
Jan 2005	190	442	1,147	330	547	2,657	1,708
Feb	185	424	1,181	333	551	2,674	1,749
Mar	182	445	1,139	332	509	2,606	1,745
Apr	185	495	1,125	351	516	2,673	1,758
May	188	538	1,125	350	534	2,735	1,738
Jun	210	616	1,119	352	598	2,894	1,787
Jul	175	640	998	354	482	2,649	1,769
Aug	205	829	1,071	353	557	3,016	1,867
Sep	199	869	1,052	354	594	3,068	1,922

China's Growth Both an Opportunity and a Threat for Exporters

Over the past decade, China has blossomed into a significant economic power, becoming a major source of imports as well as a lucrative destination for exports. Despite efforts to slow China's overheated economy, it continues to grow rapidly, with GDP rising in excess of seven percent in each year from 1991 on, including growth over nine percent in each of the last two years.

China's economy has been growing at a phenomenal pace for more than a decade



China's economy has been growing by leaps and bounds in recent years...

...with GDP rising at a rate of more than 7% per year for over a decade

Although China often still faces criticism for its human rights record and protests frequently follow visiting Chinese leaders throughout North America and Europe, the depth of political and economic reform over the last couple of decades has been significant. An abundance of available labour offers China considerable advantages in manufacturing and Chinese products are proving to be stiff competition for manufacturers in other countries, not only in developed nations such as Canada and the United States, but also in many underdeveloped countries.

The influx of goods from China has spawned protectionist sentiment around the globe, including Canada. The removal of global import quotas on clothing and textiles as of January 1, 2005 and the subsequent flood of Chinese exports of these goods have created a significant backlash in North American and Europe with both the United States and the European Union moving to impose import restrictions and manufacturers in Canada lobbying the Canadian government to do the same.¹ The Canadian government is also facing pressure from certain manufacturers of bicycles and barbecues to impose protective tariffs on those goods.

The rise in imports of Chinese goods is creating a protectionist environment in many countries

¹ For more discussion of the clothing and textile issue, see "Removal of Textile Quotas Tailor-Made for Protectionist Fervour" in the June 2005 issue of *Exports*.

In recent months, the Canadian International Trade Tribunal has published rulings on both bicycles and barbecues that conclude that the Canadian industries are suffering material injury as a result of imports from China and some other Asian nations.

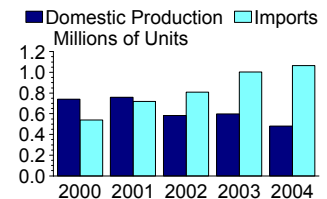
In the case of bicycles, the Tribunal ruled in September that imported bicycles priced at \$400 or less should face a surtax of 30% for a period of one year, to be reduced to 25% in the second year and 20% in the third year. The reasons given by the Tribunal for its decision were the combination of a 35% drop in domestic bicycle production from 2000 to 2004, combined with a 98% jump in imports over the same period. As a result, the market share for domestic producers has slipped from 58% in 2000 to only 30% in 2004.²

The Tribunal's ruling has prompted criticism from several sources, including some in the bicycle manufacturing industry itself. The arguments against implementing the surtax include the potential harm to retailers and the increased cost to consumers, as well as the damage it could do to trade relations with countries such as China. According to the Tribunal's report, direct employment by those manufacturers affected was only 478 workers in 2004, down from 671 in 2003.

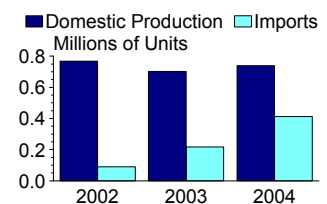
The story was similar with regard to barbecues. In October, the Tribunal found that Chinese imports of barbecues were causing injury to domestic barbecue manufacturers. Imports of barbecues from China into Canada soared from 89,608 units in 2002 to 412,053 units in 2004, an increase of 360%. China's share of the Canadian barbecue market climbed from 10% to 39% over the same period. However, unlike the case with bicycles, where there was a clear decline in production and employment, domestic barbecue production fell only marginally (-4%) between 2002 and 2004, while direct employment in the Canadian industry actually climbed from 677 in 2002 to 783 in 2004.

This is all coming at a time when the Canadian government is promoting the expansion of trade with China, putting the government in a difficult position. If the federal government agrees to implement these tariffs it will risk the progress it has made with China in promoting more two-way trade. In addition, any new tariff barriers Canada puts up may make it difficult for Canada to be taken seriously in World Trade Organization negotiations and could weaken the case against the United States with regard to softwood lumber and other trade disputes. Canada could hardly argue that it is looking to encourage free trade if it is actively pur-

Canadian domestic bicycle production declined by 35% from 2000 to 2004 while imports climbed 98%, prompting calls for protective tariffs



Imports of barbecues from China skyrocketed 360% from 2002 to 2004, inciting protectionist sentiment

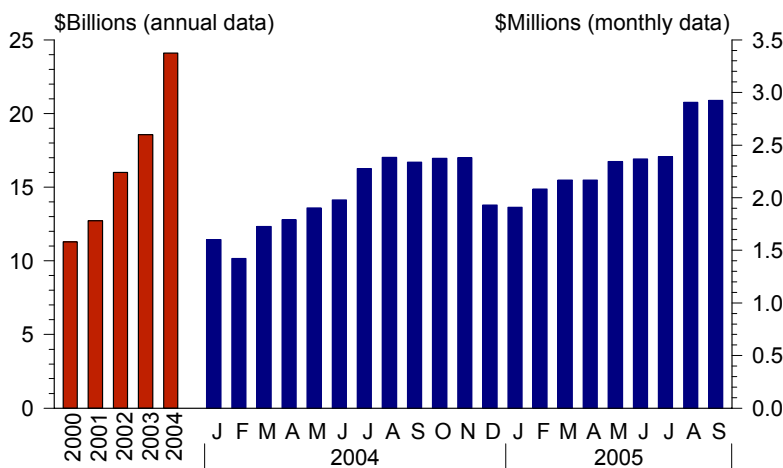


² All numbers quoted regarding bicycle or barbecue production, imports and market share are taken from the Canadian International Trade Tribunal Reports: *Global Safeguard Inquiry into the Importation of Bicycles and Finished Bicycle Frames* and *Market Disruption Safeguard Inquiry into Barbecues Originating in the People's Republic of China*.

suing the addition of new protectionist trade barriers, and calls for the United States to stop its protectionist ways with regard to softwood lumber and wheat would look hypocritical, at best.

Another danger in acceding to the demand for protectionist measures on bicycles and barbecues is that other industries could join the bandwagon and try to get protection for their products as well. In fact, furniture manufacturers have already filed a complaint with the Canadian International Trade Tribunal seeking a tariff of up to 60 percent on Chinese-made furniture. Considering the fact that imports from China into Canada have more than doubled in value since 2000 and continue to grow, it is likely that there will be further calls for protection from domestic industries that feel threatened, particularly those that are inefficient and will not be able to compete.

Canadian imports from China have more than doubled in value since 2000 and are still growing

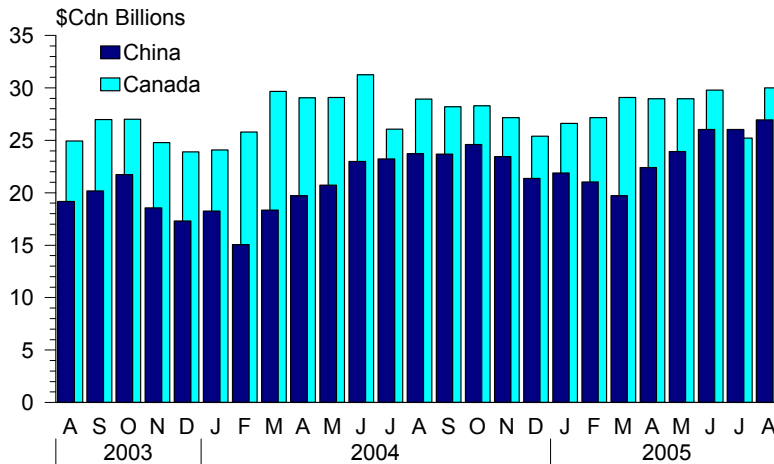


Source: Statistics Canada

Imports from China into Canada have been growing at a rapid pace, more than doubling in value since 2000

Canadian companies are not the only ones seeking protection from surging Chinese imports. Manufacturers in the United States are looking for government support as well, as imports of Chinese goods continue to flood into that country in record volumes. In fact, in July, for the first time ever, China surpassed Canada as the top source of imports into the United States over a monthly period. Although the distinction of being the primary source of imports to the US was short-lived, as Canada regained top spot in August, it is an indication of just how far China has come in a short time. Since 1995, the value of US imports from China has climbed by over 300%. By comparison, US imports from Canada have increased by “only” 68%. From this latter number, it does not appear that much of China’s growth in exports to the US came at the expense of Canadian exports. This is because the types of goods shipped from China are generally quite different than those shipped from Canada.

China briefly overtook Canada as the top source of imports to the United States in July

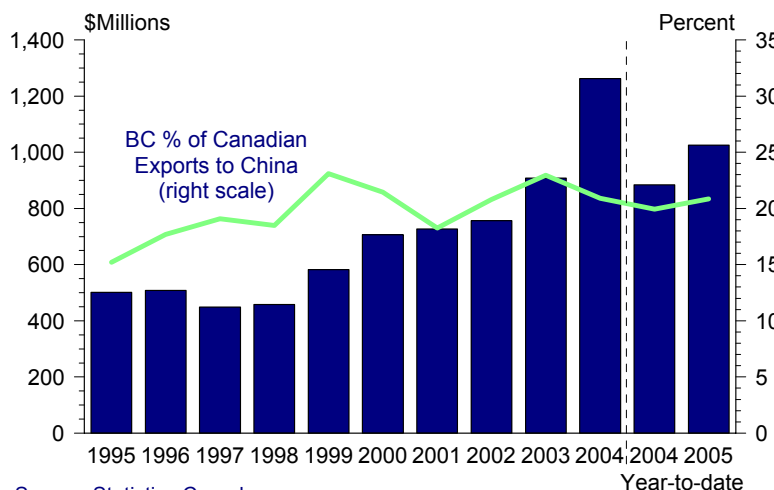


China surged ahead of Canada as a source of imports into the US in July before slipping back to second rank in August

Source: US Bureau of the Census, Industry Canada

In recent months, in response to the refusal of the United States to accept a binding decision by a panel under the North American Free Trade Agreement (NAFTA) regarding softwood lumber duties, the Canadian government has expressed interest in diversifying its export market and lessening its dependence on the United States. China is one of the countries that is usually cited as a desirable trade partner. While some of this talk may simply be a tactic to get the United States government to take Canada's grievances more seriously, it cannot be denied that China's enormous population offers great potential for exporters. This is particularly true for exporters in BC with this province's advantage of location, having the closest ports to China in North America. Given the vast market potential, it is not surprising that BC exports to China have undergone significant expansion, including growth of 39% between 2003 and 2004.

British Columbia has ramped up its exports to China



The value of BC exports to China jumped 39% between 2003 and 2004

Source: Statistics Canada

China was the third most significant destination for BC origin exports in 2004 with 4.1% of commodity shipments from BC headed to that country. While this is still well behind the US (65.0% of BC exports) and Japan (12.3%), it is a substantially higher percentage compared to just a decade earlier. In 1994, only 1.3% of BC's goods exports were shipped to China. British Columbia (20.9%) is second only to Alberta (30.1%) as a source for Canadian goods exports to China, well ahead of third-ranked Ontario (13.1%). The goods most often mentioned in relation to boosting trade with China are energy products and lumber, which are most prevalent in Alberta and BC respectively, likely ensuring that these two provinces will remain ranked at the top with respect to share of Canadian exports to China.

BC ranks second to Alberta as a source of Canadian exports to China

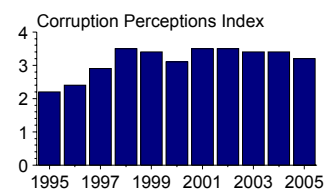
The promise of the massive Chinese market buying up BC's lumber products may be enough to make the mouths of BC's lumber manufacturers water, particularly when they are facing oppressive duties on shipments to the United States, but there are some obstacles that may stand in the way of this happening on a large scale. Although China has begun the process of changing their building codes to incorporate wood frame construction, there is still a bias toward building with concrete and bricks. Canadian companies are battling the perception that wood construction is flimsy and susceptible to fire. Unless the Chinese can be convinced that houses constructed of wood are structurally sound, those homes could be a tough sell. However, if wood housing catches on, China's population of over 1.3 billion would constitute a formidable market.

China offers a huge market for BC lumber products, but there are obstacles to overcome

The sheer magnitude of the Chinese market makes it a tempting target for exporters; however, one caveat that should be considered by any foreign-based company that wants to do business in China is the level of corruption prevalent in that country. For example, bribery and kickbacks are fairly commonplace in China and companies looking to get a foot in the door by following these corrupt practises could find themselves breaking the law in their own country. In the United States several companies have already been prosecuted for violating anti-bribery laws.

In its latest index of corruption, Transparency International ranked China 78th out of 159 countries surveyed, with a Corruption Perception Index score of 3.2 (where 10 indicates no corruption). This compares to a score of 8.4 for Canada, which has dropped from 9.2 in 2000 in the wake of the federal sponsorship scandal. The perception of corruption in China was actually improving through the late 1990s, with the index rising from 2.2 in 1995 to a high of 3.5 as recent as 2002, but in recent years the progress made in this area has been halted and the index has actually worsened.

After improving through the late 1990s, the perception of corruption in China has actually worsened in the last few years



Canadian companies that are eager to penetrate the massive Chinese market need to consider the risks of dealing in a market rife

with corruption. Another consideration for those that would like to see Canada turn away from trade with the US is the distance between Canada and China. China may look like a favourable market right now, but if the cost of energy continues to escalate, the price of transporting goods across that distance could price Canadian goods out of the Chinese market. This is not to say that Canada shouldn't pursue closer trade ties with China, for clearly it has the potential to be a lucrative market. Canadian companies just need to ensure they are aware of all the possible costs and risks involved.

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

05-09	<i>China's Growth Both an Opportunity and a Threat for Exporters</i> (released November 2005)	04-06	<i>Canada's Trade with Greece</i> (released August 2004)
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)
05-02	<i>American Protectionism: Backfiring on All Cylinders</i> (released April 2005)	03-11	<i>The Lows of High Tech Trade</i> (released January 2004)
05-01	<i>Commodity Prices, Exchange Rates and Exports</i> (released March 2005)	03-10	<i>Is Global Free Trade Possible?</i> (released December 2003)
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)

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.