

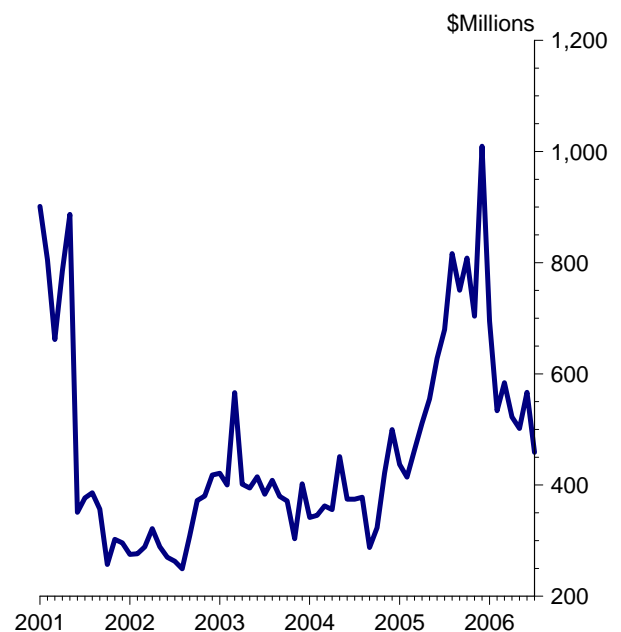
Exports ♦ July 2006

- BC origin exports climbed 4.5% in the January to July period of 2006 compared to the same seven-month period a year earlier.
- Metallic mineral product exports contributed significantly to the overall increase, jumping 29.2% in the first seven months of 2006 compared to the same period in 2005. Exports of copper ores and concentrates almost doubled (+97.7%), while shipments of unwrought aluminum (+17.3%) and zinc (+10.5%) also experienced healthy increases. Exports of molybdenum ores and concentrates bucked the trend, falling 31.6%.
- Shipments of machinery and equipment rose 10.0% in the January to July period, despite a 2.8% drop in exports of motor vehicles and parts.
- Exports of energy products fell significantly in July (-32.5%) compared to the same month a year earlier; however, year-to-date, shipments of energy products are still up 4.7%. With the exception of electricity (-34.0%), other energy goods have all expanded from last year's values. Coal exports have climbed 10.3%, while natural gas is up 2.7%. Prices are the main reason for the difference in export movement, as electricity prices have fallen significantly, while natural gas and coal prices have risen.
- Exports of solid wood products dropped 2.8%, driven mainly by a 4.1% slump in shipments of softwood lumber. Lower prices were the reason for

the drop in softwood lumber exports as quantities shipped actually increased 6.7%.

- Elsewhere in the forest sector, pulp and paper exports increased 2.5% as a significant 6.8% boost in shipments of pulp partially offset declines in other paper products.
- Exports to India have more than doubled year-to-date compared to last year (+110.7%). Japan (+22.0%) and South Korea (+22.8%) also have seen a significant increase in exports. Shipments to Canada's free trade partners, on the other hand, have dropped with shipments to Mexico falling 30.0% and exports to the United States down marginally (-0.3%).

Exports of energy products are well up over 2005 values, but as prices are falling, so too are the value of exports



SEASONALLY ADJUSTED EXPORTS

Exports (adjusted for seasonality) fell in July as shipments to overseas destinations slumped

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.

- Exports fell 6.1% in July, losing most of the ground gained in June, as shipments to overseas destinations plunged 12.8% after having climbed 19.2% a month earlier. Exports to the US were also down (-1.2%).
- With the exception of agriculture and fish products (+3.9%), all other major categories saw declines in exports. Energy products (-13.9%) took the biggest hit, mainly due to falling prices.



BC Exports, Seasonally Adjusted (\$Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Jul 2004	204	394	1,296	356	503	2,753	1,782
Aug	187	380	1,281	341	517	2,706	1,774
Sep	199	302	1,251	341	493	2,585	1,712
Oct	208	336	1,177	340	499	2,560	1,656
Nov	195	425	1,120	339	486	2,564	1,671
Dec	183	431	1,109	325	505	2,554	1,651
Jan 2005	188	445	1,112	334	554	2,633	1,656
Feb	182	444	1,174	339	527	2,665	1,757
Mar	177	463	1,117	333	501	2,592	1,733
Apr	184	521	1,116	358	515	2,694	1,776
May	185	563	1,138	357	536	2,777	1,752
Jun	209	616	1,114	359	551	2,849	1,797
Jul	171	707	1,009	362	484	2,733	1,831
Aug	198	811	1,064	364	537	2,974	1,862
Sep	193	794	1,034	364	561	2,947	1,842
Oct	196	839	1,126	375	486	3,021	2,018
Nov	202	708	1,114	376	566	2,966	2,007
Dec	196	866	1,180	389	581	3,212	2,046
Jan 2006	193	703	1,175	365	537	2,974	1,970
Feb	190	580	1,116	374	546	2,806	1,769
Mar	191	573	1,117	433	585	2,898	1,791
Apr	182	537	1,078	364	544	2,704	1,695
May	190	510	1,073	342	588	2,703	1,667
Jun	183	552	1,106	371	707	2,919	1,684
Jul	190	475	1,044	344	687	2,740	1,663

Has Doha Gone the Way of the Dodo?

The Doha round of the World Trade Organization's (WTO) global trade talks may have reached its end without an agreement, much to the dismay of advocates of free trade. Although there is a sliver of hope that the talks will be resumed at some point, the deep divide that exists between member nations may be impossible to bridge. India's Minister of Trade and Industry, Kamal Nath, described the status of the Doha round as being "...somewhere between intensive care and the crematorium."¹

The Doha round of the WTO trade talks may be dead

Adding to the difficulty of talks being reopened is the impending expiration of the Bush administration's trade promotion authority (TPA). Under the TPA, Congress has only the options of accepting or rejecting an international trade deal. Without the TPA, Congress could try to amend the deal, removing clauses that it deems disadvantageous to the United States, which would likely raise objections from the other parties to the agreement and kill the deal. The current TPA expires in mid-2007.

The biggest stumbling block to an agreement is the issue of protectionism in the agricultural sector. Developing nations want to see developed countries, particularly the European Union (EU) and the United States, remove barriers such as tariffs and subsidies. At the same time, the developed nations want to see an easing of restrictions in the developing nations on services and industrial goods. There was some significant movement toward settling the disagreements over agriculture when, in the session of talks in Hong Kong in December 2005, it was conditionally agreed to eliminate subsidies by 2013. However, loopholes in the agreement could not be closed to the satisfaction of all members and negotiations fell apart in July, leaving nations pointing the finger at each other as to whom is to blame.

Agricultural subsidies are the main stumbling block in negotiations

The United States and the EU are the recipients of most of the criticism surrounding agricultural subsidies and tariffs, even from each other. In assigning blame for the collapse of the WTO talks, the US pointed to the EU for its unwillingness to make larger reductions in import tariffs on farm products, while the EU accused the US of not going far enough in cuts to agricultural subsidies. Based on data from the WTO, both the US and the EU are guilty of offering a significant amount of trade-distorting subsidies to their agricultural sectors, but it is the EU that is by far the worst offender, at least based on data from 1999.²

The European Union and the United States offer the largest agricultural subsidies

Although the United States gave over \$US 74 billion in support to its agricultural sector in 1999, the majority of these subsidies were

¹ Quoted in: Chase, Steven, "WTO talks collapse after 5 years," *The Globe and Mail*, July 25, 2006.

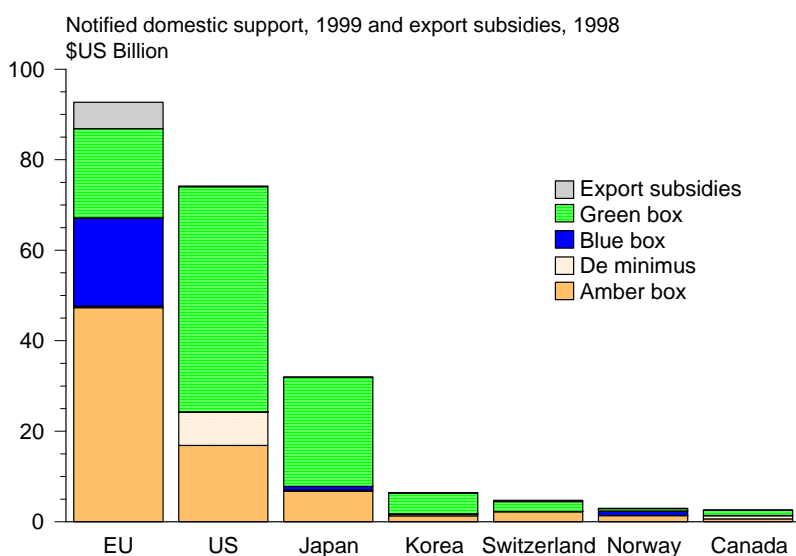
² Data extracted from: World Trade Organization, *WTO Agriculture Negotiations: The Issues, and Where We Are Now*, December 1, 2004.

non trade-distorting, or classified as “green box” subsidies in the WTO nomenclature. These subsidies are usually not targeted at specific products, but rather provide direct support to farmers that is not contingent on production levels or prices. These types of subsidies are allowed without limits under WTO agreements.

The majority of subsidies offered by the EU, on the other hand, are of the “amber box” or “blue box” varieties. Amber box supports are trade-distorting and include measures directly related to volume of production as well as price-supporting instruments. Amber box supports are subject to limits under WTO agreements with *de minimis* supports allowed of 5% of agricultural production for developed countries and 10% for developing countries. Blue box supports are those that would normally be in the amber box, except they are subject to limits and therefore distort trade only minimally. In 1999, the EU offered over \$US 67 billion in trade-distorting support to its agricultural sector, compared to \$US 24 billion in trade-distorting supports offered by the United States.

The subsidies offered by the EU are mainly the trade-distorting type

The European Union spent by far the most on trade-distorting support for domestic agriculture in 1999



Source: World Trade Organization

Canada is not completely innocent of offering trade-distorting supports to its farmers, although they pale in comparison to those of the EU and the US. Nevertheless, Canada has garnered some criticism for continuing to defend its supply-managed system for eggs, dairy and poultry products. Canada’s credibility at global trade talks has been strained as it lobbies for reductions in agricultural tariffs and subsidies at the same time it insists on maintaining marketing boards that dictate prices and supply, which, in effect, results in tariffs and subsidies for those goods. For example, Canadian import tariffs on supply-managed goods over quota restrictions range from around 150% to almost 300%.

Categories of domestic support:

Green box: Non trade-distorting supports

Blue box: Minimally trade-distorting supports — linked to production, but subject to limits

Amber box: Trade-distorting supports

De minimis: an allowable minimal amount of amber box type supports

Export subsidy: a benefit that is contingent on exports, which is given to a firm by the government

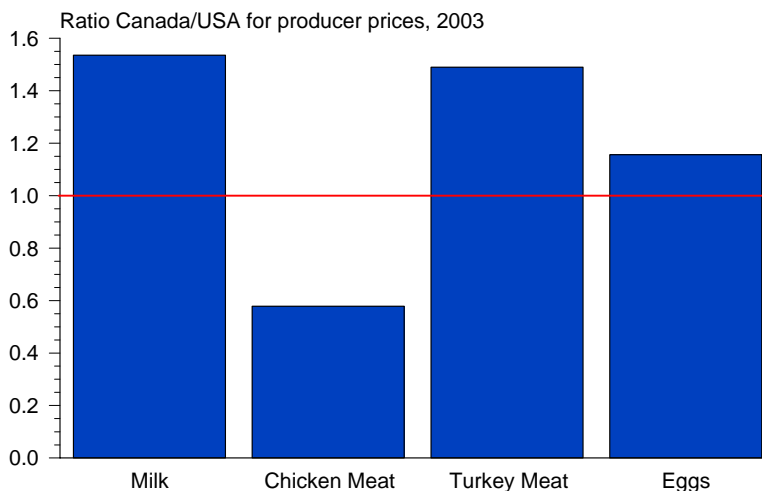
Proponents of supply-management argue that the system ensures that farmers get a stable income while Canadian consumers have access to a safe supply of food at reasonable prices. However, opponents of marketing boards see far more cons than pros to supply-management and take issue as to whether the system actually ensures “reasonable” prices. A report from the C.D. Howe Institute suggests that:

“Maintaining the status quo for these two farm sectors [dairy and poultry] is unfair to consumers, who are condemned to higher prices and limited choices; unfair to other farmers, whose chances at better access to foreign markets are sacrificed in order to protect dairy and poultry farmers; unfair to food processors, whose access to quality inputs is limited to what local suppliers will produce at regulated prices, and even unfair to efficient dairy and poultry farmers, whose opportunities to expand and become more productive are hemmed in by the system’s constraints.”³

Canada’s current supply-management system is “unfair to consumers...unfair to other farmers...unfair to food processors...and even unfair to efficient dairy and poultry farmers” according to the C.D. Howe Institute

In terms of prices, data from the Food and Agriculture Organization of the United Nations (FAO) show that Canadian producers of supply-managed commodities tend to get a far higher price for their goods compared to farmers in the United States. Producer prices for milk and turkey meat, in particular, were substantially higher in Canada, although chicken meat was priced significantly lower compared to the US.

With the exception of chicken, Canadian producers of supply-managed commodities get far higher prices for their goods compared to American producers



Source: Food and Agriculture Organization of the United Nations

Canadian producers of supply-managed goods generally get higher prices for them...

³ Hart, Michael, *Great Wine, Better Cheese: How Canada Can Escape the Trap of Agricultural Supply Management*, C.D. Howe Institute Background no. 90, April 2005.

According to the FAO data, Canada is far from having the highest producer prices for these goods,⁴ but considering that farming conditions are similar between Canada and the US and availability of the products is also similar, one would expect prices to be reasonably close as well.

To see that the differential price received by producers has an effect on retail prices, note that prices for whole milk in July 2006 were substantially higher in Canada compared to the United States. While Canadians paid, on average, \$1.86 per litre, Americans paid only \$1.01 per litre.⁵ Even in New Orleans, which had the highest price among the cities surveyed, the price was only about \$1.31 per litre.

...and retail prices are higher too

Canada's marketing boards are not only undergoing attack from institutions such as the C.D. Howe Institute, but also from farmers feeling unduly restrained by the system. Organic farmers, in particular, have fought the marketing boards' jurisdiction, arguing that the cost of getting quota from the marketing board makes it possible for only large-scale farms to operate, whereas organic farms are almost always small-scale operations and therefore can't make a profit if they have to pay for quota.

Despite the higher prices and fewer choices for consumers, and the barriers to entry for some farmers, the Canadian government continues to wholeheartedly support Canada's marketing boards. By taking a hard line in defence of its supply-management system, Canada may find it more difficult to get concessions in lowering tariffs and reducing subsidies for other goods, such as grains and beef, which are causing harm to Canadian exporters.

As long as Canada and other nations refuse to bend on agricultural issues, it is unlikely that the WTO trade talks will yield any positive results and the Doha round will almost certainly end in failure. The stakes for Canada are large, particularly since it has placed all its eggs (the figurative ones, not the supply-managed ones) in one basket, pursuing a global trade agreement rather than concluding bilateral deals. Canada may now have to shift its emphasis to smaller deals to avoid falling further behind its competitors such as the United States, which has signed several free trade agreements in the last couple of years with nations such as Australia, Chile and Singapore, while Canada has not concluded an agreement in five years. While a global agreement may be the preferred option, Canada may have to settle for something less.

Canada may have to settle for pursuing bilateral or regional agreements if Doha is not resurrected

⁴ For example, and somewhat ironically, the highest producer prices for turkey meat were in Turkey at four times the Canadian price.

⁵ Canadian data is from Statistics Canada (*The Consumer Price Index, July 2006*, catalogue no. 62-001). American data is from the US Department of Agriculture. US data was converted from US gallons to litres and from US dollars to Canadian dollars. The American data is an average for selected cities from across the country.

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

06-07	<i>Has Doha Gone the Way of the Dodo?</i> (released September 2006)	05-04	<i>South Korea Seeks Trade Deal with Canada</i> (released June 2005)
06-06	<i>Will BC Miss the Boat on Port Expansion?</i> (released August 2006)	05-03	<i>Any BC Port in a Trade Storm</i> (released May 2005)
06-05	<i>Breaking the Interprovincial Trade Barrier</i> (released July 2006)	05-02	<i>American Protectionism: Backfiring on All Cylinders</i> (released April 2005)
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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)

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 BC 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 BC, Canada, the United States and other countries. Tabulations can include information on commodities, countries, US states, years, months, mode of transport, etc.