

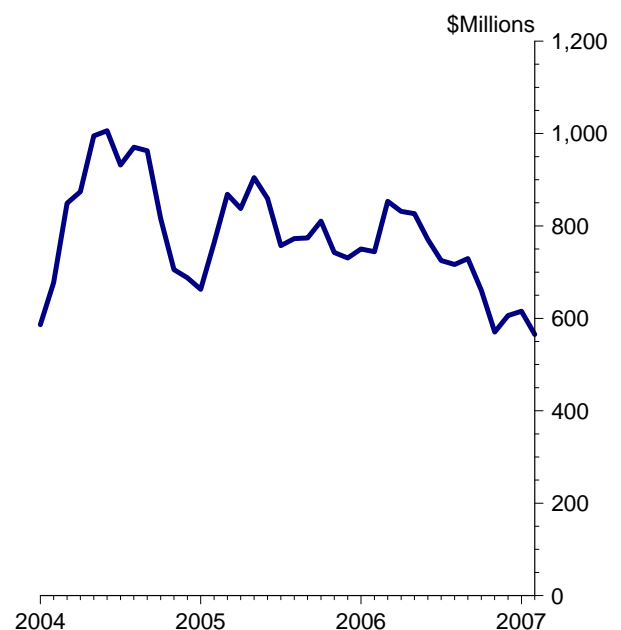
## Exports ♦ February 2007

- The value of commodity exports from BC fell 7.1% in the first two months of 2007 compared to the same period last year. Energy and solid wood products continue to be the main drag on overall BC exports.
- Exports of energy products plunged 20.9% despite the value of electricity exports almost tripling (+185.7%). Falling shipments of natural gas (-26.2%) and coal (-23.9%) drove down overall energy exports. A drop in prices for these goods was part of the reason for the slump in the value of exports.
- International shipments of solid wood products slumped 21.0% as dwindling demand, mainly as a result of a significant dip in housing starts in the United States, helped drive down exports of softwood lumber 22.1%. Most other solid wood products experienced a decline in exports as well with the notable exception of cedar shakes and shingles (+5.9%).
- Elsewhere in the forest sector, pulp and paper exports climbed 11.7% driven by a 22.0% rise in shipments of pulp. However, exports of newsprint (-10.1%) and other paper and paperboard (-1.3%) fell.
- Exports of machinery and equipment climbed 8.4%, despite an 11.6% drop in the value of shipments of electronic and communications goods. There was strong growth in exports of scientific, photographic and measuring equipment (+15.4%) and other machinery and equipment (+15.2%), while motor

vehicles and parts also experienced reasonably robust growth in exports (+5.4%).

- Shipments of metallic mineral products rose 3.2% despite significant declines in exports of copper (-14.8%) and molybdenum (-20.0%) ores and concentrates. A surge in exports of unwrought zinc (+88.1%) and strong growth in shipments of unwrought aluminum (+11.1%) drove overall metallic mineral export growth.
- Exports were down to most key destinations, including a 10.1% drop in shipments to the United States, a 34.6% plunge in exports to the United Kingdom and a 5.3% dip in shipments to Mainland China. BC exports to the Pacific Rim fell 3.0%.

*Exports of solid wood products are trending down*

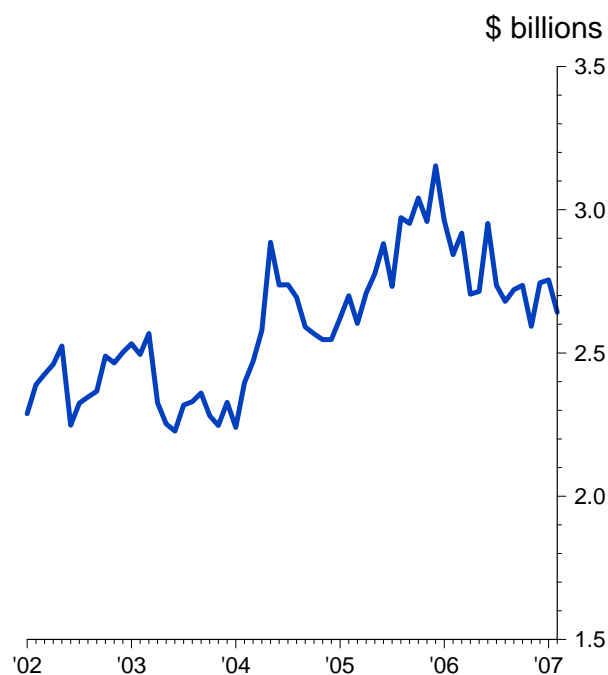


## SEASONALLY ADJUSTED EXPORTS

*Exports (adjusted for seasonality)  
declined 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.

- A 14.1% slump in exports of industrial and consumer products drove overall exports down 4.1% in February. It was the second straight month that there was a substantial decline in shipments of these products.
- Exports to the US fell 1.2% mostly due to an 11.2% reduction in forest product shipments. Industrial and consumer product exports to the US slipped 2.0%, while all other major commodity groups saw an increase, including an 18.9% jump in energy exports.



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

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Feb 2005	181	440	1,201	338	541	2,700	1,771
Mar	177	474	1,124	335	493	2,603	1,743
Apr	185	534	1,118	357	513	2,709	1,785
May	186	571	1,144	358	518	2,777	1,758
Jun	213	626	1,116	363	562	2,882	1,809
Jul	174	716	1,006	364	470	2,732	1,829
Aug	201	788	1,057	369	557	2,972	1,835
Sep	189	786	1,041	359	577	2,952	1,829
Oct	194	846	1,142	371	487	3,041	2,034
Nov	203	669	1,132	377	577	2,959	1,982
Dec	192	832	1,181	386	561	3,153	2,011
Jan 2006	190	710	1,161	364	537	2,962	1,959
Feb	189	574	1,148	371	561	2,843	1,789
Mar	191	589	1,121	431	585	2,918	1,808
Apr	183	547	1,084	363	527	2,705	1,709
May	191	522	1,078	342	582	2,715	1,683
Jun	186	552	1,110	371	732	2,952	1,691
Jul	193	480	1,050	346	667	2,736	1,667
Aug	195	492	1,071	338	584	2,680	1,645
Sep	209	490	1,036	380	606	2,721	1,616
Oct	202	448	1,017	390	678	2,736	1,591
Nov	196	430	995	356	615	2,593	1,567
Dec	214	456	1,022	370	683	2,745	1,634
Jan 2007	216	479	1,080	361	619	2,755	1,696
Feb	212	551	978	369	531	2,642	1,675

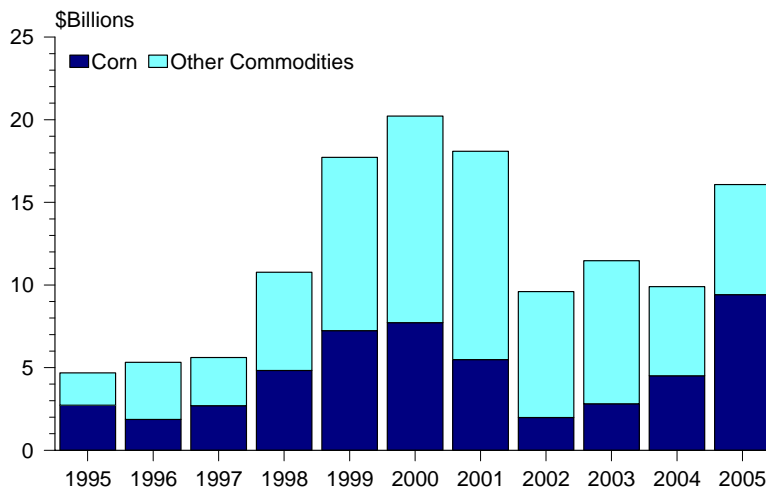
## Canada-USA Corn Row

Although the trade relationship between Canada and the United States represents the largest two-way flow of goods and services in the world, there have been some disagreements along the way. Most Canadians are familiar with the dispute over softwood lumber, but there have been other trade spats as well. The latest dispute centres around American agricultural subsidies, particularly for corn. Canada has brought a complaint before the World Trade Organization (WTO) challenging government subsidies to American corn growers as well as total trade-distorting aid to farmers.

*Canada is challenging US corn subsidies*

In 2005, the United States government doled out over \$16 billion in commodity subsidies to American farmers, of which over \$9 billion (59%) was for corn.<sup>1</sup> From 1995 through 2005, the total amount of funds transferred from the US government to farmers in the form of commodity subsidies was \$129.5 billion. Corn subsidies comprised 40%, or \$51.3 billion of this total. The US Department of Agriculture also offered an additional \$35.2 billion in conservation and disaster subsidies to American farmers over that period.

### The United States pays out billions of dollars in commodity subsidies to farmers



Data source: Environmental Working Group

*The United States gives billions of dollars in commodity subsidies to its farmers*

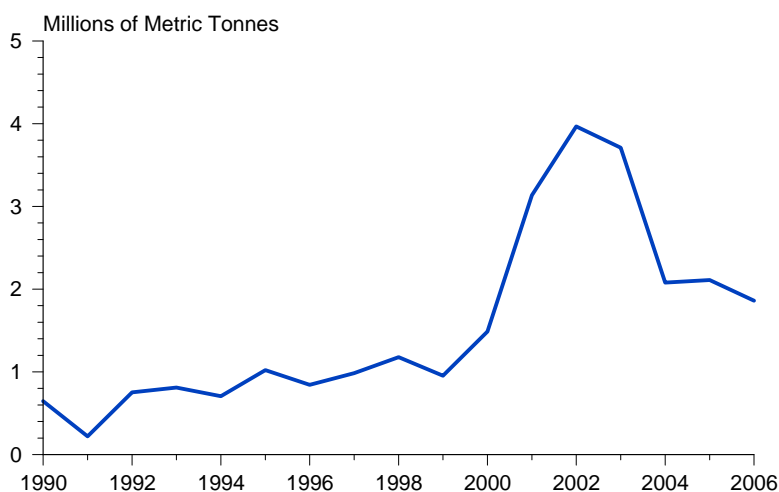
The Canadian government alleges that these massive subsidies create unfair market advantages for American farmers and distort trading practises as a result. This is not the first time that Canada has brought forward a complaint over subsidized corn from the United States. In fact, it was only a year ago that the Canadian In-

<sup>1</sup> This data is from the *Farm Subsidy Database* produced by the *Environmental Working Group*, which is a public research and advocacy organization in the United States.

ternational Trade Tribunal (CITT) determined that imports of corn from the US caused no injury to Canadian corn producers.

Canadian corn growers had previously launched a complaint against imports of corn from the United States prompting both the Canadian Border Services Agency (CBSA) and the CITT to investigate. The genesis of the complaint was a substantial increase in imports of grain corn from the United States with volumes more than doubling between 2000 and 2001. Although they have come down somewhat in the last few years, corn imports are still well above the levels experienced in the 1990s.

### Canadian imports of grain corn popped earlier in the decade and are still well above levels seen in the 1990s



Data source: Statistics Canada

*There was a substantial jump in imports of corn in 2001*

In November, 2005, the CITT determined that there was evidence that the dumping and subsidizing of unprocessed grain corn was causing injury to Canada's corn producing industry. A month later the CBSA gave a preliminary determination of dumping and subsidizing of grain corn from the United States. As a result of these preliminary determinations, provisional anti-dumping and countervailing duties were imposed on imports of American corn. In March, 2006, the CBSA finalized its determination that US corn was subsidized and was being dumped in the Canadian market; however, a month later the CITT reversed its earlier decision and announced a finding of no injury, resulting in duties being removed.

*Just a year ago, the Canadian International Trade Tribunal found that imports of corn from the US did not cause injury to Canadian corn producers*

Despite that finding, the Canadian government has decided to pursue the issue by initiating a dispute settlement case with the WTO, alleging that US subsidies have harmed Canadian corn producers in the form of "serious prejudice" in violation of the WTO's *Agreement on Subsidies and Countervailing Measures*, and that US export credit guarantees constitute an illegal export subsidy. The scope of the challenge goes beyond just corn to include

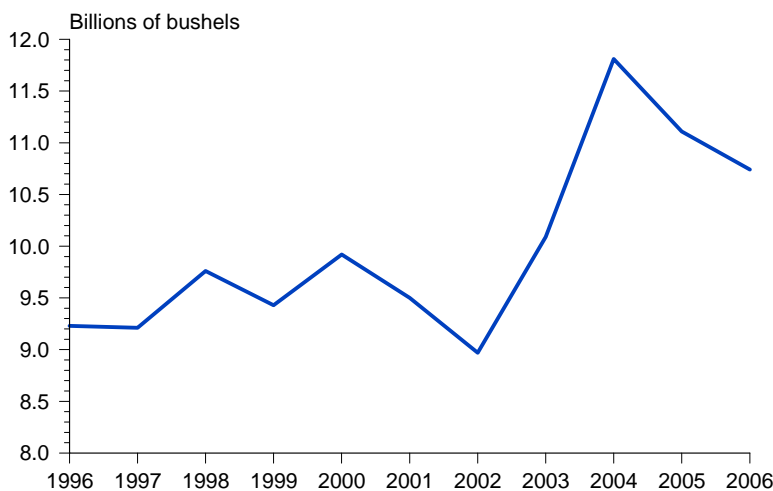
all trade-distorting subsidies offered by the US government to its farmers.

The United States has expressed surprise over Canada's challenge given the CITT finding of no injury in the earlier complaint by Canada's corn growers and also given the fact that the price of corn has risen dramatically in the last year. There have been objections within Canada as well, as users of corn such as cattle ranchers and hog farmers (who both use corn for feed) are concerned that this action will cause already high corn prices to inflate further, thereby raising their costs of production.

A recent WTO decision in favour of Brazil in a complaint involving American cotton subsidies may be one of the reasons why Canada has chosen to proceed with this challenge at this time, but perhaps the biggest reason is that the United States is scheduled to review and amend its Farm Bill this year. A WTO complaint could influence the US Congress and ensure the Farm Bill does not expand the subsidies it provides to American farmers, which are already valued at billions of dollars. Agricultural subsidies represented one of the major stumbling blocks in both the Doha round of the WTO free trade negotiations as well as the talks to achieve a Free Trade Area of the Americas and an enriched Farm Bill would push the likelihood of ever coming to an agreement on either of these free trade deals even further away. The global significance of this issue can be seen by the fact that several other countries have joined Canada in the WTO challenge. Argentina, Australia, Brazil, the European Communities, Guatemala, Nicaragua, Thailand and Uruguay have all requested to join the consultations, while Mexico has indicated that if the WTO orders a formal investigation, it too will join the complaint.

*The forthcoming review of the US Farm Bill may be the reason for Canada's current challenge of American corn subsidies*

### American corn production has jumped significantly in the last few years



Data source: USDA

*There has been a large jump in corn production in the United States in the last few years*

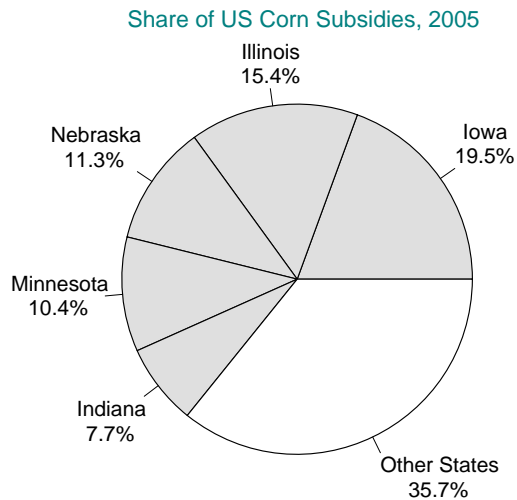
The massive subsidies distributed to corn farmers in the US may be one of the reasons for the recent spike in American corn production, but spiralling demand likely plays an even larger role. The main driver of rising demand for corn is the push toward ethanol as an alternative fuel. With the health of the environment increasingly becoming a political issue, there has been a movement away from traditional petroleum-based fuels and toward biofuels, such as ethanol. The United States government has targeted a 20% reduction in the use of gasoline in the next ten years through greater use of alternative fuels in order to lessen American dependence on foreign oil and reduce greenhouse gas emissions.

The problem with pushing ethanol as an “enviro-friendly” fuel is that the opposite may be true, particularly in the case of corn-based ethanol, which is the most prevalent form of ethanol in North America. There are conflicting studies on the efficiency of ethanol with some claiming that it takes as much or more energy to produce ethanol as is then available in the ethanol fuel. Even in those studies where a positive energy balance was found, the net gain was only about 30% (i.e., 1.3 units of energy produced for every unit expended). However, the more serious issue with ethanol is the trade-off between fuel and food. The higher demand for corn for use in ethanol is pushing up prices, which makes not only corn more expensive to consumers, but also food products that have corn as an ingredient or are corn fed. In addition, higher prices are making corn a more attractive produce to grow, which is causing farmers to switch from products such as cotton and soy beans toward corn. This will affect the supply of these other goods, which will in turn drive up their prices. There is already growing concern around the world that the increasing use of biofuels could lead to food shortages and serious price inflation.

Despite these concerns, it is unlikely that America’s love affair with ethanol will end any time soon. Corn growers have a great deal of political clout in the United States, which is why corn is the most highly subsidized commodity in the country. It is particularly important for states in the Midwest. While all 48 Continental states receive government subsidies for corn, almost two-thirds of the money is distributed to just five states, with Iowa (20%) and Illinois (15%) leading the way. It is not likely that there will be the political will in the US to take on the issue of agricultural subsidies unless there are serious consequences to allowing them to remain in place. A WTO challenge such as the one Canada has initiated could at least be the beginning of a change in policy that could have dramatic effects worldwide.

*The use of corn in producing ethanol could potentially lead to food shortages and higher food prices*

Although all 48 Continental states receive corn subsidies, the majority is allocated to the top five states



Source: Environmental Working Group

Somewhat ironically, the fight against corn subsidies may not prove to be much help to Canadian corn producers given the soaring demand for corn and the subsequent rising prices. The higher the price for corn, the less American farmers receive in subsidies, so a cut to agricultural subsidies may not even affect corn growers as long as ethanol is seen as a desirable fuel alternative. In fact, if corn production replaces other crops, rising prices elsewhere due to shortages could reduce American subsidies automatically for most commodities. However, the removal, or at least reduction, of agricultural subsidies could eliminate one of the roadblocks toward developing an improved global free trade agreement, which will benefit all countries. Although not a significant corn producer, as a province dependent on international trade, BC has a big stake in how Canada's corn challenge plays out.

*Most corn subsidies are allocated to just a handful of states*

*The removal of subsidies for corn may not prove to be much help to Canadian corn growers if prices remain high*

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

<b>07-02</b>	<i>Canada-USA Corn Row</i> (released April 2007)	<b>05-11</b>	<i>Pulp Friction: Challenging Times for BC's Pulp Industry</i> (released January 2006)
<b>07-01</b>	<i>Is the Sun Rising on Trade With Japan?</i> (released March 2007)	<b>05-10</b>	<i>Japan Aims for Free Trade with Canada</i> (released December 2005)
<b>06-12</b>	<i>Year in Review: 2006</i> (released February 2007)	<b>05-09</b>	<i>China's Growth Both an Opportunity and a Threat for Exporters</i> (released November 2005)
<b>06-11</b>	<i>Brazil-Canada Trade Getting Over Jet Lag</i> (released January 2007)	<b>05-08</b>	<i>Booming Energy Sector May Give Rise to "Dutch Disease" for Other Exporters</i> (released October 2005)
<b>06-10</b>	<i>Plan B: An APEC Free Trade Region?</i> (released December 2006)	<b>05-07</b>	<i>Laying on the Lumber</i> (released September 2005)
<b>06-09</b>	<i>Success of BC's Mining Industry Helps Boost Exports</i> (released November 2006)	<b>05-06</b>	<i>Removal of Textile Quotas Tailor-Made for Protectionist Fervour</i> (released August 2005)
<b>06-08</b>	<i>Provincial Export Profile</i> (released October 2006)	<b>05-05</b>	<i>Comparative Trade Numbers Don't Add Up</i> (released July 2005)
<b>06-07</b>	<i>Has Doha Gone the Way of the Dodo?</i> (released September 2006)	<b>05-04</b>	<i>South Korea Seeks Trade Deal with Canada</i> (released June 2005)
<b>06-06</b>	<i>Will BC Miss the Boat on Port Expansion?</i> (released August 2006)	<b>05-03</b>	<i>Any BC Port in a Trade Storm</i> (released May 2005)
<b>06-05</b>	<i>Breaking the Interprovincial Trade Barrier</i> (released July 2006)	<b>05-02</b>	<i>American Protectionism: Backfiring on All Cylinders</i> (released April 2005)
<b>06-04</b>	<i>Deal or No Deal for Softwood Lumber?</i> (released June 2006)	<b>05-01</b>	<i>Commodity Prices, Exchange Rates and Exports</i> (released March 2005)
<b>06-03</b>	<i>Will Canada-India Trade Spice Up?</i> (released May 2006)	<b>04-12</b>	<i>The Internet Pharmacy Debate</i> (released February 2005)
<b>06-02</b>	<i>Log Exports Becoming More of a Private Affair</i> (released April 2006)	<b>04-11</b>	<i>Canada's Trade With China</i> (released January 2005)
<b>06-01</b>	<i>BC Exports: 2005 in Review</i> (released March 2006)	<b>04-10</b>	<i>Legitimate Border Threat or Reefer Madness?</i> (released December 2004)
<b>05-12</b>	<i>Electricity Puts a Charge into BC Exports</i> (released February 2006)	<b>04-09</b>	<i>Canada is Hoping Trade with Brazil will Take Off</i> (released November 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 January 1, 2007: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg,

Malta, Netherlands, Poland, Portugal, Romania, 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.

## NOTICE:

With this issue of *Exports*, the tables have undergone some changes. In recent years, the “other” categories in the commodity aggregations that are reported in this publication have been expanding. In order to provide more detail on what goods are involved, the commodity groups for which data was previously reported have been expanded to include the following categories:

- Fabricated metal products
- Chemicals and chemical products
- Textiles

As a result, the definitions of the “machinery and equipment” and “all other commodities” groups have been changed, such that data published previously will not match that published from here on. The data has been aggregated into the new definitions for previous years as well so that the time series is consistent throughout.

In addition to the new major commodity groups, there are two further breakouts of “other” categories. “Logs” have been split out from “Other wood products” and “Scientific, photographic, measuring equipment, etc.” has been split out from “Other machinery and equipment.” The latter category includes chapters 90 through 92 of the harmonized system classification manual.

Also starting with this issue, the European Union has been revised to incorporate the two newest members, Bulgaria and Romania. The new definition has been incorporated into historical data as well such that the data for the EU represents the 27-member body throughout the time series.