Feature:
Europe Imports Less From British Columbia, Finds Resources Closer to Home

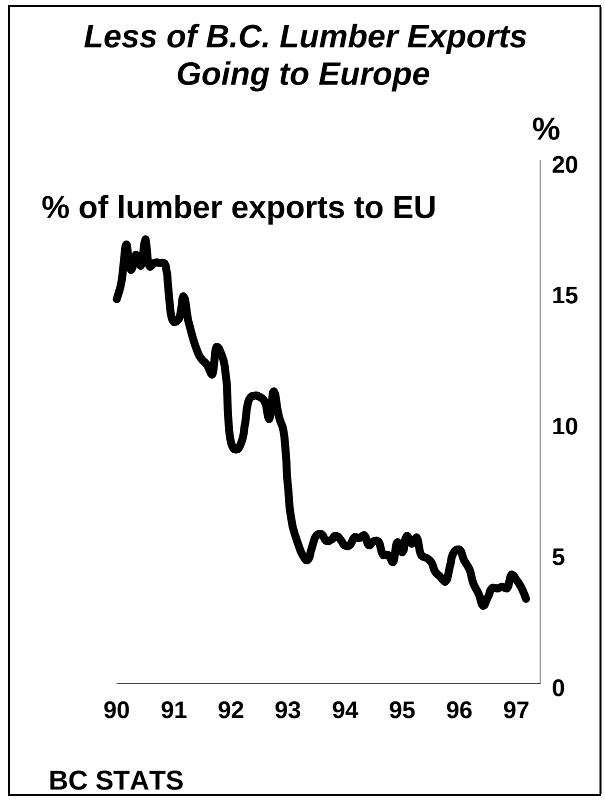
British Columbia exports to the European Union (EU) have been falling in the 1990's. The European bound portion of British Columbia exports fell by half, from 16 per cent in 1990 to 8 per cent in 1996.

The result has been to place Europe well behind the United States, Japan, and the rest of Asia (taken together) as a destination for British Columbia exports. In 1996, exports to the EU amounted to only a third of what was shipped to Japan, and about 70% of what was shipped to the rest of Pacific Rim.

Much of this has been brought about by a prolonged economic slowdown that has dampened European demand for all imports. But there have been other factors as well. Expansion of the EU to include new member countries brought greater reserves of forestry, mineral and fish products within the trading block. The break up of the former Soviet Block added new external sources for resource products – close at hand and with immense capacity to expand.

As a result, European imports of forestry products, ores and fish from British Columbia have shrunken more than imports from other sources, as the province's exporters have encountered increasingly stiff competition in Europe.

A recent initiative by the federal government may lead to some improvement in British Columbia's competitive position. In December of last year, the federal government signed *the Canada-EU Political Declaration and Action Plan*. It is hoped that this will foster increased trade by reducing or eliminating tariff and non-tariff barriers. It may eventually assist the province to regain at least some of its lost European market share for its traditional forest, mineral and fishery exports.



Market Share Losses for Forest Products, Metallic Minerals and Fish

During the early 1990's, British Columbia exporters of lumber products lost much EU market share to Sweden, Finland and Austria. All three joined the trading block in 1995, winning guarantees of unencumbered access for their forest and mineral products. By gaining admission to the market block they secured market shares already won prior to 1995.

Combined Swedish, Finnish and Austrian shares of total lumber imports by EU countries (including imports both from EU member states and from non-members) increased from 50 per cent to 57 per cent, during the first half of the 1990's.

The admission to the EU of new member states has not been the only development enhancing its forest resources. Cultivated timber supplies have become available in countries that are long time members of the trade block.

John Powles, Vice President of Markets and Trade with the Council of Forest Industries in Vancouver says, 'Massive tree planting programmes after the Second World War in Germany, Ireland, France and elsewhere in Europe produced cultivated forests that are now being harvested.'

Mr. Powles notes that, 'France has now become the largest producer of douglas fir outside North America, and Ireland the largest producer of sitka spruce outside North America.' He adds that the unification of Germany further increased EU timber resources, lifting German softwood reserves above those of Sweden, previously the largest in western Europe.

Increased domestic production and the inclusion of more lumber producing countries have made the EU considerably less reliant on world lumber markets than it once was. Mr. Powles estimates that the EU had become about 36 per cent self-sufficient in softwood lumber consumption in 1996, up from 16 per cent in 1986.

For that portion of its lumber needs imported from outside the trading block, the EU has been finding new sources in Eastern Europe. By the mid-1990's, EU lumber imports from non-member states originated mainly from Russia and other countries of the former Soviet block. These relatively new suppliers to open world markets accounted for about 58 per cent of EU imports from outside sources in 1995, up from 46 per cent in 1990.

As they gained market share, British Columbia lost. Its share of EU lumber imports from non-member states fell from 22 per cent in 1990 to 14 per cent in 1996. The drop was accelerated by a 1994 European restriction on green lumber imports from the province. The ban was based on EU fears that imports of green lumber (as opposed to kiln dried) would risk infection of their own forests with the pinewood nematode, already present in British Columbia.

Similarly for pulp, British Columbia exporters have lost EU market share to producers in other parts of the world. The British Columbia share of EU pulp imports from outside the Union fell from 24 per cent to 21 per cent between 1990 and 1996.

Producers gaining share fastest were those in South America and other Canadian provinces. The combined share of Chile and Brazil grew from 8 per cent to 15 per cent, while Eastern Canadian producers increased their share from 12 per cent to 16 per cent.

The likelihood is that competition from overseas producers will continue to increase.

'South American producers have great potential to further develop their eucalyptus wood pulp production,' says Mr. Ross Hay-Roe, forest industry analyst with Equity Research Associates in Vancouver.

He also credits Indonesia and Russia with great potential. ‘Indonesia has been growing very fast as a source of pulp for European buyers,’ he says, commenting that it has so far been selling mainly market pulp, but has plans to build paper mills. He notes that Russia has tremendous pulp resources but relatively little present production.

‘Russia has the forest resources and even the installed mill capacity,’ he says, ‘but has not been producing at anywhere near the volume it could because of infrastructure problems and difficulties associated with them’. Some Russia mills have been producing at perhaps 60% of their potential output.’

In addition to competition from these newly emerging pulp producers, British Columbia producers and mills in other Canadian provinces have had to contend with stiffer competition from within the EU itself.

Almost half (47%) of all pulp imported by individual EU member states in 1995 came from within the block. Much originated with relatively recent member states. Sweden, Finland and Austria, which joined the Union in 1995, together provided 21 per cent. Spain and Portugal, which joined in 1986, provided another 10 per cent.

The most recent entries to the EU may be benefiting from some recent corporate shuffling. Mr. Hay-Roe observes that, ‘Sweden and Finland may have improved their shares (of the EU pulp market) partly through corporate consolidation. Nordic companies have been buying up some of their continental competitors; in effect, purchasing their own markets through vertical integration.’

The EU has been less able to satisfy its needs for metal ores from its own member states. Eighty per cent of ore imports by EU countries came from outside the trading block in 1995.

Metal ores imported by the EU are brought increasingly from South America, Eastern Europe and the United States. British Columbia and eastern Canadian producers both lost ground to competitors in these regions over the 1990’s.

British Columbia exports of copper ore to the EU fell from $84 million in 1990 to $61 million in 1995. There were no exports at all reported either in 1996 or for the first quarter of 1997. Exports of molybdenum ore to the EU fell from $35 million in 1990 to $11 million in 1996.

For fish products, the story was much the same. Exports of fish products from British Columbia fell off sharply in the first half of the 1990’s, declining from $165 million in 1990, to $90 million in 1996. Among other causes, the decline was attributable to rising competition from fish farms in Europe, Chile, and eastern Canada.

Coal Exports a Bright Spot

One resource commodity in which British Columbia producers have gained ground in European markets is coal. British Columbia coal exports to Europe climbed 117 per cent, from $115 million in 1990, to $249 million in 1996. In the first three months of 1997, they rose another 25 per cent on a year over year basis. The province’s share of coal shipped to EU member states from outside the block grew from 2 per cent in 1990 to 3 per cent in 1995.

Gary Livingstone, President of the Mining Association of British Columbia, attributes the recent success to opening up of previously closed markets. He says, 'One reason we can get into Europe is because Germany and the United Kingdom have been cutting back on subsidies to their own coal industries.'

Mr. Livingstone welcomes the export gains and adds that there could well be a long-term future for coal shipments to Europe. He cautions that exports to Europe from British Columbia are likely to be restricted to metallurgical coal, which is more highly valued than thermal and therefore more likely to justify the expense of long distance shipping.

Shipments of Machinery and Equipment Promise Long Term Improvement

Fewer trade restrictions in Europe have also contributed to strong gains in British Columbia exports of secondary manufactured goods to that market.

Shipments of electrical and electronic equipment to the EU climbed from $6 million to $28 million, between 1990 and 1996. Shipments of machinery and equipment in other categories rose from $71 million to $80 million. Export growth to the EU has continued strong for all major categories of machinery and equipment into the first quarter of 1997.

While these figures are still relatively small in relation to the hundreds of millions of resource product exports to the EU, they offer the best promise for the future.

With competition to sell resource products in the EU market much stronger than it once was, and with the likelihood of more to come in future, it may be unrealistic to seek to regain the province's lost share of EU resource imports.

Persistent growth in the value of exports of secondary manufactured products offers encouraging evidence that the province can replace lost resource exports to Europe with exports of more finished goods.