

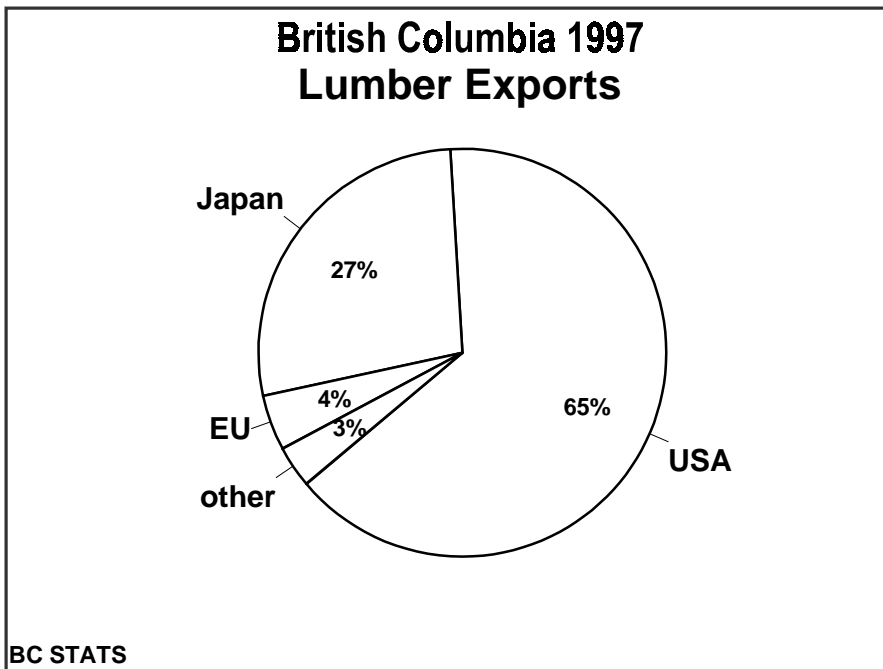
British Columbia Losing Dominant Position In World Lumber Markets

British Columbia still produces much of the softwood lumber shipped internationally anywhere in the world. But during the 1990s the province has become less prominent in world lumber markets than it once was, as producers elsewhere have increased production faster.

The change is inevitable, and not necessarily a bad thing. The rapid pace of economic development in many parts of the world is creating more demand for lumber, and other solid wood products than British Columbia can hope to meet with its finite forest resources. As would be expected, this increased demand has encouraged the development of new supply elsewhere in the world and stimulated technical advances in forestry and wood technology.

New forestry and wood production techniques can increase British Columbia's yield beyond current levels, but not indefinitely. As the volume of timber that can be harvested on a sustainable basis in British Columbia has been finding its limits, the focus has turned increasingly to value added processing, so that the same physical volume of wood can generate more wealth and jobs within the province itself.

Three main import markets absorb the vast bulk of forest products traded internationally – the United States, Japan, and the European Union. Figures collected by the United Nations indicate that these countries together absorbed 85 per cent of world exports of lumber in 1997; 68 per cent of pulp exports; 74 per cent of newsprint exports; and 61 per cent of exports of other papers.



B.C. Share of U.S. Lumber Market Slipping to Other Provinces

The United States stands out as the world's greatest importer of lumber. According to statistics originating from the United Nations, 39 per cent of all lumber traded internationally in 1997 was destined for U.S. markets. In dollar terms this amounted to \$US 8.1 billion out of \$US 21.0 billion of lumber traded worldwide.

British Columbia has long been the most important single supplier of U.S. lumber imports, shipping over half the total. As the size of the U.S. market for imported lumber has grown during the 1990s, the value shipped from British Columbia has increased. But even though the value of lumber exported from British Columbia to the United States more than doubled between 1990 and 1997 in U.S. dollar terms, it could not keep up with the rapid expansion in U.S. demand. The province's share of total U.S. lumber imports shrank from an estimated 59 per cent at the beginning of the decade to 49 per cent in 1997.

The extra demand was met mainly by wood from other Canadian provinces. Taken as a whole, other provinces increased their share of total U.S. lumber imports from 37 per cent in 1990, to about 43 per cent in 1997.

U.S. lumber imports from other countries have so far been very small. However they are growing. Chile, for example, supplied 1.3 per cent of U.S. lumber imports in 1997, up from 0.6 per cent in 1990. Mexico supplied 1.4 per cent, up from 0.6 per cent in 1990.

British Columbia Is Japan's Main Source For Softwood Lumber, But Not For Logs

British Columbia's share of the Japanese market for imported softwood lumber is even larger in percentage terms than its share of the United States lumber market. Fifty-two per cent of Japanese lumber imports in 1997 were secured from British Columbia, as compared to 49 per cent of U.S. lumber imports. One of the main reasons for this is that lumber exporters in

other provinces have so far made little headway in this market.

Only 3 per cent of Japanese softwood lumber imports in 1997 were from other provinces. In dollar terms, Japanese lumber imports from British Columbia amounted to \$US 1,662 million in 1997, compared to \$US 87 million imported from other provinces, and \$US 1,422 million from other countries.

Although the dollar value of Japanese lumber imports from British Columbia has varied considerably from year to year, the province's share appears to have changed relatively little over the years. Between 1990 and 1997 there was a small drop from 54 per cent to 52 per cent, as the portion of Japanese lumber imports supplied by other provinces rose from virtually zero to 3 per cent. British Columbia's share was estimated at 55 per cent in 1980, and 50 per cent in 1970.

But these figures could overstate British Columbia's competitive position in the Japanese market. British Columbia lumber producers face indirect competition in Japan from countries shipping large volumes of softwood logs to that country. Japanese imports of softwood logs were valued at \$US 1,916 million in 1997, of which \$US 1,170 million originated in the United States.

Restrictions on exports of logs throughout most of Canada keep Canadian log exports low. But much of the timber cut in the United States is not subject to export restrictions, so that U.S. exporters are able to supply huge volumes of softwood logs overseas.

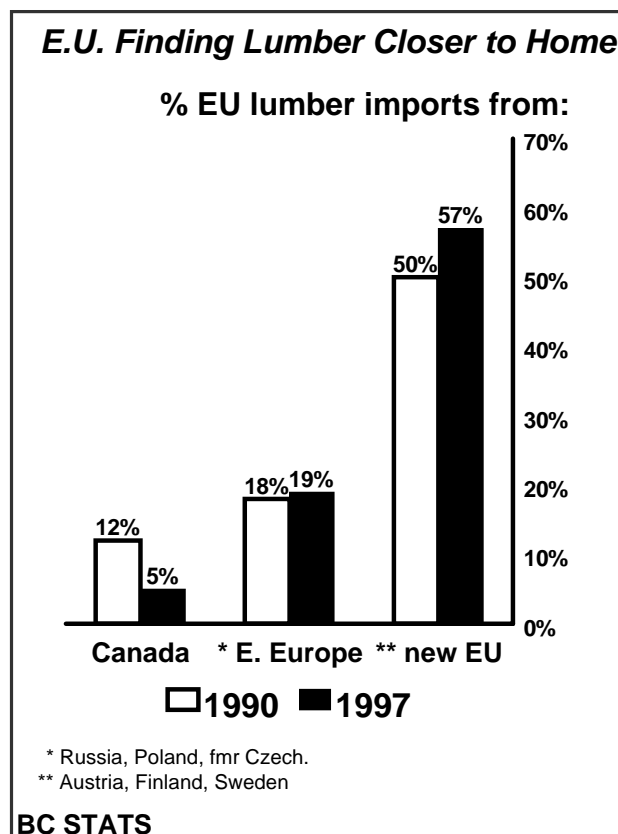
The \$US 1,170 million of logs shipped by U.S. suppliers to Japan in 1997, compared with \$US 490 million of lumber shipped from the United States to Japan in that year. By contrast, Canadian exporters shipped only \$US 11 million worth of softwood logs to Japan in 1997, and \$US 1,749 million of softwood lumber.

E.U. Lumber Markets Supplied Increasingly From Local Resources

British Columbia's share of the European Union (E.U.) market for imported lumber has traditionally been very small by comparison with its share of the American and Japanese markets. It has shrunk further during this decade, as the province has lost market share to competition from eastern Europe, and to suppliers within the E.U. itself.

During the 1990s, Austria, Finland and Sweden have all acquired membership in the European Union. Their accession to the Union has provided it with new domestic lumber resources, and likely stiffened its resistance to lumber imports from external sources.

All three countries were important suppliers of softwood lumber to the E.U. before they became members themselves. In 1990 they already accounted for 50 per cent of all lumber imports by E.U. member countries, including both imports from outside the Union and from other E.U. countries. After joining the Union in 1995, Austria, Finland and Sweden expanded their shares further. By 1997, their combined share of all lumber imports by E.U. countries had risen to 57 per cent.



Over the same period, British Columbia's share of the same market fell from 8 per cent, to 4 per cent. The share for Canada as a whole fell from 12 per cent to 5 per cent.

In dollar terms, the value of lumber imports by all E.U. countries from Austria, Finland and Sweden rose from \$US 3,310 million in 1990, to \$US 3,781 billion in 1997, as imports from British Columbia fell from \$US 557 million to \$US 255 million.

British Columbia lumber exporters have also been facing growing competition in the E.U. market from other sources. The province's share of all E.U. lumber imports *from outside the Union* dwindled from 22 per cent in 1990, to 12 per cent in 1997. The total Canadian share shrank from 30 per cent to 15 per cent. In dollar terms the decline was from \$US 557 million to \$US

255 million for British Columbia, and from \$US 770 million to \$US 302 million for Canada as a whole.

This market share was mainly lost to former Soviet block countries. As the Canadian share of E.U. lumber imports from outside the Union fell from 30 per cent to 15 per cent, the combined share of Russia, Poland and the former Czechoslovakia climbed from 45 per cent to 62 per cent.

In dollar terms, softwood lumber shipped to the E.U. from these East European countries amounted to \$US 1,281 million in 1997, far exceeding the \$US 255 million from British Columbia, and the \$US 302 million from Canada as a whole.

In addition to lumber, East European suppliers also shipped \$US 439 million of softwood logs to be milled in E.U. countries. Log exports from Canada to the E.U. were negligible.