

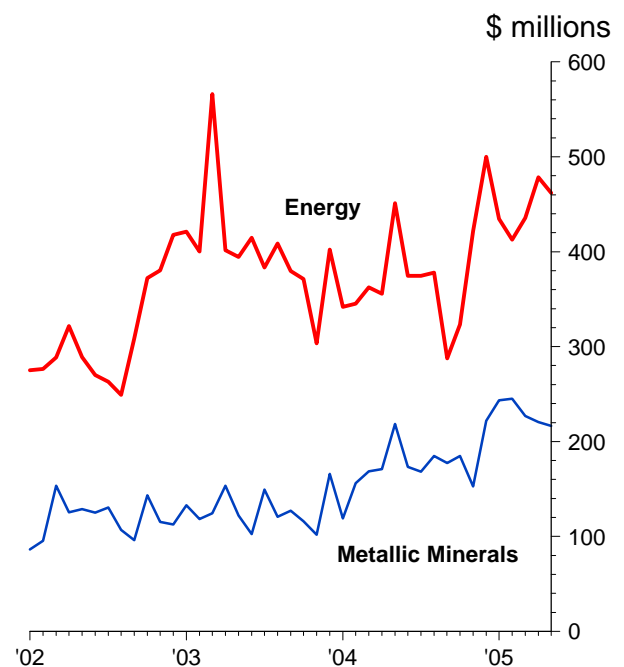
Exports ♦ May 2005

- The value of BC origin exports was up 4.9% over the first five months of 2005 compared to January to May of 2004. Robust growth in international shipments of metals and energy products has been the main driver of increased exports.
- Exports of metallic mineral products soared 38.3% in the first five months of 2005 compared to the same period a year earlier. Shipments of molybdenum have skyrocketed 180.6%, pushing year-to-date exports of that metal ahead of aluminum to become the province's second largest metal export after copper. Exports of copper ores and concentrates have also experienced strong growth, rising 37.7%.
- Shipments of energy products are 19.8% higher year-to-date compared to the January to May period in 2004. A substantial 50.5% rise in exports of coal was the main contributor to the overall energy product increase, although exports of natural gas also grew significantly (+7.7%), driven entirely by price inflation as quantities shipped declined. On the other hand, electricity exports are down 6.2%, likely due to reduced supply available for export.
- In the forest sector, the pulp and paper industry continues to struggle with exports falling 8.8%, mostly due to a 15.4% drop in shipments of pulp. Year-to-date growth in shipments of solid wood products has slowed to 1.3% as exports of these goods were 9.3%

lower in May compared to the same month a year ago.

- Exports of machinery and equipment have risen 1.8% year-to-date mainly on the strength of a 12.4% increase in shipments of motor vehicles and parts. However, exports of electrical, electronic and communications equipment have slumped 10.5%, offsetting much of the growth recorded in shipments of automobiles and other machinery and equipment.
- Year-to-date exports to India are double what they were in the first five months of 2004 (+101.0%). Other destinations with large increases in shipments include Mexico (+25.6%), and Germany (+14.1%).

Rising exports of energy and metallic minerals have helped drive up overall BC origin exports

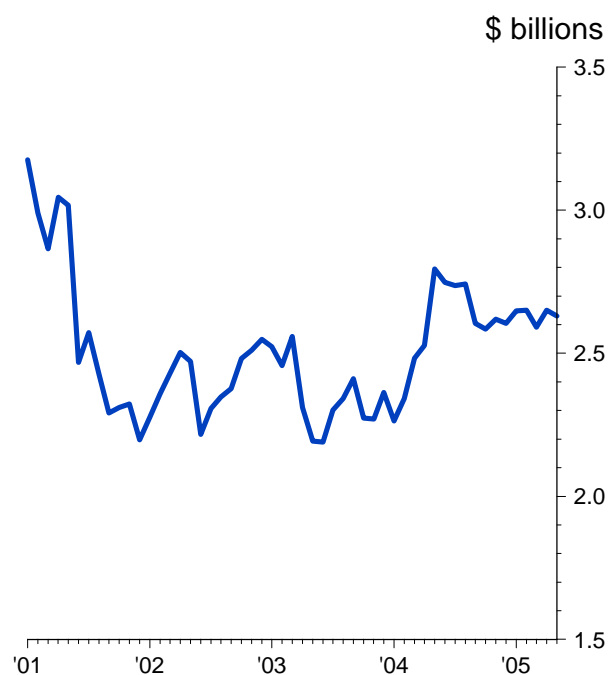


SEASONALLY ADJUSTED EXPORTS

*BC exports (adjusted for seasonality)
dipped slightly in May*

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 dipped 0.8% in May as shipments of energy products slumped 6.4% and forest sector exports declined (-1.1%) for the third straight month.
- These two sectors were also responsible for a significant 4.0% drop in exports to the United States. The drop in energy (-17.5%) and forest product (-5.0%) shipments was more than enough to offset growth in exports of other goods, including a 6.2% rise in industrial and consumer goods.



BC Exports, Seasonally Adjusted (\$Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
May 2003	178	372	939	322	383	2,193	1,480
Jun	182	409	932	315	351	2,189	1,527
Jul	196	413	974	315	403	2,302	1,573
Aug	188	422	999	312	421	2,342	1,573
Sep	191	416	1,075	308	422	2,411	1,591
Oct	161	398	1,036	308	370	2,273	1,536
Nov	167	310	1,064	298	431	2,270	1,475
Dec	209	356	1,037	318	442	2,363	1,539
Jan 2004	170	331	1,048	310	404	2,263	1,501
Feb	182	346	1,030	330	454	2,342	1,512
Mar	189	357	1,166	322	449	2,483	1,617
Apr	188	335	1,201	309	495	2,527	1,644
May	189	420	1,309	343	535	2,795	1,773
Jun	204	376	1,321	349	499	2,748	1,809
Jul	201	403	1,273	351	508	2,736	1,779
Aug	195	399	1,271	341	535	2,742	1,753
Sep	196	319	1,247	337	505	2,604	1,708
Oct	208	348	1,183	343	501	2,584	1,666
Nov	209	433	1,131	345	500	2,619	1,669
Dec	186	444	1,124	322	529	2,605	1,690
Jan 2005	188	426	1,148	334	551	2,648	1,697
Feb	183	417	1,155	331	564	2,650	1,735
Mar	173	428	1,132	331	527	2,591	1,722
Apr	182	457	1,132	349	531	2,650	1,727
May	188	428	1,119	351	544	2,630	1,658

Comparative Trade Numbers Don't Add Up

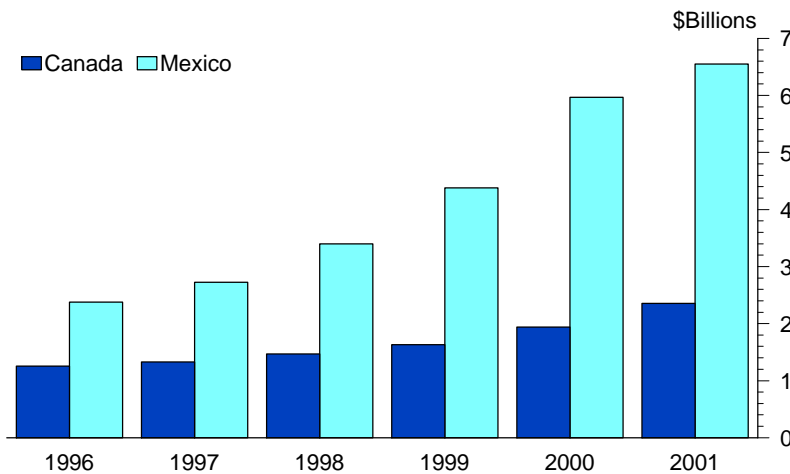
Theoretically, statistics regarding merchandise exports from Canada to another country should be identical to the data from the destination country on imports from Canada; however, merchandise trade reconciliation studies performed by Statistics Canada and its foreign counterparts have discovered significant differences. In every case it appears that the reported value of Canadian exports to countries outside the United States has been substantially underestimated.

Merchandise trade reconciliations show that export figures to countries outside the US are consistently underestimated

There are a few different reasons why there are variations in export and import statistics between two countries, including legitimate conceptual differences in how trade is measured (e.g., whether or not transportation and insurance costs are included in the value of the good – that is, whether it is valued on an FOB [free on board] or CIF [cost, insurance and freight] basis). Issues around timing and exchange rate valuations can also play a role in statistical variations, but more serious problems, such as under coverage and misallocation errors are perhaps the largest sources of difference in trade statistics.

The reconciliation between Canadian and Mexican trade statistics demonstrates that the magnitude of the differences can be substantial. In 2001, according to Canadian export figures, Canada shipped approximately \$2.4 billion worth of goods to Mexico, but according to Mexican trade data, there were \$6.6 billion worth of imports from Canada, a difference of \$4.2 billion.¹

Mexico reports significantly more imports from Canada than are recorded in Canadian export data

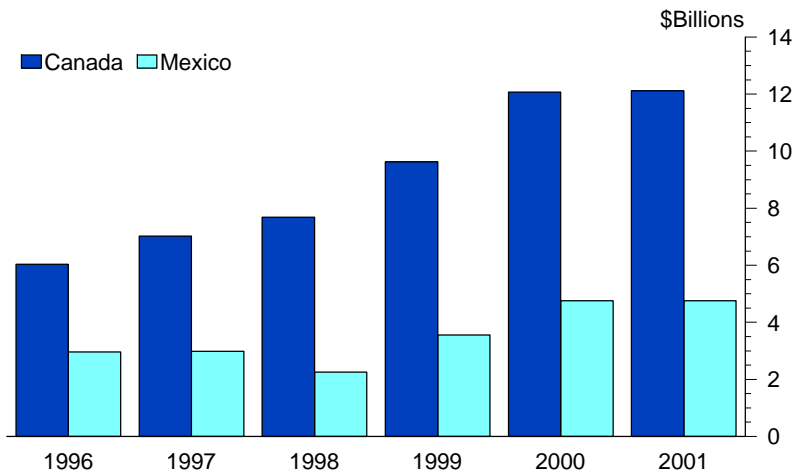


Canadian exports to Mexico were \$4.2 billion higher than recorded in Canadian customs-based data

¹ Note that the figures quoted here are taken directly from the Statistics Canada reports on merchandise trade reconciliation and may differ slightly from current figures published by Statistics Canada due to subsequent revisions. The data has not been revised as a result of the reconciliation studies as the estimates of misallocation and under coverage are not robust enough to allow for such revisions.

There was an even larger variation between published Canadian data on imports from Mexico and Mexican figures on exports to Canada. In 2001, Canada reported \$12.1 billion in imports from Mexico, but that country reported only \$4.8 billion in exports to Canada, a difference of almost \$7.4 billion.

Mexico has the same problem with its export data, as recorded Canadian imports are far higher than Mexican data indicate



Canadian import data show that Mexican exports to Canada were \$7.4 billion higher than indicated by Mexican customs-based data

In general, import data are more accurate than export figures. This is because there is more incentive to make sure records on imports are accurate and complete, as they are used to administer tariffs and ensure compliance with trade agreements. There is less concern over the accuracy of export documents and, therefore, countries that use customs-based data to calculate exports will likely underestimate their value.

In Canada and the United States there is an additional problem for export data. The two countries have an agreement to exchange import statistics, such that Canada uses American import data to measure its exports to the United States and vice versa. While this should make the export figures for both countries more reliable, it has also resulted in an unintended consequence that affects the quality of data on exports to other countries. As a result of the data exchange agreement, it is no longer necessary for an exporter in Canada to file an export document if the goods are destined for consumption in the United States. This has the potential to inflate the instances of the two largest trade data errors: country misallocation and under coverage.

The two largest trade errors are country misallocation and under coverage

Misallocation occurs when exports destined for one country are inadvertently attributed to another. For example, this can occur if the goods are landed and declared for consumption in the United States, and then later re-exported to Mexico. The Mexican trade statistics will accurately reflect the import from Canada, but Canada's export statistics will overestimate exports to the United States and underestimate exports to Mexico. The United States data will overstate imports from Canada and exports to Mexico.

The under coverage problem is worse still, because it results in an underestimate of total exports. This happens when the exporter neglects to report shipments of merchandise to a non-US destination. The Canada-US exchange agreement offers a further complication of this issue as goods that are travelling in-bond through the United States to another country may not be reported. Since these goods are not slated for consumption in the United States, they will never be recorded in American import statistics and if an export document was not filed, they will also not be reported in Canadian export statistics; therefore, Canadian export data will be understated.

Statistics Canada estimates that approximately two-thirds of the difference between Mexican import data and Canadian export figures in 2001 was due to country misallocation, with most of the misallocated exports attributed to the United States (91%). The remainder of the variation in trade figures was due to a variety of factors, but it is likely that under coverage is the largest component of these.

The discrepancy between Canadian export statistics and Mexican import statistics has expanded over time, from virtually no difference prior to 1990 to the \$4.2 billion recorded in 2001. The data exchange agreement is probably one of the main reasons for the growing disparity, but the Canada-US Free Trade Agreement (CUFTA) probably also played a part. Prior to CUFTA, exporters may have had to face tariffs for shipments to the United States and, therefore, it was in their best interest to file accurate export documents if the goods were destined for another country and were only being transhipped through the United States. After CUFTA was signed, there were no tariffs to be concerned with and the paperwork was easier if the goods were being exported to the United States, rather than if they were just being transported through the country to another destination. The combination of less paperwork and no financial penalty in the form of tariffs is likely the main reason for the growing divide in trade statistics between Canada and other countries, particularly Mexico.

Mexico is not the only country for which this is a problem, although the disparity between Canadian and Mexican data is the largest of the countries Statistics Canada has studied. However, Statistics Canada has done merchandise trade reconciliation studies of the European Union, China and South Korea as well and, in each case, Canada's exports to those regions were significantly underestimated and their exports to Canada suffered the same problem.

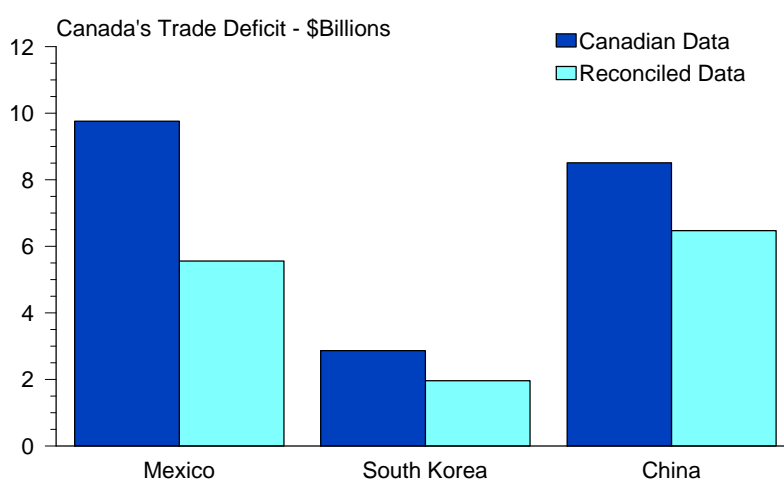
Canadian exports to the European Union between 1994 and 1997 were understated by around 20% according to the reconciliation. The reconciled trade deficit with the European Union was between two and three billion dollars less than the published numbers indicated.

Two-thirds of the error in published Canadian exports to Mexico in 2001 was due to country misallocation

The Canada-US free trade and data exchange agreements have likely exacerbated problems with misallocation and under coverage of exports to other countries

The story is similar with Mexico, South Korea and China – in each case, Canada’s trade deficit is less than the Canadian data suggest. The reconciled data also improves the trade balance for each of these three countries in their own statistics, in some cases flipping it from a deficit into a surplus. Both Mexico and China reported trade deficits with Canada of over \$1 billion in 2001, but after reconciliation they both had surpluses in excess of \$5 billion. Mexico moved from a deficit of \$1.8 billion to a surplus of \$5.6 billion, while China saw its numbers improve from a \$1.1 billion deficit to a \$6.5 billion surplus. South Korea saw its surplus increase more than five-fold after the numbers were corrected.

Canada’s trade deficit with Mexico, South Korea and China in 2001 was far smaller than customs-based data indicated



Canada’s trade deficit with many countries may not be as large as Canadian customs-based trade data indicate

The reconciliation studies demonstrate that Canada’s trade with countries outside the United States is more significant than previously thought. Statistics Canada estimates that Mexico’s share of Canadian exports in 2001 should be 1.69% rather than the published figure of 0.71%. China’s share should be 1.34% instead of 1.05% and South Korea’s reconciled share is 0.63%, up from 0.53%.

Although under coverage is a considerable part of the error in Canada’s export figures, it is country misallocation that is the largest portion of the difference between Canadian export figures and import data from other countries. The United States is attributed the bulk of the misallocated exports, which implies that Canada’s exports to the United States are overstated. However, even if the share of exports to the United States is overestimated by as much as five percentage points, it would still mean that four-fifths of Canada’s international merchandise shipments are destined for our neighbours to the south.

Although the results of the reconciliation studies will not be used to correct export data problems, they do provide Statistics Canada with valuable information about the mechanics of trade between Canada and other countries and how export documentation can be improved in order to more accurately record Canada’s trade.

**Share of Canadian Exports:
Published vs. Reconciled Data**

Country	Reconciled	Published
Mexico	1.69%	0.71%
China	1.34%	1.05%
South Korea	0.63%	0.53%

Source: Statistics Canada, *Fifth Annual Report on Canada’s State of Trade*

Identifying the extent of the problem through these reconciliation studies is the first step in improving the data and the next phase that needs to be undertaken is to make improvements to the document filing process.

One step that has already been taken by the Canada Border Services Agency that should help alleviate the problems of misallocation and under coverage was to implement the Administrative Monetary Penalty System (AMPS). This system was put in place in stages between December 2001 and October 2002 and provides for fines ranging anywhere from \$100 to \$6,000 for providing inaccurate information on export documentation.

The United States has also upped the ante with respect to misreporting. Whereas in the past there was a lot of leeway given to exporters, security concerns and anti-terrorism efforts have made the customs agents more vigilant and new legislation has boosted fines up to a maximum of \$10,000 or as much as five years in prison for failing to file export documents or filing with false or misleading information.

Stronger fines and a better understanding of where errors occur should help Statistics Canada improve the accuracy of its trade statistics and give a clearer picture of Canada's trade with the rest of the world outside the United States.

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

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)
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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)
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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)
04-06	<i>Canada's Trade with Greece</i> (released August 2004)	03-03	<i>Canada Talks Trade With Turkey</i> (released May 2003)
04-05	<i>Hollywood North Thrives in 2003</i> (released July 2004)	03-02	<i>Rising Log Exports Fuel Controversy</i> (released April 2003)
04-04	<i>Port of Prince Rupert: Down, But Not Out</i> (released June 2004)	03-01	<i>Review and Outlook for BC Exports</i> (released March 2003)
04-03	<i>Expanded European Union Could be Both Good and Bad for BC</i> (released May 2004)	02-12	<i>Team Canada Returns to Europe</i> (released February 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.