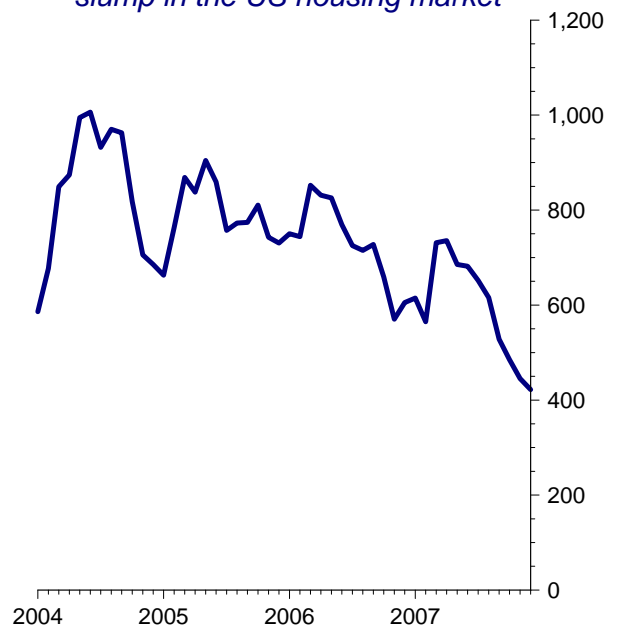


Exports ♦ December 2007

- The value of BC origin exports slumped 6.5% in 2007. The combination of a higher Canadian dollar and the downturn in the US housing market were two of the major reasons for the decline.
- Exports of solid wood products fell 18.4% in 2007 compared to the value shipped in 2006. With the exception of cedar shakes and shingles (+6.8%), most of the major wood product groups experienced double-digit declines in shipments. The drop in US housing starts has affected demand for building products, which is driving the decline in wood exports.
- The one positive for the forest sector has been the performance of pulp exports, which climbed 17.0% in 2007. The surge in shipments of pulp was more than enough to offset a 28.2% plunge in exports of newsprint such that overall pulp and paper product exports climbed 7.0%.
- Exports of energy products dropped 7.9% in 2007 as both coal (-13.1%) and natural gas (-16.6%) experienced double-digit declines in shipments. The decline in exports of coal was entirely due to lower prices as volumes shipped actually rose 6.8%. On the positive side, exports of electricity almost doubled (+90.5%) and shipments of other energy products also increased (+24.6%).
- The value of metallic mineral product exports slumped 4.9% in 2007 driven by a 31.3% dive in shipments of copper ores and concentrates. Strong increases in exports of unwrought zinc (+37.1%), unwrought aluminum (+11.1%) and molybdenum ores and concentrates (+6.2%) were not enough to entirely offset the slump in copper. Exports of fabricated metal products edged up 0.8%.
- Machinery and equipment exports bucked the overall downward trend with a 1.0% increase. Agriculture and food (excluding fish) also experienced a rise in shipments compared to 2007 (+2.1%).
- BC's commodity exports to its largest trading partner, the United States, fell 8.2% in 2007, such that the United States' share of BC exports fell from 61.3% in 2006 to 60.2% in 2007. At the same time, shipments to Mainland China climbed 17.4%, driving China's share of BC's exports up from 4.4% in 2006 to 5.6% in 2007.

BC origin exports of solid wood products have been falling, mostly due to the slump in the US housing market



SEASONALLY ADJUSTED EXPORTS

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 slumped in December, falling 8.8% as both energy (-19.0%) and industrial and consumer goods (-16.0%) posted double-digit declines. The only major commodity group to see growth was agriculture and fish products, where shipments jumped 11.5%.
- The overall drop in exports was a combination of declines in shipments to both the United States (-5.4%) and the rest of the world (-13.1%). A 19.8% plunge in exports of energy products was the main driver in the drop in exports to the US.

*Exports (adjusted for seasonality)
plunged in December*



BC Exports, Seasonally Adjusted (\$Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Dec 2005	191	824	1,178	387	570	3,149	1,997
Jan 2006	187	699	1,174	363	537	2,960	1,953
Feb	186	592	1,148	369	574	2,869	1,802
Mar	185	597	1,098	416	586	2,882	1,778
Apr	181	548	1,073	358	516	2,676	1,707
May	193	524	1,078	352	579	2,726	1,714
Jun	190	571	1,106	379	716	2,962	1,698
Jul	201	501	1,042	349	663	2,756	1,680
Aug	197	495	1,057	339	597	2,685	1,634
Sep	206	511	1,043	374	596	2,731	1,634
Oct	207	424	1,038	393	681	2,743	1,588
Nov	200	446	1,007	355	612	2,619	1,601
Dec	208	544	1,027	382	696	2,858	1,729
Jan 2007	210	511	1,106	364	620	2,811	1,736
Feb	205	577	995	369	571	2,717	1,696
Mar	211	551	1,058	378	593	2,791	1,719
Apr	200	559	1,118	376	663	2,916	1,718
May	188	558	1,013	336	626	2,720	1,604
Jun	180	519	989	340	605	2,633	1,617
Jul	168	515	981	347	607	2,618	1,590
Aug	180	491	987	351	553	2,561	1,582
Sep	194	436	833	356	588	2,408	1,468
Oct	175	459	873	341	567	2,416	1,435
Nov	168	421	881	347	636	2,453	1,371
Dec	187	341	857	318	534	2,238	1,296

Canada and Peru Agree on Free Trade

Late in January, Canada and Peru completed negotiations on a free trade agreement. The same day, Canada signed off on an agreement with the European Free Trade Association (EFTA), comprised of Iceland, Liechtenstein, Norway and Switzerland, for which negotiations were completed in June, 2007.¹ These deals signal a shift away from Canada's previous policy of concentrating on a global free trade agreement through the World Trade Organization and show recognition that Canada can no longer afford to stand idly by while other countries, particularly the United States, are busy signing bilateral agreements.

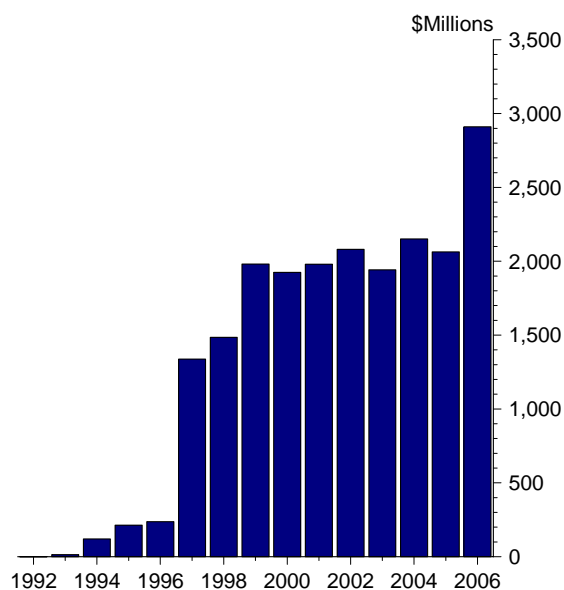
The United States has already signed off on a free trade deal with Peru, with the deal being ratified in December 2007, which has given the US a competitive advantage over Canada in trade with Peru. The Canada-Peru free trade agreement will restore Canada's market access to the South American country and put Canada on an even keel with the United States once again. Unlike the deal with EFTA, which brought protests from some sectors, particularly the Canadian ship-building industry, the deal with Peru seems to have universal support.

Canada's wheat growers are particularly supportive of the deal because it will ensure that wheat exports to Peru will remain duty free. Canada shipped \$104.6 million worth of wheat to Peru in 2007, which comprised approximately 36% of total Canadian merchandise ex-

ports to that country. Other goods that are expected to benefit from the deal include other agricultural products, paper products, and machinery and equipment. Currently, Canada has relatively little trade in services with Peru, but a free trade deal could help boost activity in the service sector as well.

There is a significant amount of foreign direct investment (FDI) by Canadians in Peru, particularly in the mining sector, where Canada is Peru's most important foreign direct investor.² Overall Canadian FDI in Peru has mushroomed over the last decade, from virtually nothing in 1992, to \$2.9 billion in 2006. In addition to mining, Peru's banking and printing industries also receive significant FDI from Canada. Currently

Canadian foreign direct investment in Peru has grown dramatically over the last decade



Source: Statistics Canada

¹ See the article "Canada Weighs Anchor on Free Trade with EFTA" in the July 2007 issue of *Exports* for more information on the agreement with EFTA.

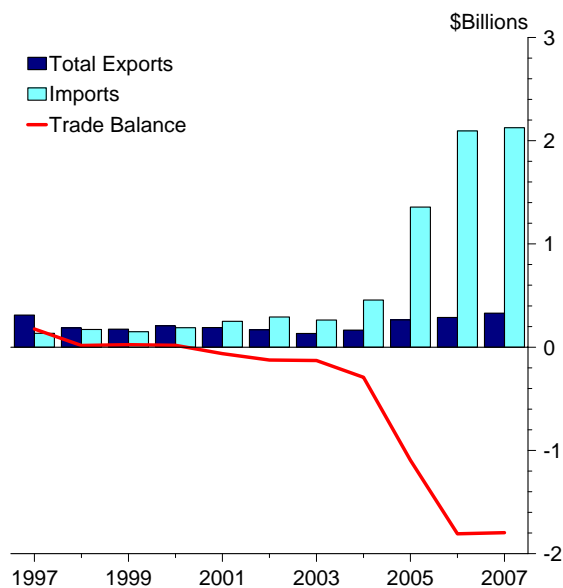
² Source: Foreign Affairs and International Trade Canada.

the flow of investment dollars is generally one-way, as Peruvian investment in Canada is minimal.

The free trade agreement will guarantee Canadian investors a secure environment for investment, which is why Canada's mining sector has hailed the agreement as a positive development. Canadians are major players in Peru's mining industry, whether in exploration, development or actual mine operation and, as a result, the Canadian industry has a substantial stake in ensuring a stable investment climate between Canada and Peru.

For Peru, the free trade deal is seen as an opportunity to diversify its export markets. Canadian imports from Peru have already taken off in recent years, jumping from less than \$0.3 billion in 2003 to over \$2 billion in 2007. Canadian exports to Peru have grown significantly slower, such that Canada now has a substantial trade deficit with Peru of about \$1.8 billion.

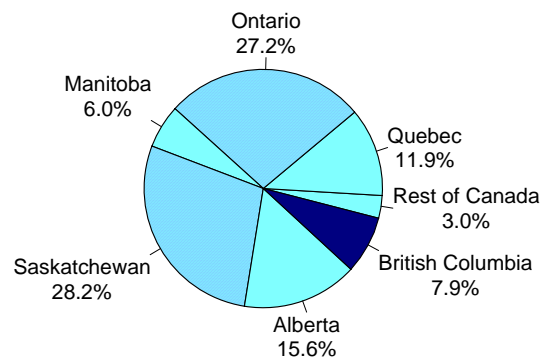
Imports from Peru into Canada have soared in recent years, while Canadian exports to Peru have experienced a much smaller increase



Source: Statistics Canada

Over half of Canada's exports to Peru in 2007 originated in either Ontario or Saskatchewan. Exports from Saskatchewan were primarily agricultural products, particularly wheat, lentils and peas. For Ontario, the top merchandise exports were mainly comprised of machinery and equipment, although cotton yarn was also a significant export.

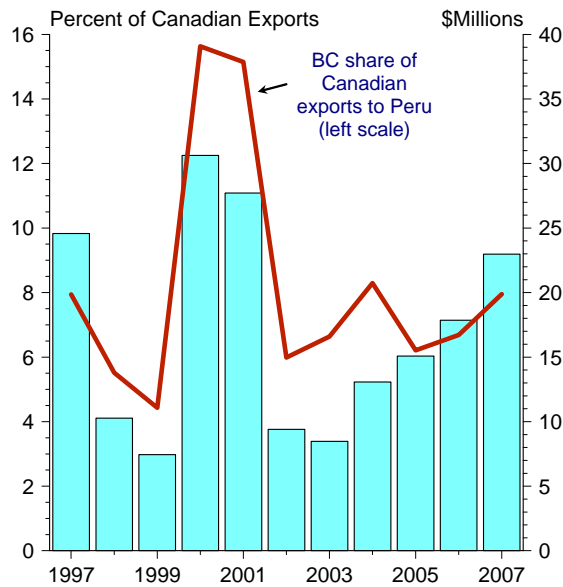
Ontario and Saskatchewan were the main provinces exporting to Peru in 2007



Source: Statistics Canada

British Columbia was the source of 8% of Canada's commodity exports to Peru in 2007. With the value of BC's goods exports to Peru never exceeding \$31 million over the last decade, it is fairly clear that Peru has not been one of BC's primary export destinations. At first blush, it might appear that the province has little to gain from a free trade deal with the South American country, but this is not necessarily the case. First of all, British Columbia is home to several mining companies that have interests in Peru. As such, the FDI provisions in the trade agreement are of interest to these companies and others looking to invest in Peru. Additionally, there will be new opportunities for exporters of both goods and services that were previously either unavailable or not financially feasible due to tariffs and other constraints.

Peru has not been a top destination for exports from British Columbia



Source: Statistics Canada

BC's top exports to Peru in 2007 included paper products and machinery and equipment. The current Peruvian tariff on paper is 12%, while tariffs on machinery and equipment range from 4 to 12%.³ In the free trade agreement between the United States and Peru, the tariff on paper will be removed immediately, while the tariffs on machinery and equipment will be removed immediately for some goods and by the end of seven years for all machinery and equipment. It is clear that without a free trade agreement British Columbia and other Canadian exporters would be at a competitive disadvantage compared to their American peers. The removal of the tariffs will ensure that Canadian exporters of goods and services have a level playing field with their competitors in other countries and could also open up new markets for Canadian goods and services in Peru. Goods and services

that are currently subject to tariffs or other trade barriers could become a viable export as a result of the trade agreement.

Given the emphasis on trade in BC's economy, as well as the economy of the nation as a whole, free trade agreements such as the one with Peru are important elements of economic policy. The deal with Peru will:

- give Canadian exporters the same access to markets in Peru as competitors that have already signed free trade agreements
- remove tariffs and other barriers that have limited Canadian trade in goods and services and possibly open up new markets for Canadian companies
- provide security for Canadian investors and open up new opportunities for investment
- offer more variety of goods for Canadian consumers at reduced prices

In addition, the deal with Peru could help Canada in its negotiations with other South American countries such as Ecuador and Bolivia, as well as negotiations with countries in Central America and the Caribbean nations. While a global free trade agreement is still the preferred option, it appears more likely that such an agreement may take several years to transpire, if ever. In the meantime, if Canada is to remain competitive it must secure access to world markets and the deals with Peru and EFTA are a good start in that direction.

³ Source: Foreign Affairs and International Trade Canada.

Recent Feature Articles in Exports Release Listed by Statistical Reference Date of Issue

07-12	<i>Canada and Peru Agree on Free Trade</i> (released February 2008)	06-10	<i>Plan B: An APEC Free Trade Region?</i> (released December 2006)
07-11	<i>Over 100 Years of Canadian Exports</i> (released January 2008)	06-09	<i>Success of BC's Mining Industry Helps Boost Exports</i> (released November 2006)
07-10	<i>BC's Commodity Exports Are Still Largely Forest-Based</i> (released December 2007)	06-08	<i>Provincial Export Profile</i> (released October 2006)
07-09	<i>Is Cross-Border Shopping Making a Comeback?</i> (released November 2007)	06-07	<i>Has Doha Gone the Way of the Dodo?</i> (released September 2006)
07-08	<i>Prince Rupert Container Port Open for Business</i> (released October 2007)	06-06	<i>Will BC Miss the Boat on Port Expansion?</i> (released August 2006)
07-07	<i>Canada Weighs Anchor on Free Trade with EFTA</i> (released September 2007)	06-05	<i>Breaking the Interprovincial Trade Barrier</i> (released July 2006)
07-06	<i>BC's Trade with California</i> (released August 2007)	06-04	<i>Deal or No Deal for Softwood Lumber?</i> (released June 2006)
07-05	<i>Appreciating Dollar Not Appreciated by Exporters</i> (released July 2007)	06-03	<i>Will Canada-India Trade Spice Up?</i> (released May 2006)
07-04	<i>The Greening of BC's Exports</i> (released June 2007)	06-02	<i>Log Exports Becoming More of a Private Affair</i> (released April 2006)
07-03	<i>BC's High Tech Trade</i> (released May 2007)	06-01	<i>BC Exports: 2005 in Review</i> (released March 2006)
07-02	<i>Canada-USA Corn Row</i> (released April 2007)	05-12	<i>Electricity Puts a Charge into BC Exports</i> (released February 2006)
07-01	<i>Is the Sun Rising on Trade With Japan?</i> (released March 2007)	05-11	<i>Pulp Friction: Challenging Times for BC's Pulp Industry</i> (released January 2006)
06-12	<i>Year in Review: 2006</i> (released February 2007)	05-10	<i>Japan Aims for Free Trade with Canada</i> (released December 2005)
06-11	<i>Brazil-Canada Trade Getting Over Jet Lag</i> (released January 2007)	05-09	<i>China's Growth Both an Opportunity and a Threat for Exporters</i> (released November 2005)

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.