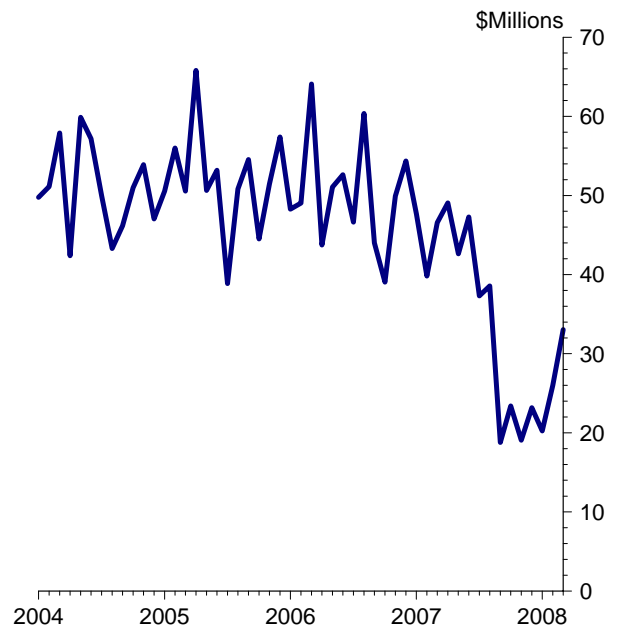


Exports ♦ March 2008

Note: Statistics Canada has confirmed that there was an error in the March export data. Exports of coal that should have been attributed to BC were misallocated to Alberta. Statistics Canada will revise the numbers with the release of the April data on June 10th. In the meantime, BC Stats has estimated the error and adjusted the data accordingly. The numbers for coal, total energy and total BC exports should be considered preliminary.

- British Columbia's export sector continued to show weakness in the first quarter as the value of BC origin exports slumped 12.4% in the first three months of 2008 compared to the same period in 2007. Exports were down for most major commodity groups, but solid wood products were the most significant contributor.
- Exports of solid wood products dropped 34.1% in the first quarter of 2008 compared to the same three-month period a year earlier. Softwood lumber shipments plunged 35.2% and every other major wood product group also experienced double-digit declines.
- Elsewhere in the forest sector, exports of newsprint are well down from the first quarter of last year (-40.8%) as demand for the product is faltering. Overall pulp and paper exports are 4.8% off of last year's pace mainly due to the combination of plunging newsprint shipments and a 2.8% drop in exports of pulp.
- Significant reductions in exports of copper ores and concentrates (-30.9%) and unwrought aluminum (-22.1%) drove overall metallic mineral product exports down 8.1% in the first quarter. However, shipments of fabricated metal products are well up from 2007 levels (+13.9%).
- There was a 10.0% decline in exports of machinery and equipment in the first quarter as shipments of motor vehicles and parts (-11.3%) and scientific, photographic and measuring equipment (-21.5%) fell.
- BC's commodity exports to the United States continue to falter (-15.7%) in the face of a less favourable exchange rate and falling demand due to economic problems in the US. Exports to some of BC's other major trading partners, such as Japan (-28.4%) and the European Union (-12.6%) are also well down. On the bright side, exports to Mainland China are up 8.0%.

The demand for newsprint is down and as a result, BC's exports of that product have fallen



SEASONALLY ADJUSTED EXPORTS

Exports (adjusted for seasonality) declined in March

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 exports dropped 8.8% in February as shipments to countries other than the United States plunged 12.5% and exports to the US fell 6.2%. Forest products (-12.1%) were the main culprit in the slump in exports to the US, although all other major commodity groups also recorded fewer exports in March.

- The situation was similar for exports to the rest of the world, with shipments of all commodity groups showing a decline, but it was industrial and consumer goods (-24.2%) with the most significant drop.



BC Exports, Seasonally Adjusted (\$Millions)

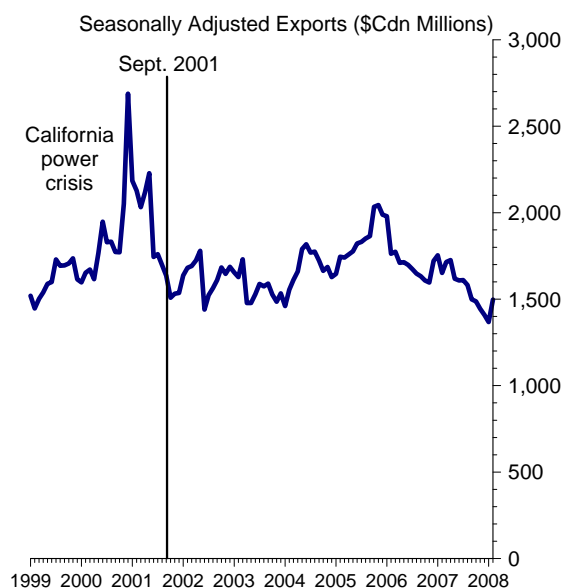
Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Mar 2006	185	593	1,103	417	595	2,892	1,777
Apr	181	548	1,074	359	516	2,678	1,710
May	193	522	1,078	353	578	2,723	1,713
Jun	191	571	1,105	380	720	2,967	1,698
Jul	201	494	1,043	351	661	2,750	1,676
Aug	198	509	1,060	338	597	2,702	1,651
Sep	207	514	1,046	375	596	2,738	1,636
Oct	208	445	1,040	392	682	2,768	1,611
Nov	200	447	1,006	354	611	2,618	1,599
Dec	208	540	1,026	380	698	2,853	1,722
Jan 2007	208	507	1,113	363	626	2,816	1,742
Feb	200	545	976	368	555	2,644	1,646
Mar	211	550	1,064	380	602	2,806	1,721
Apr	200	564	1,117	378	662	2,922	1,726
May	189	570	1,013	336	625	2,732	1,617
Jun	181	510	988	341	608	2,629	1,608
Jul	169	533	982	347	606	2,637	1,611
Aug	181	490	990	351	552	2,564	1,584
Sep	196	471	836	358	589	2,450	1,502
Oct	175	497	875	340	569	2,456	1,475
Nov	169	501	879	346	634	2,530	1,449
Dec	187	458	856	318	537	2,356	1,412
Jan 2008	184	521	807	329	551	2,392	1,409
Feb	196	545	855	324	614	2,533	1,494
Mar	182	514	780	310	525	2,311	1,401

Border Line Threats to Trade

Given the volume of trade between Canada and the United States, anything that threatens the movement of those goods is a cause for concern in both countries. In 2007, two-way trade in goods between Canada and the US was valued at \$576.4 billion, of which \$43.2 billion, or approximately 8%, was cleared through BC ports. However, companies on both sides of the border are expressing concern that rising costs due to border delays and increased security in the wake of 9/11 could pose a threat to that trade.

Nevertheless, contrary to what seems to be the common perception, there has not been a reduction in exports to the United States as a result of the 'thickening' of the border due to new security procedures following 9/11. When examining data for British Columbia, this is not readily apparent, since there was a substantial drop in the value of exports; however, this is

BC origin exports to the United States did not suffer an appreciable drop-off after 9/11



Source: BC Stats

due to the energy crisis in California and the ramp up in the value of electricity that temporarily boosted BC's exports to the US well beyond 'normal' levels. If data prior to 2000 is observed, one can see no appreciable decline in the value of BC's exports after 2001, at least not one that could be attributed solely to border problems.

In fact, a study by the Conference Board of Canada found that the post-9/11 atmosphere of increased security has had no effect on the volume of Canadian commodity exports to the United States.¹ However, the report did find that the costs of doing business across the border have increased and cautioned that "Given the long-term horizons for investment decisions, we may not yet have observed the full economic repercussions of the post-9/11 border security environment."²

The cost increases stem from both the uncertainty caused by delays at the border as well as a number of new fees put in place to pay for new security measures. The border delays are being caused by a combination of several factors, including insufficient infrastructure (i.e., not enough border crossings or too few lanes at existing crossings), understaffing on both sides of the border, inefficient processes (e.g., requiring clearance by more than one official) and constantly changing regulations. According to the Conference Board report, some progress has

¹ Goldfarb, Danielle, *Reaching a Tipping Point? Effects of Post-9/11 Border Security on Canada's Trade and Investment*, The Conference Board of Canada, June 2007.

² Goldfarb, p. 20.

been made with some of these issues and wait times at the border are decreasing.

Nevertheless, the uncertainty surrounding the time necessary to move goods over the border has resulted in a regression of sorts, back to the methods that preceded the Canada-US Free Trade Agreement. Companies are being forced to abandon just-in-time delivery systems in which goods are delivered just as they are needed, thus avoiding warehousing costs, and instead, are having to stockpile goods, thereby reducing efficiency and increasing costs. Exporters are also changing the manner in which they do business in other ways, such as shifting to different border crossings or crossing at off-peak times, both of which could represent a loss in efficiency and an increase in costs.

There have been a number of initiatives put in place by both the Canadian and American governments to help speed up border crossings for low-risk carriers, such as Free and Secure Trade (FAST), Customs-Trade Partnership Against Terrorism (C-TPAT) and Partners in Protection (PIP), just to name a few. All these programs are designed to fast track border crossings by pre-approving cargo, undergoing security audits, or other similar measures. There are costs to be borne by the exporter for most of these programs, including fees that are sometimes quite significant. However, many exporters have been more than willing to pay these costs to gain more certainty with regard to the time it takes to ship goods.

Unfortunately, some of these programs are not very well co-ordinated and exporters can be subjected to duplication in fees. Also, they are discovering that enrolment in these programs does not necessarily guarantee cost savings. A report produced jointly by the Canadian and U.S. Chambers of Commerce warns that, "Un-

fortunately, participation in these programs is providing few benefits. Of concern are the increasing rate of inspections and the imposition of additional border fees that are being put in place without consideration to the level of risk of the shipments or the compliance level of the importer. Participants face similar increases in fees, border delays, and compliance burdens as those outside the program. The benefits of participation may not outweigh the costs."³

These new fees are particularly costly to manufacturers that ship inputs back and forth across the border. For example, parts for a vehicle manufactured in North America may cross the border as many as seven times during production, incurring a fee each time.⁴ The same is true for many processed foods. As a result, products manufactured in North America are at a competitive disadvantage compared to goods made in other countries that only get charged the fee on the completed product. In a speech to the North Carolina Technology Association, Perrin Beatty, the President and CEO of the Canadian Chamber of Commerce, railed against this policy, stating, "This means that, as a direct result of government policy, we are discriminating against products manufactured in North America and in favour of those produced abroad at a time when the North American industrial base is under unprecedented pressure...Economists have a word for this -- 'dumb.'"⁵

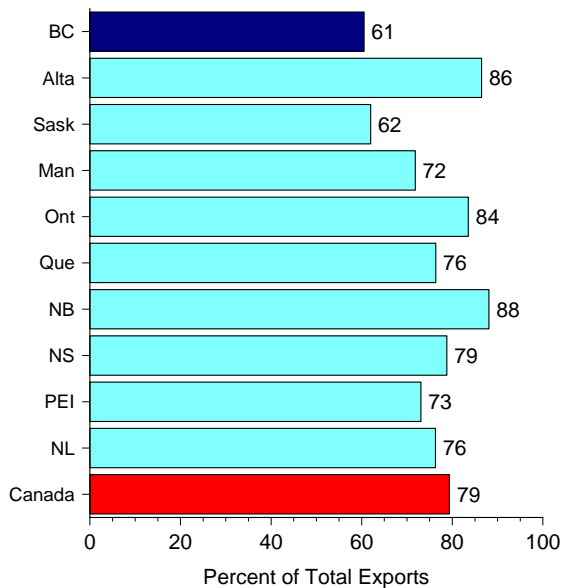
³ Canadian Chamber of Commerce and U.S. Chamber of Commerce, *Finding the Balance: Reducing Border Costs While Strengthening Security*, February 2008, p. 7.

⁴ Chambers of Commerce, p. 5.

⁵ As quoted in, "U.S. tight security hurts cross-border business," *Vancouver Sun*, April 24, 2008, p. C9.

The concern for Canada is that companies will relocate all or part of their operations to the United States in order to avoid the hassles with the border. The US is the primary market for these goods and, presumably, the only reason these companies locate part of their operations in Canada is because it is cost-effective to do so. If the costs of crossing the border continue to mount, they may reach a ‘tipping point.’ “That is the point at which the advantages of locating production in the far larger U.S. market and avoiding the border entirely outweigh the advantages of locating parts of production in Canada.”⁶

The US is the primary destination for Canadian exports, regardless of province of origin



Source: Statistics Canada

In addition to the threat of losing manufacturing facilities and the jobs attached to them, Canadian exporters could also see their share of the US market decline if the border costs make their products uncompetitive with foreign

manufacturers. The United States is by far the primary market for exports from each and every province in the country. Even for BC, which is tied with Saskatchewan as the least dependent province in terms of trade with the United States, the US is still the destination for 61% of the province’s goods exports. On the flip side, even though China has surpassed Canada as the top source of imports into the United States, Canada is still the top destination for American exports and the most significant trade partner to the US in terms of two-way trade. Neither country can afford to treat trade matters between the two nations lightly.

Although the Conference Board report found that trade between Canada and the United States has not fallen as a result of costs at the border, there is no way of knowing whether or not the volume of trade would have expanded even more if it weren’t for these border constraints. Security is clearly an important goal, but there are ways to attain greater security while maintaining a strong trade relationship. Both the Conference Board and Chambers of Commerce reports offer many suggestions on how a balance can be achieved between maximizing security while minimizing trade costs. It is in the best interest of both Canada and the United States to try to realize that balance.

⁶ Goldfarb, p. ii.

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

08-03	<i>Border Line Threats to Trade</i> (released May 2008)	07-01	<i>Is the Sun Rising on Trade With Japan?</i> (released March 2007)
08-02	<i>Call of the Loonie: American Film and Television Productions Shun BC in 2007</i> (released April 2008)	06-12	<i>Year in Review: 2006</i> (released February 2007)
08-01	<i>BC Commodity Exports: Year in Review 2007</i> (released March 2008)	06-11	<i>Brazil-Canada Trade Getting Over Jet Lag</i> (released January 2007)
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)

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) as well as with the release of the January and February data.

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.