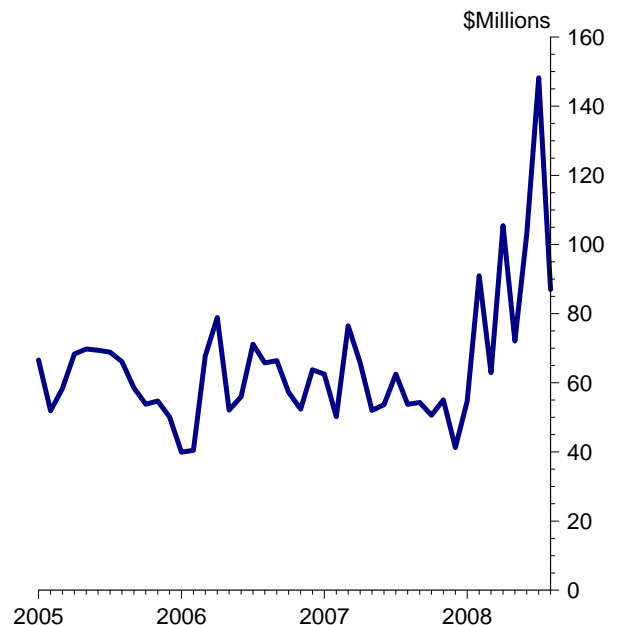


## Exports ♦ August 2008

- The value of BC origin exports is a shade lower over the first eight months of 2008 compared to the same period a year earlier (-0.3%). In recent months exports have been significantly higher year-over-year compared to 2007, including a 13.4% increase in August. This has offset much of the poor performance earlier in the year.
- BC's export picture has been mixed so far in 2008. Shipments of forest sector products have been in a tailspin. Falling demand for housing in the United States has helped drive down the value of wood product exports 29.5% compared to the January to August period a year earlier. Pulp and paper product shipments are 9.6% off last year's pace, with both pulp (-12.1%) and newsprint (-36.7%) taking big hits.
- While the forest sector has suffered a gloomy performance, the opposite has been true in the energy sector. Overall energy product exports are up 40.7%, largely driven by a phenomenal 78.8% jump in the value of coal shipments. A large portion of this increase is due to higher prices as the quantity of coal exported has climbed only 13.2%. There has also been a significant boost in the value of exports of natural gas (+15.9%), but higher prices are responsible for all of the increase as quantities shipped have actually declined 2.3%.
- The value of chemical and chemical product exports has soared 51.8% year-to-date in 2008. Meanwhile, exports of metallic mineral products are up marginally (+1.5%) year-to-date, as increased shipments of copper ores and concentrates (+11.5%) and molybdenum ores and concentrates (+9.4%) have helped offset declines in exports of unwrought zinc (-18.2%) and unwrought aluminum (-5.4%).
- The value of exports of machinery and equipment is down 6.3% as shipments of motor vehicles and parts (-15.6%), scientific, photographic and measuring equipment (-4.8%) and other machinery and equipment (-8.3%) all dropped. Electrical, electronic and communications products bucked the trend with a 3.8% growth in exports.
- BC exports to the United States are down 11.5%, but shipments to the Pacific Rim (+16.0%) and the European Union (+10.1%) are up, mostly offsetting the drop in shipments to the US.

### *BC Exports of chemical products have taken off in 2008*

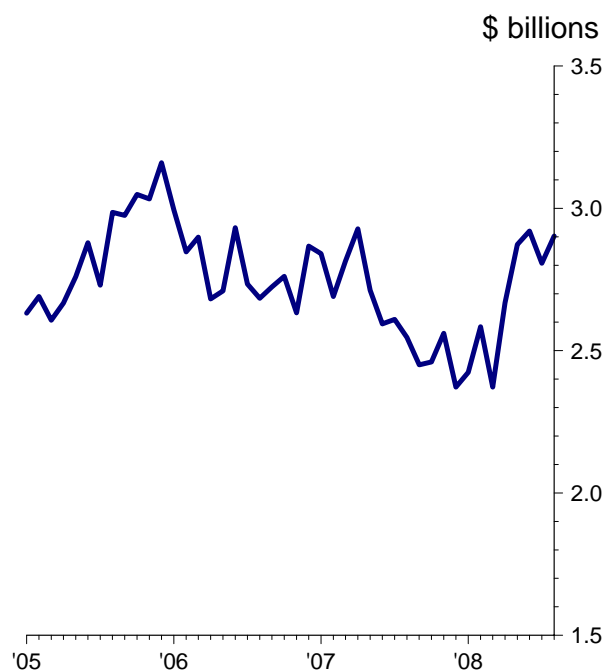


## SEASONALLY ADJUSTED EXPORTS

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.

- There was a 3.4% increase in commodity exports from BC in August, as strong growth in shipments of industrial and consumer goods (+23.5%) helped offset an 8.4% drop in exports of forest products.
- Exports to the US dipped 1.7% in August, due mainly to a 10.5% slump in shipments of energy products. Exports to the rest of the world climbed 9.1% as industrial and consumer goods shipments jumped 51.0% and machinery, equipment and automobile shipments also saw strong growth (+12.4%).

*Exports (adjusted for seasonality) climbed in August*



## BC Exports, Seasonally Adjusted (\$Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Aug 2006	196	507	1,061	335	584	2,684	1,646
Sep	206	505	1,048	375	590	2,724	1,635
Oct	207	443	1,042	393	675	2,761	1,610
Nov	201	452	1,005	352	623	2,633	1,603
Dec	208	550	1,029	381	700	2,867	1,724
Jan 2007	212	520	1,114	362	633	2,841	1,745
Feb	200	576	978	369	567	2,690	1,667
Mar	212	545	1,070	381	607	2,815	1,722
Apr	199	560	1,109	379	681	2,928	1,713
May	189	561	1,010	334	618	2,712	1,629
Jun	182	485	994	344	589	2,594	1,594
Jul	168	526	964	349	605	2,610	1,598
Aug	178	491	994	346	538	2,546	1,579
Sep	196	464	839	357	594	2,450	1,502
Oct	175	494	878	340	573	2,460	1,474
Nov	169	507	880	343	661	2,561	1,452
Dec	188	467	860	318	539	2,372	1,418
Jan 2008	184	547	807	329	558	2,424	1,420
Feb	192	580	858	325	629	2,584	1,513
Mar	181	576	771	313	531	2,372	1,458
Apr	187	753	811	314	602	2,668	1,513
May	182	803	834	313	740	2,873	1,404
Jun	184	920	788	322	707	2,920	1,525
Jul	175	874	817	325	615	2,807	1,469
Aug	190	862	749	342	760	2,903	1,443

## Milking the System: Is Canada's Supply Management System an Impediment to Free Trade?

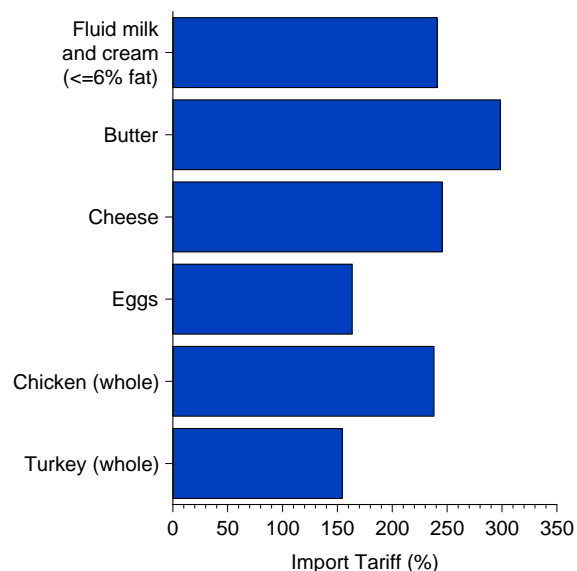
The Doha round of the World Trade Organization's (WTO) global free trade negotiations has been beset with problems and the latest meetings, which showed some fleeting promise, once again ended without an agreement in place. Essentially, the talks have failed because too many countries refuse to give up protection for industries they deem "sensitive." Many developed nations are refusing to lower tariffs and reduce aid for their agricultural sectors, while developing countries are intent on retaining tariffs on industrial products to protect their nascent industrial industries.

Canada has not been an exception to these protectionist positions, as Canadian negotiators have been given the mandate to protect Canada's supply management system for dairy products, poultry and eggs. In 2005, the House of Commons unanimously passed a resolution that instructed negotiators to defend Canada's supply management system, indicating that the system has all-party support.

This system sets strict quotas on how much of these goods can be produced and determines the price at which they can be sold. Some imports are allowed in very small quantities, but once that threshold is reached, they are subject to prohibitive tariffs. For example, imports of butter over access commitment are subject to tariffs of 298.5%, while tariffs on imports of cheese over the quota amount to 245.5%. Tariffs for fluid milk and cream range from 241% to 292.5%, depending on fat content. For fluid milk with fat content not exceeding 6%, the tariff is 241%, but not less than 34.5 cents per litre. By comparison, in the United States, the import

duty for the same good is 0.43 cents per litre. While dairy products generally have the highest tariffs, those for poultry and eggs are also quite prohibitive.

Canadian import tariffs on supply managed goods are extremely high



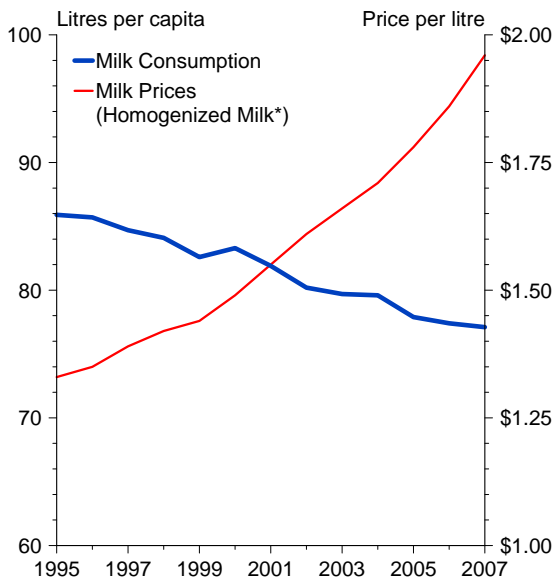
Source: Canada Border Services Agency

Tariffs of this magnitude basically ensure that Canadian producers of these goods will not have to face foreign competition. As a result, the marketing boards can set the price of these products at their discretion, in effect giving them the power of a monopoly. As with any monopoly, the consequence is generally higher prices and less variety for consumers. In a report on Canada's agricultural policies, the Organisation for Economic Co-operation and Development (OECD) confirmed this, stating that "While the ostensible objective of Canada's supply-management systems is to reduce price variability, in practise they have had the effect of sustaining prices above world levels, consid-

erably so for milk.”<sup>1</sup> According to the OECD, Canadian consumers pay up to two and a half times as much for butter and cheese than do Americans. The OECD’s harsh assessment of this situation is that “Such rents are a blight on the economic landscape and totally unjustifiable in a world of skyrocketing global dairy prices.”<sup>2</sup>

An unintended consequence of the high prices for milk and other dairy products is that demand for these goods has fallen. This is a not terribly unpredictable result for anyone familiar with the basic principles of economics.

Predictably, milk consumption has dropped as prices have risen

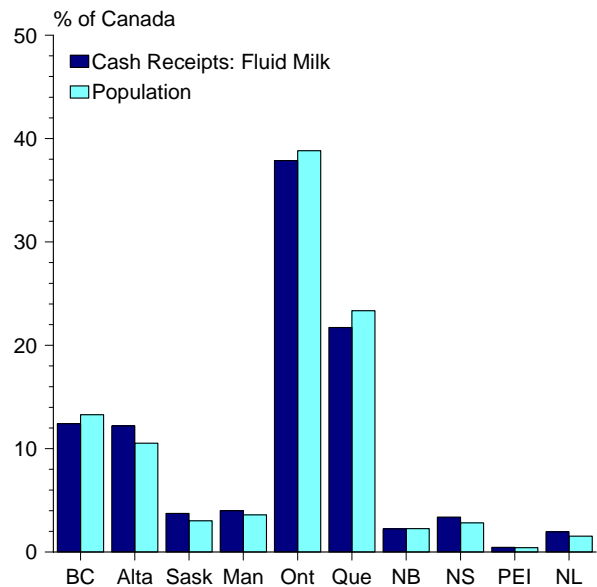


Source: Statistics Canada  
 \*Note: prices for partly skimmed milk are similar

The cost to the consumer of this type of quota system is not in the higher price tag alone. There is also the issue of a smaller variety of products from which to choose. The supply management system does not encourage innovation as much as a free market model would and the choices for the consumer are fewer as a result. Smaller farming operations that would be able to specialize in products for niche markets cannot afford to buy quota and therefore are not often viable. Another issue, given the growing concern over carbon emissions and the desire to buy more local produce, is that consumers in Canada don’t always have the option of buying dairy products that are locally produced.

While the quotas for the production of fluid milk are more or less distributed according to population, the same cannot be said for milk used for industrial purposes (i.e., for producing goods such as ice cream, butter, etc.).

Got milk? Fluid milk production in Canada is distributed more or less by population...

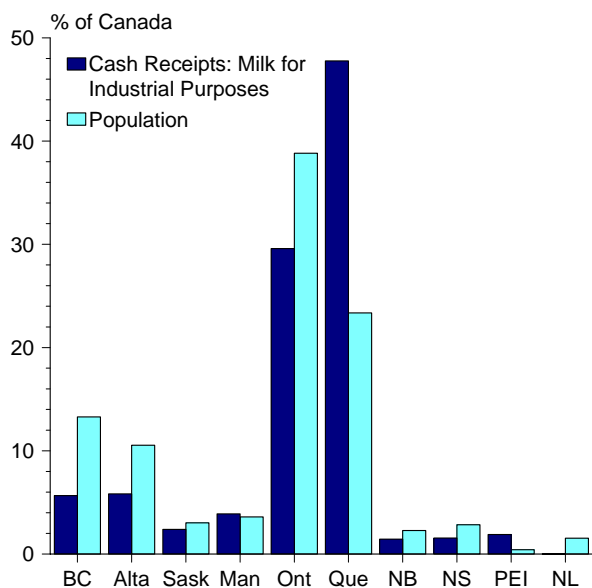


Source: Statistics Canada

<sup>1</sup> Jarrett, Peter and Kobayakawa, Shuji. (Aug. 2008) *Modernising Canada’s Agricultural Policies*, Economics Department Working Paper No. 629, Organisation for Economic Co-Operation and Development, p. 10.

<sup>2</sup> Organisation for Economic Co-Operation and Development. (June 2008) *Economic Survey of Canada, 2008*, Policy Brief summary, pp. 9-10.

...but the production of milk for industrial purposes is unevenly distributed



Source: Statistics Canada

Dairy farmers in Quebec, a province with only 23% of the nation's population, produced approximately 48% of the country's milk used for industrial purposes in 2007.

Aside from the obvious drawbacks for consumers, Canada's supply management system may also be hampering efforts to arrive at free trade agreements. During WTO negotiations, Canada was criticized for demanding concessions from other nations while at the same time steadfastly defending its own prohibitive tariffs on supply managed goods.

This criticism did not all come from abroad. The Canadian Agri-Food Trade Alliance (CAFTA), which represents agricultural producers and processors responsible for over 80% of Canada's agriculture and food exports and more than 60% of farm cash receipts, claims that Canada's supply management system is harming more farmers than it helps. Canada's support of allowing exceptions for sensitive

products is counterproductive for a country so dependent on exports. "In the rest of the world, sensitive products are largely meat and grains, which are the most important agricultural goods produced in Canada and exported. Any lowering of ambition on sensitive products would be a major loss for Canada's agriculture and agri-food sector."<sup>3</sup>

An examination of export figures shows that CAFTA has reason for concern. In 2007, exports of dairy, poultry and eggs comprised only 2.0% of total Canadian agri-food exports and these goods accounted for only 20% of overall farm cash receipts. An independent analysis of the proposed new WTO rules suggested that they could add an additional \$3 billion per year to Canadian agricultural exports, implying that each day without an agreement is costing Canada's agri-food industry approximately \$10 million.<sup>4</sup> Add to this the cost to Canada's exporters of non-agricultural goods and services and it would appear that Canada may be sacrificing billions of dollars in potential export revenue by refusing to budge on the tariffs protecting Canada's supply managed goods.

The supply management system may also be hurting some of those very farmers it seeks to protect. According to the OECD, "It is likely that the refusal to open the supply-management regimes is penalising these sectors by reducing their ability to compete in international markets. International evidence also underlines the fact that liberalising the dairy

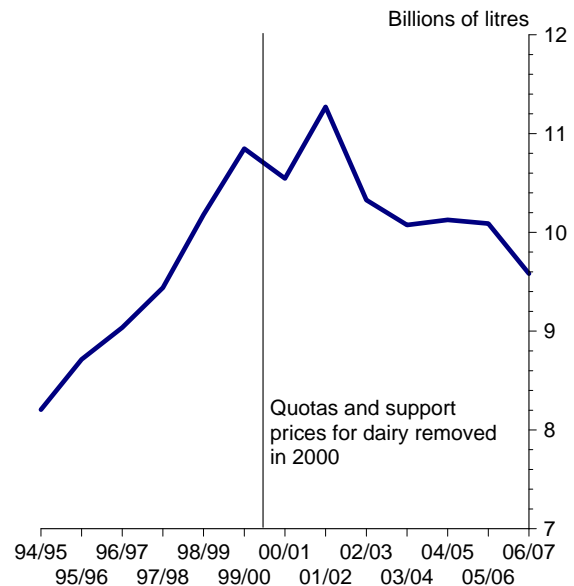
<sup>3</sup> Darcy Davis, President of CAFTA, as quoted in "WTO Proposal on Agriculture Essential to Future of Canadian Farmers," CAFTA media release, July 10, 2008. Retrieved September 30, 2008 from [www.cafta.org](http://www.cafta.org).

<sup>4</sup> George Morris Centre figures, as quoted in CAFTA media release, July 10, 2008.

sector would be beneficial to Canada’s economic performance both by improving within-sector productivity growth and by accelerating resource reallocation to more productive sectors.”<sup>5</sup> The Montreal Economic Institute also weighs in, suggesting that “By protecting inefficient producers, the current system makes the Canadian industry less competitive.”<sup>6</sup>

Despite these arguments, there are still those that maintain that supply management is necessary to ensure that Canada maintains domestic production of these goods. However, the reasons for maintaining Canada’s supply management system (without it, domestic production of those goods would fall dramatically; the supply of those goods would become unstable; retail prices would not drop such that farmers would lose revenue without any benefit to consumers) have been disproved in both New Zealand and Australia, where similar supply management systems for their dairy industries were dismantled. New Zealand has a thriving dairy industry and is a leading exporter of dairy products. In Australia, retail prices for milk have fallen substantially and milk production per farm has increased (note that drought conditions affected overall production in Australia somewhat as a number of farms went under, but levels are still higher than in the decade preceding deregulation).

Despite dismantling supply management for dairy, milk production in Australia did not drop appreciably



Source: Dairy Australia

There are a number of arguments in favour of phasing out Canada’s supply management system: Consumers would likely benefit from fairer prices and greater choice, efficient producers of dairy, poultry and eggs would have more opportunities to expand their markets, and Canadian free trade negotiators would have more leverage to seek tariff reductions from other countries, which would ultimately help all Canadian exporters. In addition, as the OECD points out, “Even if reform can be staved off for the moment, it is ultimately inevitable. If successful, the Doha Round will lead to a reduction in over-quota tariffs. The adjustment will be more difficult if the current high over-quota tariffs are maintained...The earlier the reforms are put in place, the more gradual the transition will be.”<sup>7</sup>

<sup>5</sup> Jarrett and Kobayakawa, p. 14.

<sup>6</sup> Montreal Economic Institute. (Jan. 2006) “Reforming dairy supply management in Canada: the Australian example.”

<sup>7</sup> Jarrett and Kobayakawa, p. 14.

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

<b>08-08</b>	<i>Milking the System: Is Canada's Supply Management System an Impediment to Free Trade?</i> (released October 2008)	<b>07-06</b>	<i>BC's Trade with California</i> (released August 2007)
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<b>07-09</b>	<i>Is Cross-Border Shopping Making a Comeback?</i> (released November 2007)	<b>06-07</b>	<i>Has Doha Gone the Way of the Dodo?</i> (released September 2006)
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<b>07-07</b>	<i>Canada Weighs Anchor on Free Trade with EFTA</i> (released September 2007)	<b>06-05</b>	<i>Breaking the Interprovincial Trade Barrier</i> (released July 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.