

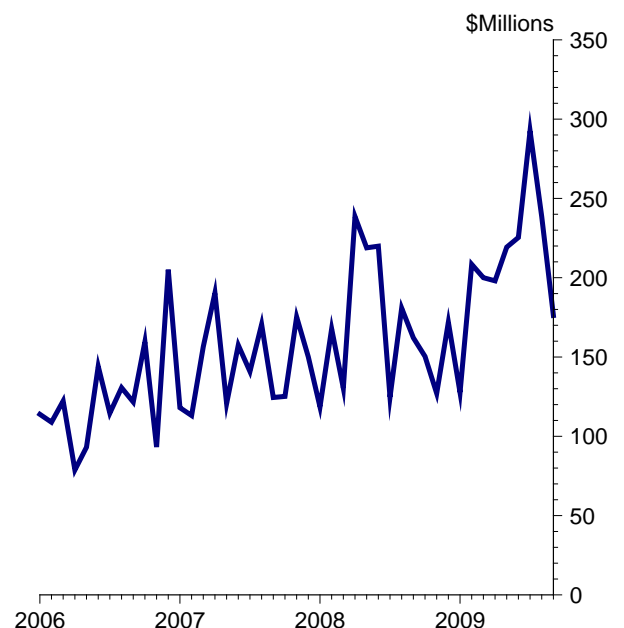
Exports ♦ September 2009

- There has been a 25.1% drop in the value of British Columbia origin exports over the first three quarters of 2009 compared to the same period in 2008. Exports to most of BC's major trading partners have declined, including the United States (-27.0%) and Japan (-31.8%), but Mainland China has been the one significant destination for BC exports that has bucked the trend, with shipments to that country increasing 20.8%.
- The forest sector has been particularly hard hit in terms of slumping exports. Compared to the first three quarters of 2008, exports of solid wood products have fallen 25.5% year-to-date. Similarly, pulp and paper shipments have dropped 26.9%.
- The situation is no better in the energy sector, where exports of energy products are down 29.2%. A combination of price declines and reduced demand have resulted in a 56.4% drop in the value of electricity exports. Natural gas shipments have declined 41.5% as a result of substantially lower prices, as volumes exported have actually increased 22.8%. International shipments of coal have slumped 19.5%, while exports of other energy products, including crude petroleum, are down 12.1%.
- There was also a substantial drop in the value of metallic mineral exports, as shipments have fallen 33.7% year-to-date. Exports of copper ores and concentrates fell 21.3%, shipments of molybdenum ores and concentrates plunged 55.1% and unwrought aluminum (-39.5%) and zinc (-34.5%) also experienced significant declines in the value

of exports. Fabricated metal product shipments also fell, slumping 33.5%.

- There was an 18.0% drop in exports of machinery and equipment in the first three quarters, including a 36.1% decline in shipments of motor vehicles and parts.
- The value of exports of chemicals and chemical products dropped 29.6% in the January to September period compared to the same nine months a year earlier.
- The one bright spot in an otherwise dismal export picture was in exports of agricultural and food products. Exports of agriculture and food other than fish climbed 2.9%, while seafood product shipments edged up 0.3%.

Mainland China continues to be the one bright spot in BC's export picture as shipments to that country are up significantly from 2008

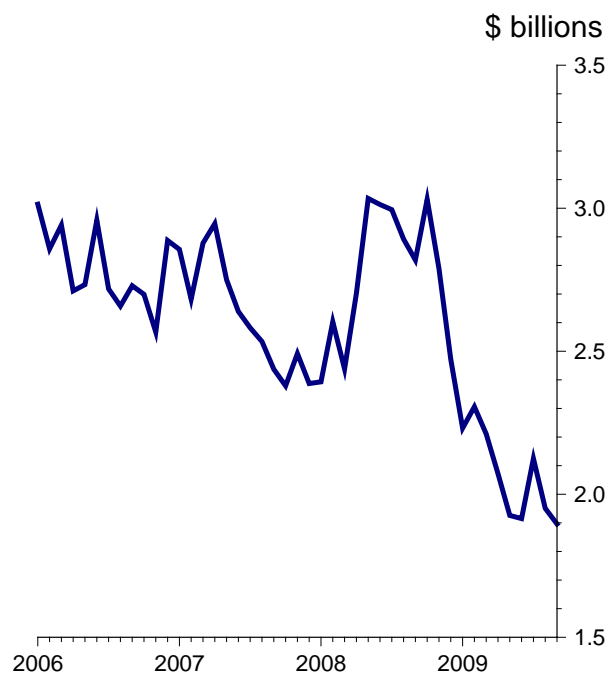


SEASONALLY ADJUSTED EXPORTS

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.

- Exports dropped 2.8% in September with all major commodity groups experiencing a decline. The largest declines were for shipments of machinery, equipment and automobiles (-7.9%) and industrial and consumer goods (-4.2%).
- The value of exports to the United States rebounded somewhat from August, climbing 2.1%. An 18.4% jump in shipments of energy products was responsible for much of the increase, although exports of industrial and consumer goods also increased (+1.7%). Exports to countries other than the US fell 7.8%.

*Exports (adjusted for seasonality)
fell again in September*



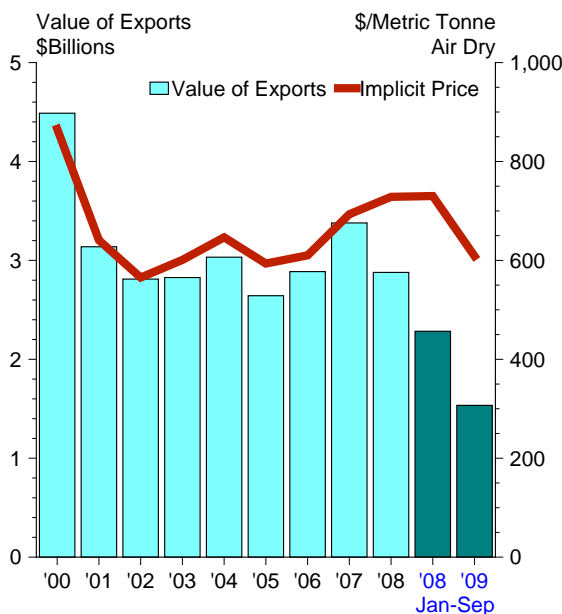
BC Exports, Seasonally Adjusted (\$Millions)

Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
Sep 2007	196	467	814	365	594	2,437	1,485
Oct	171	488	847	325	548	2,379	1,435
Nov	169	503	859	338	622	2,492	1,443
Dec	184	468	848	316	571	2,387	1,416
Jan 2008	184	466	820	337	585	2,393	1,367
Feb	197	551	873	330	652	2,603	1,500
Mar	180	585	791	324	557	2,438	1,490
Apr	191	737	831	319	624	2,703	1,535
May	187	860	862	321	804	3,034	1,423
Jun	187	996	794	329	707	3,013	1,541
Jul	180	1,092	807	322	595	2,995	1,646
Aug	198	862	755	343	734	2,892	1,427
Sep	209	866	798	331	614	2,819	1,376
Oct	222	984	829	350	646	3,031	1,568
Nov	211	889	738	347	605	2,789	1,429
Dec	205	778	694	323	473	2,472	1,303
Jan 2009	207	612	636	305	471	2,231	1,251
Feb	212	690	631	285	488	2,306	1,216
Mar	200	589	603	271	549	2,211	1,112
Apr	198	547	615	268	444	2,072	1,061
May	191	470	574	271	419	1,926	1,056
Jun	194	470	566	255	431	1,915	1,003
Jul	202	614	584	268	457	2,125	1,010
Aug	181	488	570	248	465	1,951	984
Sep	174	481	569	228	445	1,896	1,005

BC's Pulp and Paper Exporters Facing Challenges

British Columbia's pulp and paper industry has been struggling over the last couple of years in the face of lower prices and reduced demand resulting from the global economic slowdown. The value of BC's pulp exports fell 15% between 2007 and 2008 and over the first three quarters of 2009, exports have dropped another 33% compared to the same period in 2008. The announcement that the Eurocan pulp and paper mill in Kitimat is slated to be permanently closed on January 31, 2010 putting 535 people out of work has cast further pallor on the industry.

British Columbia's pulp exports have been slumping over the last couple of years



West Fraser Timber Co. Ltd., the owner of the Eurocan mill, has stated that high costs and poor returns are the reasons for the closure. Pulp prices have actually risen in recent months, even prompting two Vancouver Island

pulp mills to increase production by restarting dormant lines, but a high-valued dollar, strong foreign competition and increased production costs have affected the viability of the Kitimat operation. The rise in costs is mainly due to a shortage of lower-cost wood chips, which is the result of slowdowns at region lumber mills in reaction to falling demand for lumber. As a result, the pulp and paper mill has had to rely more heavily on pricier whole log chips as inputs.

Eurocan will be the second major pulp mill shut down in BC in just over a year, as Catalyst Paper idled its Elk Falls mill in November 2008, putting about 440 people out of work. Fibre supply problems were also a significant factor in the shutdown of the Elk Falls facility as the mill relied primarily on sawdust from Interior lumber mills to produce its pulp.

It is likely that fibre supply will continue to be a problem for BC pulp mills given the damage the mountain pine beetle has inflicted on the province's pine forests, as well as the competition for that supply from other uses, such as the manufacture of biofuel.

Another difficulty facing BC pulp producers is the issue of the "black liquor" subsidy available to competitors in the United States. Black liquor is a by-product of the pulping process that pulp mills use as a biofuel to run their operations. Pulp producers in the United States have been taking advantage of a tax credit for companies that mix alternative fuels with fossil fuels. The tax credit is meant to encourage the development of more environmentally-friendly fuels; however, some pulp companies have been mix-

ing small amounts of diesel in with the pure biofuel to gain access to the tax credits, in essence defeating the entire purpose of the tax credit. The loophole in the legislation can be viewed as a subsidization of the US pulp industry, saving American pulp producers billions of dollars and creating an advantage over foreign competitors.

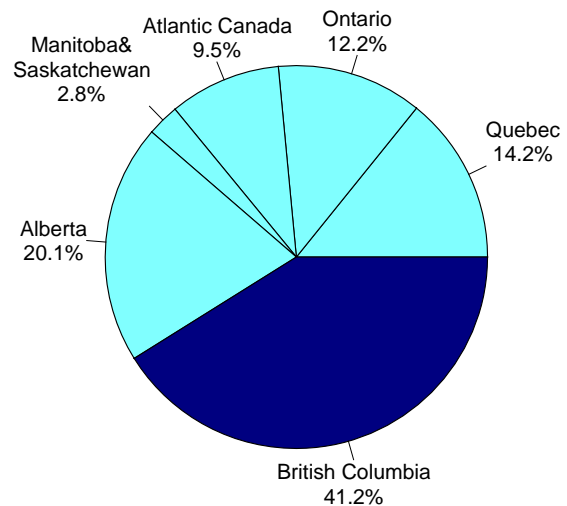
The subsidy is harming not only foreign companies, but also American companies that are not eligible for the subsidy. Those mills that employ a mechanical pulping process and those that use recycled materials as inputs do not produce black liquor as a by-product and therefore cannot get the tax credit. This means that mills using a chemical process that has black liquor as a by-product can afford to offer their products at a lower price.

For British Columbia, the threat is not only to pulp mills, but also to the lumber mills that derive revenue from supplying the pulp industry with wood chips and sawdust. The Canadian federal government has reacted to the threat to Canada’s forest industry by offering one billion dollars for a green energy fund available to companies that produce black liquor. There is a requirement that the money be used to finance environmental upgrades, in contrast to the US subsidy, which has no such restrictions. While the fund has been welcomed by the Canadian industry, it is thought that it will not be enough to offset the impact of the American subsidy and, of course, producers using mechanical processes or recycled material inputs are excluded.

The American tax credit expires in December; however, a new subsidy program is set to take its place that could apply to black liquor and this has Canadian pulp producers concerned.

Given that about two-fifths of Canadian pulp exports are produced in British Columbia, these types of trade distorting subsidies are of particular concern to this province.

In 2008, British Columbia was by far the most significant exporter of pulp in Canada

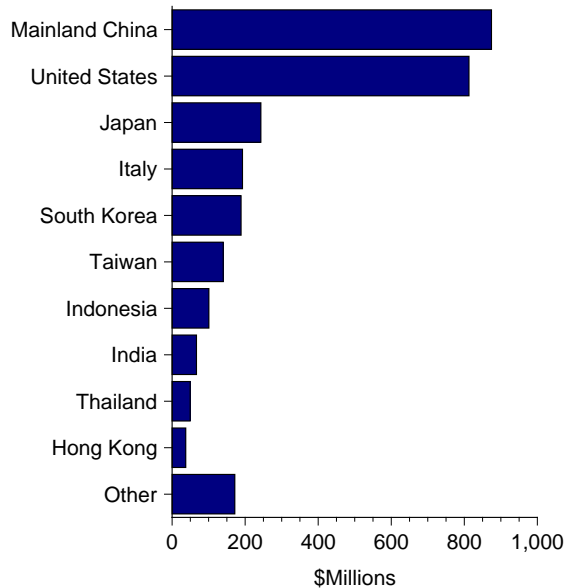


Source: Statistics Canada

British Columbia exported \$2.9 billion dollars worth of pulp in 2008, amounting to almost four million metric tonnes. The top destination for BC’s pulp exports was Mainland China, which imported about 30% of the pulp shipped from the province in 2008. The United States was the next largest market, taking in 28% of BC’s pulp exports. Japan (8%), Italy (7%) and South Korea (7%) rounded out the top five destinations for BC pulp. Given that the United States is such a significant market for BC pulp and given that American pulp exporters compete with BC producers in the other major markets, anything that gives American pulp producers an advantage will likely cause harm to BC companies. After Mexico (the destination for 15% of US pulp exports), the next three top

destinations for American pulp products in 2008 were Mainland China (14%), Italy (9%) and Japan (9%). The US also shipped about 3% of its exported pulp to Canada.

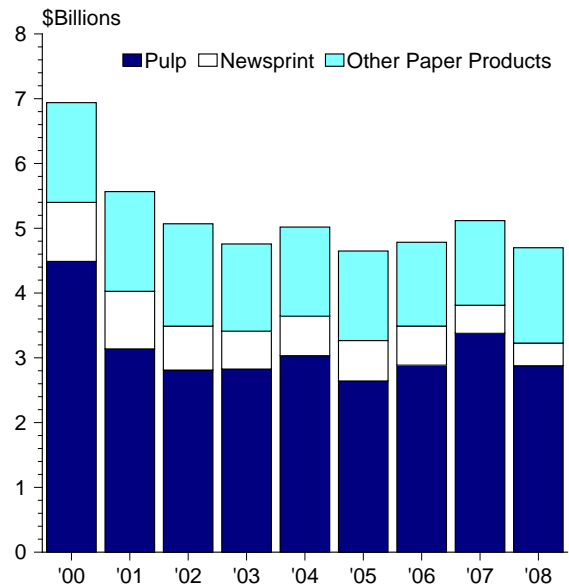
The bulk of BC's pulp exports are shipped to Asia and the United States



Source: Statistics Canada

Pulp makes up the bulk of BC's pulp and paper exports. In 2008, about 61% of total pulp and paper exports were comprised of pulp. Another 7% was newsprint and other paper products accounted for the remaining 31%. BC's paper exports have fared somewhat better than pulp, with exports of paper (excluding newsprint) climbing almost 13% between 2007 and 2008. However, the economic downturn appears to have affected demand for this product as well, as the value of exports has slumped 13% year-to-date to September compared to the first three quarters of 2008.

Pulp comprises the bulk of BC's pulp and paper exports

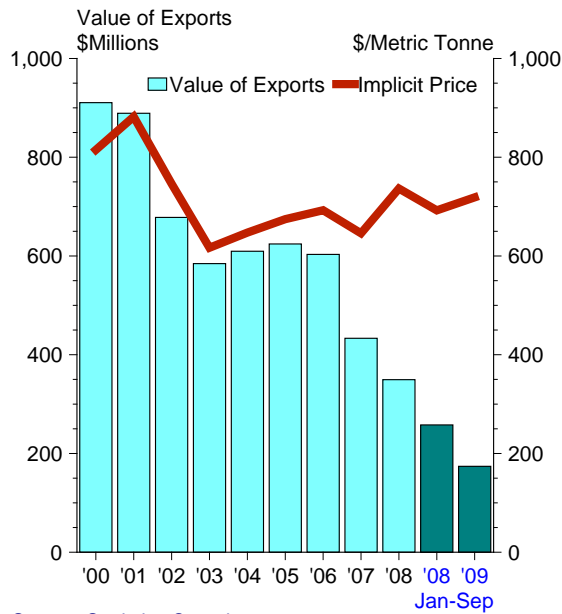


Source: Statistics Canada

Over three-quarters (76%) of BC's exports of paper products (excluding newsprint) were shipped to the United States in 2008. Mexico (4%) was the next largest market for paper products made in British Columbia.

Newsprint producers have faced the most challenges in the pulp and paper sector, as exports of that product have trended down throughout the last decade. From 2000 to 2008, the value of BC's newsprint exports plunged almost 62%. So far in 2009, shipments of newsprint to international destinations have fallen 32% compared to the same nine-month period in 2008. This is despite the fact that the price BC newsprint exporters have received for their product has been trending up over the last several years.

The value of British Columbia's newsprint exports has fallen dramatically in the last few years



Source: Statistics Canada

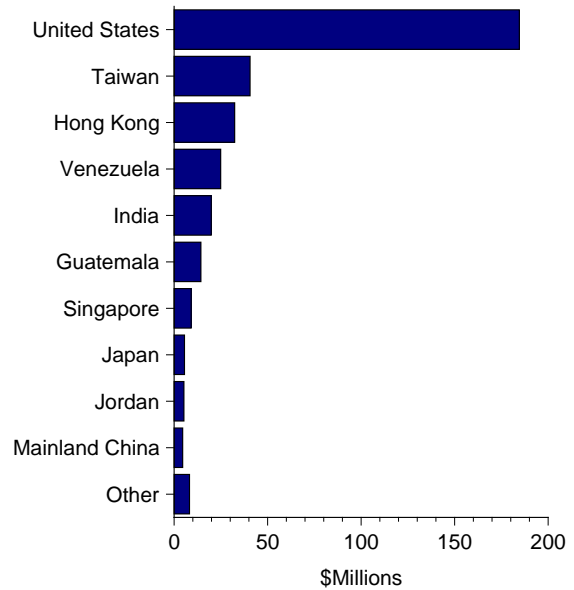
Several large newspaper dailies in North America have ceased operation in the last couple of years as competition from sources such as the Internet and all-news cable television networks have reduced circulation and this has had a marked effect on demand for newsprint. Newsprint is used mainly to produce newspapers, of which daily newspapers comprise the bulk of the market, with advertising flyers and non-daily newspapers making up a much smaller portion of the demand for the product.

According to the World Association of Newspapers, newspaper circulation fell 3.7% in North America in 2008.¹ Europe also saw a decline, with circulation dropping 1.8%; however, overall global newspaper circulation climbed 1.3% and is up 8.8% over the last five years. Af-

¹ World Association of Newspapers, "Newspaper Circulation Grows Despite Economic Downturn: WAN," May 27, 2009.

rica (+6.9%), Asia (+2.9%) and South America (+1.8%) all experienced increased newspaper circulation in 2008. The problem for BC newsprint producers is that the United States represents more than half of BC's export market for newsprint.

Over half of BC's newsprint exports were sent to the United States in 2008



Source: Statistics Canada

In addition to declining demand due to lower circulation in the US, BC producers have lost some market share to foreign competitors, particularly from Asia. For example, BC's newsprint exports to Japan have dropped sharply. As recently as 2002, Japan imported a fifth of BC's newsprint shipments, but by 2008, this share had dropped to less than 2% as Japan has largely switched to other suppliers for its newsprint needs. Given that Asia is one of the areas where newspaper circulation is growing, this is doubly troubling for BC exporters.

Some of the drop in exports of pulp and paper products is likely cyclical and once the global

economy rebounds, the demand for these products could also bounce back. However, issues such as fibre supply, the subsidies that are reducing Canadian pulp mills' competitiveness with their American counterparts and the decline in newspaper circulation in North America could have more lasting impacts. If the industry cannot find ways to combat these problems, there could be more mill shutdowns in addition to those in Elk Falls and Kitimat. If so, there could be repercussions throughout the BC economy, particularly for the affected communities.

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

09-09	<i>BC's Pulp and Paper Exporters Facing Challenges</i> (released November 2009)	08-07	<i>Charting BC's Exports</i> (released September 2008)
09-08	<i>China Continues to Buy BC Goods</i> (released October 2009)	08-06	<i>Bad News for Newsprint Exports</i> (released August 2008)
09-07	<i>Energy Exports are Powering Down...For Now</i> (released September 2009)	08-05	<i>Asia Offers Potential as a Destination for BC Exports</i> (released July 2008)
09-06	<i>Adding Some Heat to Trade with India</i> (released August 2009)	08-04	<i>The Price is Right for Coal Producers in BC</i> (released June 2008)
09-05	<i>Trade with the Other Americas</i> (released July 2009)	08-03	<i>Border Line Threats to Trade</i> (released May 2008)
09-04	<i>The State of Canada's Trade with the USA</i> (released June 2009)	08-02	<i>Call of the Loonie: American Film and Television Productions Shun BC in 2007</i> (released April 2008)
09-03	<i>British Columbia's Trade Balance Tipped in Favour of Imports</i> (released May 2009)	08-01	<i>BC Commodity Exports: Year in Review 2007</i> (released March 2008)
09-02	<i>Fifteen Years of Free Trade with Mexico</i> (released April 2009)	07-12	<i>Canada and Peru Agree on Free Trade</i> (released February 2008)
09-01	<i>Twenty Years of Free Trade with the United States</i> (released March 2009)	07-11	<i>Over 100 Years of Canadian Exports</i> (released January 2008)
08-12	<i>Canada Seeks Trade Deal with the European Union</i> (released February 2009)	07-10	<i>BC's Commodity Exports Are Still Largely Forest-Based</i> (released December 2007)
08-11	<i>Adversity Leads to Diversity</i> (released January 2009)	07-09	<i>Is Cross-Border Shopping Making a Comeback?</i> (released November 2007)
08-10	<i>Import Content of BC's Exports</i> (released December 2008)	07-08	<i>Prince Rupert Container Port Open for Business</i> (released October 2007)
08-09	<i>BC's Trade in High Technology Goods</i> (released November 2008)	07-07	<i>Canada Weighs Anchor on Free Trade with EFTA</i> (released September 2007)
08-08	<i>Milking the System: Is Canada's Supply Management System an Impediment to Free Trade?</i> (released October 2008)	07-06	<i>BC's Trade with California</i> (released August 2007)

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.